ShalkiyaZinc N.V.

First Half Year Report 2010

Content

INTERIM MANAGEMENT REPORT

Business highlights and significant events

Current status of operations

In the first half of 2010 ShalkiyaZinc N.V. (the "Company") and its subsidiary, LLP ShalkiyaZinc Ltd, (jointly – the "Group") continued to maintain safeguard of its main assets - the Shalkiya Mine (Mine) and the Kentau Processing Plant (Processing Plant). This work is carried out by a special unit. All buildings and facilities are maintained in good shape and well guarded ready to immediately recommence the work as soon as market conditions improve. Mine shaft waters are permanently pumped out along with maintenance of vehicular and fixed equipment of the Mine and the Processing Plant. Railway unit of the Mine continues to render services on transportation of construction raw materials produced by the nearby plants. Total number of employees of the company is 127 people.

Having halted operations at the Mine and the Processing Plant the Group preserved flexibility in its development by pursuing Investment Project of Construction of a New Processing Plant at Shalkiya mine with Outotec Technology (Finland), Mechanobr Engineering (Russia), KazGiproTsvetMet (Kazakhstan), SRK Consulting (UK). At present the Group considers phased construction of the new plant with the launch of the first line with output capacity of 2 mtpa in 2013 with subsequent increase of capacity and achieving the projected output capacity of 4 mtpa in 2015. To our opinion phased financing with the focus on the first line of construction will enable investment in post crisis conditions since the first line requires significantly less capital expenditures.

Restoration of the Subsoil Contract

On 4 March 2009, the Shalkiya and Talap Subsurface Use Contracts were terminated by the MEMR. On 1 June 2010, the Specialized Interregional Court of Astana city determined that termination of the Shalkiya and Talap Subsurface Use Contracts was not legal and reversed the termination of the Shalkiya and Talap Subsurface Use Contracts. As discussed in Note 15 to the condensed interim consolidated financial statements, Following the court decision, the MINT restored the Group's right under the both subsoil use contracts on 7 July 2010.

Strategic investor

During the first half of 2010, the Group has been in negotiations with SAT & Company JSC, a Kazakhstan industrial holding group engaged in the metallurgy and petrochemical industries. As discussed in Note 15 to the condensed interim consolidated financial statements, on 17 September 2010, the shareholders of the Group approved the proposed conditional capital investment by Sat & Company JSC of US$ 50 million in ShalkiyaZinc N.V. in return for an equity interest equal up to 81.39% of the enlarged issued share capital of the Group.

VAT recovery

During the first half year of 2010, the Group received VAT reimbursement from the government in the amount of US $0.9 million

Implementation of Mineral Extraction Tax

One of the most significant changes in subsurface users' tax legislation became the change in the tax rate including the one on Mineral Extraction Tax (MIT) as per Tax Code of the Republic of Kazakhstan effective as of 1 January 2010. MIT rates for zinc and lead production equal to 9% and 8.5%, accordingly.

Business outlook

Main strategic goal of ShalkiyaZinc N.V. is to implement its investment programme, but notwithstanding that there are certain peculiarities of the projects, such as a low content of metals in ore as well as necessity for bigger volumes of investments to produce the metals, Management of the Group firmly believes in successful implementation of its invest programme. At present the capital expenditures are re-estimated taking into account current prices.

As discussed in Note 15 to the condensed interim consolidated financial statements for the six months ended 30 June 2010, on 17 September 2010, the shareholders of the Group approved the proposed conditional capital investment by Sat & Company JSC of US $50 million in ShalkiyaZinc in return for an equity interest equal up to 81.39% of the enlarged issued share capital of the Group. The completion of the deal is subject to waiver of Ministry of Industry and New Technologies ("MINT"), a former Ministry of Energy and Mineral Resources ("MEMR"), on the priority right on acquisition of the Group's shares.

ShalkiyaZinc considers that successful completion of the deal with SAT & Company JSC will change the difficult situation in the company. Particularly, this will help to close or restructure indebtedness to BTA Bank JSC, creditors and implement the Project on construction of the New Processing Plant.

Having halted ore production in 2008 the Group up to the present time has not recommenced the production as we strongly believe that only increase of Mine production capacity and construction of the New Processing Plant, and potentially a smelter in future offer the challenge and increase competitiveness of developing the reserves of Shalkiya Deposit.

As well it should be noted that the Government of the Republic of Kazakhstan included this project into the state programme of industrial-innovative development for 2010/14.

For the rest of the year and 2011 the Group intends to focus its efforts on further detalization of all the aspects of the project including mine production extension and construction of the new processing plan as well. Management of the Group is confident that the new Investor SAT & Company JSC will introduce new impulse for further successful development of the project using its rich experience in that sphere and professional skills of its team.

Financial review

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 (Interim Financial Statements) as adopted by European Union. Condensed interim consolidated financial statements and notes on pages 6 through 20 should be read in conjunction with this review which has been included to assist the understanding of the Group's financial position at 30 June 2010.

<u>Summary</u>

During the first half year of 2010, the Group incurred a loss for the period in amount of US $4.3 million. As at 30 June 2010 the Group had accumulated deficit of US $68.0 million and liabilities of US $48.1 million.

<u>Income statement</u>

During the reporting period the Group recognised a loss in amount of US $4.3 million, which is US $8.4 million lower than that for the first half year 2009. Such significant change is explained mainly by

1) foreign exchange gain of US $0.85 million incurred during the first half year 2010 against foreign exchange loss of US $4.3 million incurred during the relevant period of 2009. In

2009 there was 25% devaluation of Kazakhstan Tenge (KZT) against US $ which resulted in significant foreign exchange loss from revaluation of the Group's assets and liabilities denominated in US $

2) deferred tax benefit of US $0.2 million recognized during the first half year 2010 against deferred tax charges of US $2.4 million recognized during the corresponding period of 2009.

General and administrative expenses decreased to US $2.6 million (HY 2009: US $3.2 million) or by 18% mainly due to decrease in payroll expenses by US $130 thousand, fines and penalties by US $330 thousand, consulting services by US $203 thousand, other expenses by US $247 thousand adjusted by increase in other components of general and administrative expenses such as increase in geological and geophysical expenses of US $279 thousand and other expenses.

During the first half year 2010, the Group incurred finance costs of US $2.5 million (HY 2009: US $2.7 million) relating to borrowings from BTA Bank JSC.

Financial position

During the first half year 2010 total assets have dropped by US $1.9 million and amounted to US $42.6 million. This change is mainly explained by cash receipts of US $201 thousand from Pavlodarskaya Solyannaya Kompaniya LLP and VAT of US $915 thousand, depreciation and amortization of US $1,081 thousand, return of advance cash payments at request of management of the Group due to financial difficulties and payment for recurring general and administrative expenses.

During the first half year 2010, accumulated deficit increased by US $4.3 million due to facts described in "income statement" section.

During the first half year 2010, total liabilities increased by US $2.3 million or 5% from US $45.8 million to US $48.8 million at 30 June 2010. This is mainly due to accrual of interest during the first half year 2010 relating to borrowings from BTA Bank JSC.

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

Risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group are set out on pages 22 to 23 of the Directors' Report section of the Annual Report for the year ended 31 December 2009, a copy of which is available on the Company's website at www.zinc.kz. The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance over the remainder of the financial year have not changed from those which are set out in the Group's 2009 Annual Report.

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

- The majority of the Group's assets are located in Kazakhstan, which has a legal and regulatory regime that differs in some respects from legal and regulatory regimes in other countries.

- Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates. The Group did not have significant borrowings with floating interest rate.

- Companies engaged in zinc and lead mining activities face certain risks related to their operations (including their exploration and development activities), which may have an adverse effect on their business, operating results and financial condition. As 90% of the Company's revenue is derived from the sale of zinc concentrate, the price of zinc has a significant impact on the Group's operating results. The prices of both zinc and lead may vary significantly, due to a number of factors outside the Company's control. The Group has historically not hedged its exposure to the risk of fluctuations in the price of its products.

- As a result of significant borrowings, accounts payable, dues to the Republic of Kazakhstan and cash and cash equivalents denominated in various currencies, the Group's consolidated statement of financial position can be affected significantly by movement in exchange rates. The Group does not hedge its foreign currency risks.

- The Group endeavors to trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

- Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. As at 30 June 2010, total current liabilities of the Group amounted to US $44.4 million. Management believes that successful completion of acquisition of additional Group's shares by SAT & Company JSC will help to repay the Group's liabilities.

- As detailed in Note 2 to the interim condensed consolidated financial statements of the Group, significant uncertainties exist regarding the Group's ability to continue as a going concern. As such the primary objective of the Group's capital management is to ensure that the Group liquidity is improved and adequate funds are obtained for financing the plans for construction of the new processing plant and repayment of bank borrowings. As of 30 June 2010, the accumulated losses resulted in a negative equity amount of US $5.5 million. Management believes that successful completion of acquisition of additional Group's shares by SAT & Company JSC will improve capital structure of the Group. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the six month period ended 30 June 2010.

Marat Sarkytbayev

Chief Executive Officer

STATEMENT OF RESPONSIBILITY

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

- the condensed interim consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 (Interim Financial Reporting) as adopted by the European Union and give a true and fair view of the assets, the liabilities, the financial position and the profits or the loss of ShalkiyaZinc NV and its consolidated companies (jointly referred to as the Group); and

- the interim management report for the six months ended 30 June 2010 gives a true and fair view of the state of affairs as at 30 June 2010, the course of business during the six months period ended 30 June 2010 of the Group and the expected course of business, whereby, insofar as weighty interests do not oppose this, special attention is paid to the investments and the circumstances on which the development of turnover and profitability depend.

On behalf of the Group

Marat Sarkytbayev, Chief Executive Officer

19 October 2010

Disclaimer

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2010

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ShalkiyaZinc N.V.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

for the six months ended 30 June 2010

in USD thousands (except as indicated in per share amounts)

	Notes	**30 June 2010 (unaudited)**	30 June 2009 (unaudited)
Revenue		**–**	–
Cost of sales		**–**	–
Gross profit		**–**	–
General and administrative expenses	4	**(2,649)**	(3,244)
Operating loss		**(2,649)**	(3,244)
Finance costs	5	**(2,464)**	(2,751)
Foreign exchange gain / (loss), net		**850**	(4,291)
Other expenses		**(219)**	(24)
Loss before tax		**(4,482)**	(10,310)
Income tax benefit / (expense)	6	**206**	(2,392)
Loss for the period		**(4,276)**	(12,702)
Other comprehensive income / (loss)			
Foreign currency translation income / (loss)		**38**	(2,803)
Other comprehensive income / (loss), net of income tax		**38**	(2,803)
Total comprehensive loss for the period, net of income tax		**(4,238)**	(15,505)
Basic and diluted loss per share from continuing operations, US cents	10	**(75.68)**	(224.81)

The notes on pages 11 to 20 form an integral part of these interim condensed consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

19 October 2010

Muchabbat Baitursynova
Financial Accounting Manager

19 October 2010

ShalkiyaZinc N.V.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

in USD thousands

	Notes	30 June 2010 (unaudited)	31 December 2009 (audited)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	7	**30,372**	30,786
Long-term portion of VAT receivable		**724**	1,427
Prepayments for non-current assets		**3,357**	3,348
Deferred tax asset		**1,153**	917
		35,606	36,478
CURRENT ASSETS			
VAT receivable		**1,810**	2,022
Inventories	8	**4,724**	5,256
Trade and other receivables		**115**	334
Prepayments		**114**	397
Cash and cash equivalents	9	**255**	57
		7,018	8,066
TOTAL ASSETS		**42,624**	44,544
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	10	**83**	83
Share premium		**62,164**	62,164
Foreign currency translation reserve		**231**	193
Accumulated deficit		**(67,962)**	(63,686)
		(5,484)	(1,246)
NON-CURRENT LIABILITIES			
Provision for future site restoration		**2,228**	2,131
Due to the Republic of Kazakhstan		**1,465**	1,372
		3,693	3,503
CURRENT LIABILITIES			
Borrowings	11	**32,954**	31,088
Trade and other payables	12	**10,331**	10,092
Income tax payable		**100**	58
Advances received		**719**	655
Taxes payable other than income tax		**311**	394
		44,415	42,287
TOTAL EQUITY AND LIABILITIES		**42,624**	44,544

The notes on pages 11 to 20 form an integral part of these interim condensed consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

19 October 2010

Muchabbat Baitursynova
Financial Accounting Manager

19 October 2010

ShalkiyaZinc N.V.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2010

in USD thousands

	Notes	30 June 2010 (unaudited)	30 June 2009 (unaudited)
Operating activities			
Loss before tax		**(4,482)**	(10,310)
Adjustments for:			
Provision for obsolete inventory		**29**	–
Reversal of provision for doubtful debts		**(41)**	(360)
Depreciation		**1,081**	1,317
Loss on disposal of property, plant and equipment		**28**	59
Finance costs		**2,464**	2,751
Unrealized foreign exchange (gain) / loss		**(850)**	4,291
Operating loss before working capital changes		**(1,771)**	(2,252)
Change in trade and other receivables		**185**	187
Change in inventories		**532**	251
Change in VAT receivable		**915**	2,556
Change in prepayments		**358**	(37)
Change in trade and other payables		**105**	(249)
Change in taxes payable other than income tax		**(83)**	(87)
Change in advances received		**64**	–
Net cash outflow from operations		**305**	369
Income tax paid		**(147)**	–
Net cash inflow from operating activities		**158**	369
Investing activities			
Interest received		**–**	36
Purchase of property, plant and equipment		**–**	(640)
Proceeds from sales of property, plant and equipment		**39**	342
Net cash inflow / (outflow) from investing activities		**39**	(262)
Net increase in cash and cash equivalents		**197**	107
Cash and cash equivalents, beginning of the period		**57**	502
Effect of exchange rate changes		**1**	(6)
Cash and cash equivalents, end of the period	9	**255**	603

The notes on pages 11 to 20 form an integral part of these interim condensed consolidated financial statements

On behalf of the Board of Directors:

Marat Sarkytbayev
General Director

19 October 2010

Muchabbat Baitursynova
Financial Accounting Manager

19 October 2010

ShalkiyaZinc N.V.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

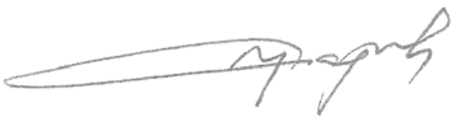
for the six months ended 30 June 2010

in USD thousands

	Issued capital	Share premium	Foreign currency translation reserve	Accumulated deficit	Total
At 1 January 2009 (audited)	83	62,164	3,091	(45,329)	20,009
Loss for the period	–	–	–	(12,702)	(12,702)
Other comprehensive loss	–	–	(2,803)	–	(2,803)
Total comprehensive loss	–	–	(2,803)	(12,702)	(15,505)
At 30 June 2009 (unaudited)	**83**	**62,164**	**288**	**(58,031)**	**4,504**
At 1 January 2010 (audited)	83	62,164	193	(63,686)	(1,246)
Loss for the period	–	–	–	(4,276)	(4,276)
Other comprehensive income	–	–	38	–	38
Total comprehensive income	–	–	38	(4,276)	(4,238)
At 30 June 2010 (unaudited)	**83**	**62,164**	**231**	**(67,962)**	**(5,484)**

The notes on pages 11 to 20 form an integral part of these interim condensed consolidated financial statements.

On behalf of the Board of Directors:



Marat Sarkytbayev
General Director

19 October 2010

Muchabbat Baitursynova
Financial Accounting Manager

19 October 2010

1. Corporate information

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

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

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

The ultimate beneficial shareholders of the Company are as follows:

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

The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda region of the Republic of Kazakhstan. The Subsidiary operates the Shalkiya mine and the Kentau concentrator. 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 product caused by world economic recession the Subsidiary suspended its production activities. As of the date of authorization of these interim condensed consolidated financial statements production activities were not resumed.

In December 2004, the Subsidiary entered into a subsurface use contract with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration and extraction of complex ore in the Talap field (the "Talap Subsurface Use Contract"). The exploration period is two years and the extraction period is 18 years.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2010 were authorised for the issue by the General Director and Financial Accounting Manager on 19 October 2010.

2. Basis of preparation

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2009.

Functional and presentation currency

Functional currency of the Company and the subsidiary is the Kazakhstan Tenge. The presentation currency of these financial statements is US Dollars.

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred a net loss of USD 4,276 thousand and USD 12,702 thousand for the six months ended 30 June 2010 and 2009, respectively. At 30 June 2010, the Group's current liabilities exceeded current assets by USD 37,397 thousand (31 December 2009: USD 34,221 thousand). At 30 June 2010, the Group's accumulated deficit amounted to USD 67,962 thousand (2009: USD 63,686 thousand) and the accumulated losses resulted in a negative equity amount of USD 5,484 thousand (2009: USD 1,246 negative). The main reason for the net loss is a significant decline in the world market prices for the Group's products and high costs of processing and transportation. As a result the Group suspended its production in November 2008. Also, the Group suspended construction of a new ore processing plant which started in 2008.

Furthermore, the Group is in default under the BTA Bank loan contracts which gives BTA Bank the right to require the accelerated repayment of the borrowings in the amount of USD 32,954 thousand (*Note 11*).

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

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

ii) to repay the Group's borrowings.

Per management's assessment processing of the ore on the existing Kentau concentrator (the "old processing plant") is economically not viable due to the significant physical deterioration of the old processing plant, its low productivity, high maintenance and labor costs, and its distance from the Shalkiya mine. These factors led to the historically high processing and transportation costs that have not been recoverable since the significant decrease in zinc market prices resulting from the 2008 global economic crisis. As at 30 June 2010 the Group's capital expenditure related to the construction of the new processing plant amounted to USD 20,803 thousand and USD 3,357 thousand in prepayments. Per management's assessment the Group would need an additional USD 114 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 49% at USD 2,243 per ton zinc market price, which means that the operations of the new processing plant would be profitable even at the current level of zinc market prices. Estimated timing required to complete the construction is two years.

The Group's borrowings amounted to USD 32,954 thousand as at 30 June 2010 that are considered as payable on demand due to defaults on the scheduled payments (*Note 11*).

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

Management's plan

The completion of the construction of the new processing plant requires financing of approximately USD 114 million. Also, financing is required to repay the Group's borrowings and to fund operating costs (mainly general and administrative expenses). Per management assessment the total amount of required financing is USD 164 million. The Group's major shareholders, as represented by the Kazakh individuals and management plan to attract financing through a private placement of additional Group's shares.

Management is currently in negotiations with a potential investor about the conditions of the transaction. As discussed in *Note 15* at 17 September the shareholders of the Group approved the proposed conditional capital investment by Sat & Company JSC of US$ 50 million. Also, management is in negotiations with the Ministry of Industry and New Technologies ("MINT"), a former Ministry of Energy and Mineral Resources ("MEMR"), regarding the MINT's waiver of the priority right on acquisition of the Group's shares. Management believes that probability of the transaction and obtaining the waiver from the MINT and raising additional capital to fund the construction and repayment of the Group's borrowings is highly probable.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations endorsed by the European Union and in effect as of 1 January 2010 noted below:

- *Improvements to IFRS – issued by IASB in 2008*

On 23 January 2009, Commission Regulation (EC) 70-2009 was published endorsing certain improvements to IFRS, among others, relating to IFRS 5 (Non-current Assets held for Sale and Discontinued Operations). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if an entity's disposal sale plan results in loss of control, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The adoption of this improvement did not have any impact on these interim condensed consolidated financial statements as at 30 June 2010.

- *IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions*

On 23 March 2010, Commission Regulation (EC) 244-2010 was published endorsing the amendments to IFRS 2. The amendments clarify, among other things, that an entity that receives goods and services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments are effective from 1 January 2010. The adoption of these amendments did not have any impact on these interim condensed consolidated financial statements as at 30 June 2010.

- *IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*

On 3 June 2009, Commission Regulation (EC) 494-2009 and 495-2009 were published endorsing the revised versions of IFRS 3R and IAS 27R. IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27R requires that a change in a parent's ownership interest in a subsidiary that does not result in loss of control be accounted for as an equity transaction, clarifies the accounting treatment in the event of the loss of contract in a subsidiary and requires that the investors' losses share in a non-controlling interest be allocated to the non-controlling interest even if this results in a deficit. The changed introduced by IFRS 3R and IAS 27R are effective from 1 January 2010. The adoption of IFRS 3R and IAS 27R did not have any impact on these interim condensed consolidated financial statements as at 30 June 2010.

- *Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

On 15 September 2009, Commission Regulation (EC) 839-2009 was published endorsing some amendments to IAS 39 which clarifies certain aspects of hedge accounting:

- identify the cases in which inflation may be a hedged risk;
- specifying that only the intrinsic value, not the time value, of an option can be designated as a hedge of one or some risks of a hedged item.

The adoption of these amendments did not have any impact on these interim condensed consolidated financial statements as at 30 June 2010.

- *IFRIC 17 Distribution of Non-cash Assets to Owners*

On 26 November 2009, Commission Regulation (EC) 1142-2009 was published endorsing IFRIC 17. In particular, the interpretation clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and that an entity should measure this dividend payable at the fair value of the net assets to be distributed. Finally, an entity should recognize the difference between the dividend paid and the carrying amount of the net assets used for payment in profit and loss.

The adoption of these amendments did not have any impact on these interim condensed consolidated financial statements as at 30 June 2010.

- *Improvements to IFRS (issued by IASB in 2009)*

On 23 March 2010, Commission Regulation (EC) 243-2010 was published endorsing the improvements to the following standards, in force from 1 January 2010:

IFRS 2 Share-based Payment

These amendments clarify that following the changes made by IFRS 3R to the definition of a business combination, the contribution of a business on the formation of a joint venture and the combination of entities or businesses under common control do not fall within the scope of IFRS 2.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

This amendment, which shall be applied prospectively, clarifies that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.

IFRS 8 Operating Segments

The amendment to IFRS 8 clarifies that an entity shall report a measure of total assets for each reportable segment only if such an amount is regularly provided to the Chief Operating Decision Maker. Before, this information was required, in any case, for each reportable segment.

IAS 1 Presentation of Financial Statements

This amendment clarifies that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, even if, at the option of the counterparty, the terms of a liability could result in its settlement by the issue of equity instruments.

IAS 7 Statement of Cash Flows

The amendment clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

IAS 17 Leases

The amendment refers to the classification of leases of land and buildings. When a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. At the date of adoption, the classification of all land elements of unexpired leases must be reassessed, with any lease newly classified as a finance lease to be recognized retrospectively.

IAS 36 Impairment of Assets

The amendments refer to the allocation of goodwill to cash-generating units (or groups of cash generating units) of an acquirer in a business combination or for purposes of impairment testing. In particular, the amendments clarify that each unit or group of units to which the goodwill is so allocated shall not be larger than an operating segment as defined by IFRS 8 before aggregation.

IAS 39 Financial Instruments: Recognition and Measurement

The main amendments, to be applied prospectively to all unexpired contracts, are as follows:

- within the scope of IAS 39, the clarification about the exclusion of any forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date;
- as regards accounting for an embedded derivative separately from the host contract, the following clarification regarding the prepayment option embedded in a host debt contract was introduced: in the case in which the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract, such option shall be considered closely related to the host contract and therefore not accounted for separately.

IFRIC 9 Reassessment of Embedded Derivatives

The amendments, applicable prospectively, exclude from the scope of IFRIC 9 embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control or the formation of a joint venture.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The amendments refer to the removal of the prohibition to use a derivative held by the foreign operation being hedged as a hedge of the net investment in that foreign operation.
The application of the 2009 Improvements to IFRS did not have any impact on these interim condensed consolidated financial statements as at 30 June 2010.

4. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended	
(In USD thousands)	**30 June 2010 (unaudited)**	30 June 2009 (unaudited)
Depreciation	**1,081**	1,317
Payroll and salary taxes	**687**	817
Fines and penalties	**261**	591
Exploration works	**279**	–
Consulting services	**266**	469
Rent	**40**	50
Provision for inventories	**29**	–
Materials	**24**	106
Communication	**10**	23
Reversal of doubtful debts	**(41)**	(360)
Other	**13**	231
	2,649	3,244

5. FINANCE COSTS

	For the six months ended	
(In USD thousands)	**30 June 2010 (unaudited)**	30 June 2009 (unaudited)
Interest expense	**2,296**	2,274
Unwinding of discount on provision for future site restoration	**84**	81
Unwinding of discount on long - term trade payables	**–**	264
Unwinding of discount on due to the Republic of Kazakhstan	**84**	132
	2,464	2,751

6. INCOME TAX

Income tax (benefit) / expense comprised the following:

	For the six months ended	
	30 June 2010 (unaudited)	30 June 2009 (unaudited)
Current income tax expense	**24**	–
Deferred income tax (benefit) / expense	**(230)**	2,392
	(206)	2,392

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group purchased assets with a cost of USD 547 thousand relating to mine improvement works (for the six months ended 30 June 2009: USD 433 thousand).

Assets with the net book value of USD 67 thousand and USD 63 thousand were disposed of by the Group during the six months ended 30 June 2010 and 2009, resulting in a net loss on disposal of USD 28 thousand and USD 59 thousand.

The Group's main construction project is construction of new processing plant. As at 30 June 2010, the carrying value of construction in progress was USD 20,804 thousand. (31 December 2009: USD 20,147 thousand).

Property, plant and equipment with a net carrying value of USD 15,037 thousand and USD 15,956 thousand, at 30 June 2010 and 31 December 2009, respectively, have been pledged to secure Group's borrowings (*Note 11*).

At 30 June 2010 the Group performed impairment test for its property, plant and equipment related to the Shalkiya mine and new processing plant (the Shalkiya CGU). The recoverable amount of the Shalkiya CGU has been determined based on a value in use ("VIU") calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Flows beyond the five-year timeframe are extrapolated by applying a flat growth rate of 3% for the term of the Shalkiya Subsurface Use Contract. The Group used WACC of 15.7% (31 December 2009: 20.19%) and long-term price forecast of USD 2,243 per tonne (31 December 2009: USD 1,999 per tonne). As a result of the impairment test the Group did not recognize any additional impairment loss as at 30 June 2010.

8. INVENTORIES

(In USD thousands)	**30 June 2010 (unaudited)**	31 December 2009 (audited)
Stores and materials	**2,539**	3,115
Less: Provision for obsolete inventory	**(480)**	(447)
	2,059	2,668
Finished goods	**25**	36
Work-in-process	**2,640**	2,552
	4,724	5,256

9. CASH AND CASH EQUIVALENTS

(In USD thousands)	**30 June 2010 (unaudited)**	31 December 2009 (audited)
Cash in banks, USD denominated	**1**	27
Cash on hand, KZT denominated	**7**	2
Cash in banks, KZT denominated	**18**	–
Cash in banks,EUR denominated	**229**	28
	255	57

10. EQUITY

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

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

Currency translation reserve

Foreign currency translation reserve that is used to record exchange differences arising from the translation of the financial information from functional currency into reporting currency.

Loss per share

The numerator for the calculation of the basic loss per share for the six months period ended 30 June 2010 is the loss after tax of USD 4,276 thousand (six months period ended 30 June 2009: loss of USD 12,702 thousand) and the denominator for the calculation of the basic loss per share is 5,650,000.

	For the six months ended	
(In USD thousands)	**30 June 2010 (unaudited)**	30 June 2009 (unaudited)
Loss per share, *in US cents*	**(75.68)**	(224.81)
Diluted loss per share, *in US cents*	**(75.68)**	(224.81)
Loss attributable to ordinary shareholders, in thousands of USD	**(4,276)**	(12,702)
Issued ordinary shares at the end of the period	**5,650,000**	5,650,000

11. BORROWINGS

(In USD thousands)	**30 June 2010 (unaudited)**	30 June 2009 (unaudited)
Opening balance	**31,088**	30,499
Interest charged for the period	**2,036**	1,985
Translation difference	**187**	(3,551)
Foreign exchange difference	**(357)**	219
Closing balance	**32,954**	29,152

The borrowings are due to BTA Bank. The borrowings are secured by the Group's property, plant and equipment with the carrying value of USD 15,037 thousand and USD 15,956 thousand at 30 June 2010 and 31 December 2009, respectively and available-for-sale investments with the nil carrying amount 30 June 2010 and 31 December 2009.

In 2009, the Group failed to make scheduled payments due to BTA Bank. The failure to make scheduled payments of either principal or interest constitutes an event of default under the loan agreements with BTA Bank. The loan agreements also provide for a cross-default in case of non-performance or non-payments under contracts with third parties in the amount exceeding USD 300 thousand. The Group failed to make scheduled payments of USD 2,603 thousand to a supplier of equipment. Under the loan agreements both default and cross-default give BTA Bank the right to accelerate repayment of the BTA Bank loan. Therefore, the whole amount of the debt was reclassified to current liabilities as at 30 June 2010 and 31 December 2009. As discussed in *Note 15* on 28 September 2010, the Subsidiary received a letter from BTA Bank informing that BTA Bank has no plan to execute its rights over pledged assets, to accrue penalties and to require accelerated repayment of principal and interest due to BTA Bank as at 30 June 2010.

12. TRADE AND OTHER PAYABLES

(In USD thousands)	**30 June 2010 (unaudited)**	31 December 2009 (audited)
Trade accounts payable for equipments and construction materials	**6,342**	5,918
Accrued expenses	**2,839**	3,003
Due to the Republic of Kazakhstan	**256**	256
Trade accounts payable for services	**125**	125
Due to the shareholder (*Note 14*)	**120**	–
Payables to employees	**95**	117
Other	**554**	673
	10,331	10,092

13. COMMITMENTS AND CONTINGENCIES

Liquidation fund

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

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

At 30 June 2010, the Group was not in compliance with the liquidation fund commitment. However, Group's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position and results of operations.

Environmental matters

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

14. RELATED PARTY TRANSACTIONS

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

In April and June 2010 the Group received interest-free funds from its shareholders (Kazakh individuals) in the total amount of USD 120 thousand which are due for repayment within one year.

Compensation of key management personnel

Key management personnel comprise members of the Group's management and members of Supervisory Board, totaling four persons at 30 June 2010 (31 December 2009: four persons). Compensation to key management personnel consists of short-term employee benefits. Since the Company does not pay social security or pensions, all salary payments are considered as short-term employee benefits. Total compensation paid to key management personnel amounted to USD 279 thousand for the six months ended 30 June 2010 (30 June 2009: USD 695 thousand).

15. SUBSEQUENT EVENTS

On 4 March 2009, the Shalkiya and Talap Subsurface Use Contracts were terminated by the MEMR accusing the Company with illegal IPO in December 2006. On 1 June 2010, the Specialized Interregional Court of Astana city determined that termination of the Shalkiya and Talap Subsurface Use Contracts was not legal and reversed the termination of the Shalkiya and Talap Subsurface Use Contracts. Following the decision of the Court, the MINT restored Company's right under the both subsoil use contracts on 7 July 2010.

On 28 September 2010, the Subsidiary received a letter from BTA Bank informing that BTA Bank has no plan to execute its rights over pledged assets, to accrue penalties and to require accelerated repayment of principal and interest due to BTA Bank as at 30 June 2010 (*Note 11*).

On 17 September 2010, the shareholders of the Group approved the proposed conditional capital investment by Sat & Company JSC of US$ 50 million in ShalkiyaZinc in return for an equity interest equal up to 81.39% of the enlarged issued share capital of the Group.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of ShalkiyaZinc N.V.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements, as included on pages 6 up to and including 20, of ShalkiyaZinc N.V. and its subsidiary ("the Group"), comprising interim consolidated statement of financial position as at 30 June 2010 and the related interim consolidated statements of comprehensive loss, changes in equity and cash flows and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

We draw attention to Note 2 to the interim condensed consolidated financial statements which indicates that the Group incurred a net loss of USD 4,238 thousand during the six months ended 30 June 2010 and, as of that date, the accumulated losses resulted in a negative equity amount of USD 5,484 thousand, the Group's current liabilities exceeded its current assets by USD 37,397 thousand, and that its future business is dependent on its ability to raise additional capital and complete the construction of a new ore processing plant. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainties which may cast a significant doubt about the Group's ability to continue as a going concern. Management's plans for addressing these matters are described in Note 2.

Zwolle, October 19, 2010

Ernst & Young Accountants LLP

Signed by D. L. Groot Zwaaftink