ShalkiyaZinc N.V.

Annual Report and accounts for the year ended 31 December 2012

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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

2012 has been an extremely challenging and important year for ShalkiyaZinc N.V. in which significant successes have been achieved. I will start from a very important part of our operations: safety of assets.

During 2012 ShalkiyaZinc N.V. ("ShalkiyaZinc N.V." or the "Company") and its subsidiary, LLP ShalkiyaZinc Ltd. ("LLP ShalkiyaZinc Ltd." or the "Subsidiary"), jointly referred to as the "Group", continued to safeguard its main assets – the Shalkiya Mine ("Mine" or "Shalkiya Mine") and the Kentau Processing Plant ("Processing Plant"). This work has been being carried out by a special unit. All buildings and facilities are maintained in good shape and well guarded. Mine shaft waters are permanently pumped out along with maintenance of vehicular and fixed equipment of the Mine. 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 Group is 117 people.

Further, I would like to discuss the financial and operating results for the FY 2012. As at 31 December 2012 the Group accumulated deficit of USD 83.5 million and liabilities of USD 7.1 million (2011: USD 78.3 million and liabilities of USD 7.0 million respectively).

For the year ended 31 December 2012, the Group reported an after tax loss of USD 5.2 million, which is mainly explained by the recognition of impairment allowance on prepayments to Outotec OY in the amount of USD 3.1 million.

Income statement

In 2012, the Group reported an after tax loss of USD 5.2 million against after tax profit of USD 2.8 million in 2011. Such significant change is explained mainly by the following:

1) impairment allowance on prepayments to Outotec OY in the amount of 3.1 million recognised in 2012.

2) restructuring of the Group's bank borrowings in the first half of 2011 which resulted in significant gain on restructuring in the amount of USD 5.7 million recognised in 2011.

3) in 2011, interest expense and foreign exchange losses on bank borrowings totalled USD 1.7 million. Upon completion of the restructuring of bank borrowings in 2011 there were no such expenses in 2012.

4) gain on write-off of accrued servicing fee on a BTA Bank letter of credit in the first half of 2011 in the amount of USD 2.3 million recognised in 2011.

5) gain on write-off of fines and penalties payable for environmental pollution of USD 1.1 million recorded in 2012.

Financial position

During 2012, total assets have decreased by USD 5.5 million and amounted to USD 36.6 million. This change is explained mainly by recognition of impairment allowance on prepayments to Outotec OY in the amount of 3.1 million and decrease in advances given to SAT & Company JSC ("SAT") which were used to finance the Group's operations in 2012.

During 2012, accumulated deficit increased by USD 5.2 million due to facts described in "Income statement" section.

Change in liabilities in 2012 is mainly attributable to write-off of fines and penalties payable for environmental pollution of USD 1.1 million and increase in provision for future site restoration of USD 0.7 million.

Outlook

The main strategy of the Company is to implement its investment programme by way of constructing a new processing plant with a capacity of 4mtpa (the "New Processing Plant"). The capital investment completed by SAT in the amount of USD 50 million is not sufficient to complete the investment program. During 2013, the Company plans to secure financing enough to execute the strategy of the Group.

Despite suspension of production continued during 2012, the Company strongly believes that production assets of the Group, 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 during 2013 either from private placement or debt financing. The strategy developed jointly with international consultants will allow the Company to become a competitive mining and processing company with an output capacity of 55,000 tonnes of zinc in zinc concentrate in 2017. Further, upon expected completion of the second stage of construction of the New Processing Plant in 2019 the Company plans to achieve an output of about 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 2013 and through 2016 whilst it carries out its expansion and development plans, however, the Company estimates that it will receive a net income of USD 49 million in 2017, once the first line of the New Processing Plant is completed. The Company expects to make capital investments of USD 139 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 2013 the Company expects positive signs from the global market for non-ferrous metals, and the Company plans to resume its investment programme. Various investors from Kazakhstan and the biggest international companies show interest in our Company and are ready to participate in the implementation of our investment programme.

All this allows us to look forward with confidence 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 our employees for the commitment and dedication they have shown in their daily tasks and who have all contributed to these results. I would also like to express my thanks to our shareholders for their continuous support.

25 April 2013

Alken Kuanbay

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 (the "MINT") 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 MINT for the exploration and extraction of complex ore in the Talap field (the "Talap Subsurface Use Contract") for the period of 20 years. In 2012, the Talap Subsurface Use Contract was terminated by the MINT. The Group had to apply either for the extension of the period of exploration and development phase or to provide additional agreement to the Talap Subsurface Use Contract on transition to the production phase. The Group was not able to perform aforementioned activities due to the circumstances which are out of control of the Group. Management plans to file an appeal to the court regarding the termination of the Talap Subsurface Use Contract in 2013.

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 (as mentioned above, the Talap Subsurface Use Contract was terminated in 2012, but management believes it will be reinstated).

Shalkiya Mine

The Mine is located on 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 coordinates of the Mine are 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.

The 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 69 workers.

The Mine has a well developed infrastructure for the implementation of the New Processing 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 city – 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 Processing 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 approximately 30 workers.

Employees

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

	31 December 2012	31 December 2011
Directors	1	1
Kentau Processing Plant	30	30
Shalkiya mine	69	71
Administrative personnel	17	12
	117	**114**

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 (sise 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 sise 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 sise 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 the Shalkiya Mine are zinc and lead concentrates. Decline in price caused suspension of many small and medium mines including the 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.

During the course of 2012, the global economy has been negatively affected by the ongoing Eurozone crisis and the disappointing pace of economic expansion in China. In the near term headwinds remain, with abating concerns around China being replaced by the risk that the Government of the United States will fail to find a timely solution to the looming "fiscal cliff". However, despite these headwinds, the Chinese economy has grown in 2012 as did its zinc demand; there was a robust growth in many other parts of the world as well, most notably in the United States. As a consequence of this, global zinc consumption is on course to expand by 3.1% in 2012, less than half the rate achieved in 2011, but in line with the metal's long term growth rate. In 2013, the Chinese economy is expected to gain further momentum, while the United States are expected to mitigate the most negative impacts of the "fiscal cliff". These positive developments, together with a general improvement in most other parts of the world (with the notable exception of Europe), should ensure that global zinc consumption expands by a robust 5% p.a. over the period 2013-2015.

Although the Eurozone crisis has abated somewhat and the Chinese economy is gaining momentum, serious concerns continue to surround the near term outlook for the global economy. However, these issues are forecast to have a minimal impact on the long term outlook for the zinc market which continues to be dominated by the structural issue of whether the incremental increase in demand will be matched by mine supply growth. At recent zinc prices of USD 1,800-2,000 per ton, the still, elevated lead, copper and silver prices mean that the bulk of zinc miners are profitable, at least on a cash basis. As a consequence, the world's zinc miners are incentivised to maximise concentrate output. However, with a number of major mines forecast to close in the coming years mine output will decline unless significant and historically unprecedented tonnages of new mine production is brought on stream to replace the tonnage lost due to ore reserve depletion and meet the incremental rise in global demand of approximately 600 thousand tons per annum.

Despite the deficits forecast for the refined market, global stocks of zinc are projected to remain at excessive levels (equivalent to 102 and 93 days of consumption in 2012 and 2013) respectively. As a consequence the zinc price is to remain close to current levels with an annual average of USD 2,205 per ton (100 c/lb) for 2013.

With excessive zinc stocks resulting in subdued zinc prices in the medium term, Chinese smelter profitability and output will continue to be constrained and deficits are set to persist in the Chinese market, while surpluses remain in the rest of the world. However, around the middle of the decade the smelter output growth in the rest of the world will start to be constrained by capacity and the availability of concentrates and refined stocks outside of China will start to be depleted. This process will engender a price response that will be amplified by the actions of the various types of investor in commodity markets and lift the zinc price to a forecast cyclical high of USD 4,299 per ton (USD 3,700 per ton at constant USD) in 2018. For the period 2012-2025 the average annual price is forecast to be USD 2,600 per ton (constant USD), USD 3,415 per ton (nominal USD).

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

RISKS, UNCERTAINTIES AND INTERNAL CONTROL

Risks

LLP ShalkiyaZinc Ltd. 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, 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 its ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the Group.

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 2011 Annual Report. That is why in the 4th quarter 2012 and first quarter 2013 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 2012:

- 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 33.
- 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 financial payables 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 takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As the entity's operations ceased in 2008, credit risk mainly arises from cash and cash equivalents, restricted cash and other receivables. With respect to banks and financial institutions, only entities with high ratings are accepted. The Group does not have the system of assessing the creditworthiness of its customers, policy for assigning internal ratings and setting credit limits for counterparties.
- Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. As at 31 December 2012, total current liabilities of the Group amounted to USD 3.9 million.

Uncertainties

Subsurface use contracts

The Group's exploration, mining and processing activities are dependent upon the grant, renewal or continuance in force of appropriate subsoil use contracts, licences, permits and regulatory approvals and consents which may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances.

Under the Subsurface Use Contracts, the Subsidiary undertakes to comply with detailed mining programmes attached to the contracts. These programmes must be agreed with the Kazakhstan government authorities. The Subsurface Use Contracts and the related programmes impose a range of obligations on the Subsidiary, and there may be adverse consequences for a breach of any of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the Group's subsurface use licences and/or subsurface use contracts.

Following suspension of the Subsidiary's zinc ore extraction activities in November 2008 as a result of the downturn in the world zinc prices, the Subsidiary was unable to fully comply with its zinc ore production obligations under the work programme under the Shalkiya Subsurface Use Contract. Given the depressed world zinc prices, at this stage the Group sought to concentrate on construction of the New Processing Plant rather than production activities and therefore applied to the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") for modification of the work programme under the Shalkiya Subsurface Use Contract so to be exempt from the zinc ore production obligations whilst the New Processing Plant was being constructed (although certain other obligations under the Shalkiya Subsurface Use Contract such as social and training obligations would have continued). In December 2008, MEMR granted a three-year extension in principle, which should have been followed by negotiations with MEMR concerning modification of the work programme. During 2009-2011 the Subsidiary did not sign a modification of the working programme with the Ministry of Industry and New Technologies of the Republic of Kazakhstan ("MINT", the successor of MEMR), and therefore during 2011 and 2012 technically did not comply with the zinc ore production obligations stipulated in the work programme.

In 2011, the Subsidiary submitted the Project on the development of Shalkiya field (the "Project") to the Central Commission on Exploration and Development of the Mineral Resources of the MINT ("CCED"). On 5 October 2012, CCED concluded that the Project is compliant with provisions of the Subsurface Use Law of the Republic of Kazakhstan. On 6 November 2012, the Geology and Subsurface Use Committee of the MINT approved the Project. In November 2012, the Subsidiary submitted the draft Addendum 3 to the Shalkiya Subsurface Use Contract and the related draft working programme modified in accordance with the approved Project for approval of the MINT. The Group expects to obtain the modified working program on the terms it seeks in the first half of 2013. Further compliance with the terms of the Shalkiya Subsurface Use Contract will be dependent upon a variety of factors, including the Group securing adequate financing on a timely basis.

On 17 October 2012, the Talap Subsurface Use Contract was terminated by the MINT. The Group had to apply either for the extension of the period of exploration and development phase or to provide additional agreement to the Talap Subsurface Use Contract on transition to the production phase. The Group was not able to perform aforementioned activities due to the circumstances which are out of control of the Group. Management plans to file an appeal to the court regarding the termination of the Talap Subsurface Use Contract in 2013.

Going concern

Management prepared the 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 and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

As disclosed in Note 1 to the consolidated financial statements, the Group has suspended its production activity since 2008 and its recommencement is contingent upon the Group's ability to raise financing to complete construction of the new processing plant. The Group incurred net loss of USD 5,236 thousand for the year ended 31 December 2012 and, as of that date, the Group's accumulated deficit amounted to USD 83,507 thousand.

The matters disclosed above indicate the existence of a material uncertainty in obtaining sufficient financing for capital expenditures required to resume production operations. This may cast significant doubt about the Group's ability to continue as a going concern, therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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. In 2011, 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 bank borrowings from BTA Bank. 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 into 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 5.2 million was offset against the prepayment;
- up-front prepayment of USD 2.9 million to Midiel AB made by SAT in 2011 was transferred to the Group and offset against the prepayment.

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

During 2012, SAT continued to support the Group:

- SAT provided additional financial aid in the amount of USD 1.2 million which was offset against the prepayment;
- SAT made an up-front prepayment of USD 1.1 million to Midiel AB which was transferred to the Group and offset against the prepayment.

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 consolidated financial statements.

Per management's assessment processing of the ore at the existing Kentau 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 2012, the Group's capital expenditure related to the construction of the New Processing Plant amounted to USD 22,981 thousand, including USD 3,711 thousand in prepayments. Per management's assessment the Group would need an additional USD 139 million to complete construction of the New Processing Plant and USD 334 million for expansion of the Shalkiya Mine to ensure sufficient ore supply for the New Processing Plant and USD 72 million for replacement of the mining equipment. 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 an average gross margin of 28% at zinc market price of USD 4,145 per ton expected in 2017 (expected year of commencement of commercial production), 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 thirty-six months.

As detailed in paragraph "Subsurface use contracts" above the Group's ability to continue as a going concern also depends on its ability to sign the addendum to the Shalkiya Subsurface Use Contract and the modified working programme.

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

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

Legal claims and litigations

Until August 2012 we were in the process of negotiation on the terms with Outotec OY to agree on supply of the mills by 2013 as soon as construction of the New Processing Plant is resumed. We believed the Group was in a strong position that the prepayment was fully recoverable. In 2012, we did not reach agreement with Outotec OY on revised terms of supply and payment of the full cost of equipment, and it was decided to terminate the contract. Outotec OY refused to refund the prepayment, and in October 2012 we filed the claim to Arbitration Institute of the Stockholm Chamber of Commerce seeking refund of the full prepayment made by the Group. We believe that the Group has strong position on this matter which will be sustained by the arbitrary. However, we took a conservative position and recorded full impairment of prepayment to Outotec OY as of 31 December 2012 in the amount of USD 3.1 million.

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.

There have been no significant changes in internal control system during 2012.

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.

Alken Kuanbay
Chief Executive Officer
ShalkiyaZinc N.V.

SHAREHOLDERS 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 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 the Company through issuance of 24,715,769 shares (81.39%) 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 the Company 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 in 2011. During 2012, SAT acquired the shares of former management and other significant shareholders and became a holder of 98.13% interest in the Company. SAT is the ultimate parent company of the Company.

The shareholders of the Company as at 31 December 2012 were as follows:

Shareholders	Number of shares	Percentage of the Company's share capital
SAT	29,797,991	98.13%
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.

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 2012.

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 2012 are set out on pages 25 to 64. Financial statements analysis is presented in Financial Review section of this annual report.

Corporate Governance

The Company's Board of Directors consists of Executive Directors and Non-Executive Directors, only natural persons can be Non-Executive Directors and the Board determines the number of Executive Directors and the number of Non-Executive Directors. No transactions have been reported involving a conflict of interest of the Board members and there were no options granted to the Board of Directors or the Company's employees during the reporting year. 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 19 December 2011</u>

The Board of directors of the Company as appointed at the shareholders' meeting on 19 December 2011 consist of the following individuals:

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

Information on the Board of Directors

Mr. Kenges Rakishev, aged 33, is 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 2012, 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 98.13% of the issued share capital of the Company.

Mr. Mussinov, aged 33, is currently the First Deputy Chief Executive Officer of SAT, a position he has held since January 2009. Mr. Mussinov has also 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 33, 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 a 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 Company does not comply with the requirement on a well-balanced division, as 100% of the Management Board consists of men, in deviation to the One-Tier Board Act (Wet Bestuur en Toezicht) which stipulates that a minimum of 30% of the seats on the one-tier board needs to be occupied by men and a minimum of 30% by women.

The Management Board believes that in the current conditions when operations of the Company are ceased 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. The overriding principle for the Company is that the Management Board has a diverse composition of members with a valuable contribution in terms of experience and knowledge of the mining industry. The decreased and not well-balanced size of the Management Board matches the current size of the Company's operations and secures the efficient decision making process until the Company returns to its previous size of operations. Diversity in the broad sense continues to be a topic on the Management Board agenda, and will further be addressed at the AGM. As soon as the operations of the Company are recommenced, the Company plans to adopt the well-balanced division.

Board Committees

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

The Board's duties include a review of the Company Annual Report and half yearly reports, the role, scope and performance of the internal control systems of the Company and the independent auditors and the independence and objectivity of the independent 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. During 2012, the Audit Committee met twice. During the meetings the audit committee members of the old Board reviewed the draft interim reports and annual reports in order to ensure that the Company is in compliance with legal requirements, accounting standards and Listing rules.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for making recommendations to the Board of Directors on the policy on the remuneration of senior management, on reviewing the performance of Executive Directors and senior management. It also considers the composition of the Board of Directors and appointments of Directors, and makes proposals and recommendations to the Board of Directors and the shareholders' meeting on issues related to the composition and nomination of the Board of Directors. The Chief Executive Office attends the meetings by invitation. The Directors are entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine. Under current arrangements, members of the Board of Directors do not receive any salary or performance-based bonuses and are not entitled to additional benefits from the Company. At some point when the production starts and there is 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.

During 2012, the Remuneration and Nomination Committee did not have any meetings.

Executive Committee

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

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. The Subsidiary has a limited operating history and has only had operations since the beginning of 2004. As a result, it is subject to risks, expenses and uncertainties associated with implementing its business plan that are not typically encountered in more mature companies. In particular, the main risks arising from the Group's financial instruments are interest rate risk, commodities risk, foreign currency risk, liquidity risk and credit risk. Any failure to take necessary actions and any weaknesses in the operational and financial systems or managerial controls and procedures of the Subsidiary may impact the Group's ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the Group. 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/document/?id=606. 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 Accountants N.V. the Company introduced a new Board structure approved by an Annual General Meeting 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 N.V. 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 2012 and previous years as well. The remuneration of Alken Kuanbay, disclosed in Note 27, is the amount of salary that he received, as he is an employee of the Company. The Board was not involved in determination of the amount of his salary. Due to the above no remuneration report was prepared by the board.

Number II.2.13a-II.2.13j, II.2.15 – 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. 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. The items referred to in the best practice rules, to the extent possible, have instead been addressed in this report of the one-tier board.

Number 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.

Number II.1.2d – The Company does not meet the Corporate social responsibility requirements in full. Reference is made to Note 26 on page 61.

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 when operations start.

Number III.5.1 – The Board has the Terms of Reference for Committees but they have not been publicised on the Company's website.

Number III.5.4d, V.3.1, V.3.2. – Taking into account the suspension of the Subsidiary's operation and lack of big 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 when operations start.

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 April, 2013

OTHER STATUTORY INFORMATION

Principal activities

The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda region of the Republic of Kazakhstan. A list of main subsidiary undertakings is given in note 1 on page 32.

Annual general meeting

The annual general meeting of shareholders ("Shareholders Meeting") of ShalkiyaZinc N.V. with its registered offices at Rotterdam, the Netherlands, is to be held on 10 June 2013 at Strawinskylaan 41, (WTC, Tower A, 4th floor), Amsterdam, the Netherlands, from 11:00 hours (CET) until 13:00 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 30,365,769 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 400,798 at an exchange rate of USD 1.3199.

All shares are registered shares. No certificates were issued. The shares are not classified being 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.

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/her 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/her 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 98.13% 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 an 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.

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 2012 were indicated on pages 15 and 16.

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 19 December 2011 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 19 December 2011 a new. For the list of board of management, please refer to page 15.

The Group had no ownership-based compensation scheme in 2012 .

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 the 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 the 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 the 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 of the 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's independent auditors for the purposes of their audit and enable the independent auditors to become aware of that information. The Directors are not aware of any relevant audit information of which the independent auditors are unaware.

During the year the Board of Directors has appointed PricewaterhouseCoopers Accountants N.V as the Group's independent 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 2012 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 2012, 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 2012 gives a true and fair view of the state of affairs on 31 December 2012, the course of business during the financial year ended 31 December 2012 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 April 2013

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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 2012 of ShalkiyaZinc N.V., Rotterdam as set out on pages 28 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 2012, 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 2012, 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.

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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 2012, 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 2012, 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 group's accumulated deficit amounts to USD 83,507,000 as of 31 December 2012. 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. This condition, along with other matters as set forth in note 2, indicates 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 April 2013
PricewaterhouseCoopers Accountants N.V.

N.W. Over de Vest RA

ShalkiyaZinc N.V.
Consolidated Statement of Comprehensive Income

In thousands of USD

	Notes	2012	2011
Revenue		–	–
Cost of sales		–	–
Gross profit		–	–
General and administrative expenses	6	(6,813)	(4,015)
Foreign exchange losses less gains		(9)	(54)
Other operating income	9	2,633	1,477
Other operating expenses	9	(742)	(716)
Operating loss		**(4,931)**	**(3,308)**
Finance income	10	–	8,018
Finance costs	10	(250)	(2,000)
(Loss)/profit before income tax		**(5,181)**	**2,710**
Income tax (expense)/benefit	11	(55)	69
(LOSS)/PROFIT FOR THE YEAR		**(5,236)**	**2,779**
Other comprehensive loss			
Exchange differences on translation to presentation currency		(477)	(155)
Other comprehensive loss for the year		**(477)**	**(155)**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(5,713)**	**2,624**
(Loss)/profit attributable to owners of the Company		(5,236)	2,779
(Loss)/profit attributable to non-controlling interest		–	–
Total comprehensive (loss)/income attributable to owners of the Company		(5,713)	2,624
Total comprehensive (loss)/income attributable to non-controlling interest		–	–
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share, US cents	20	(17.24)	9.53

The notes on pages 32 to 64 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated Statement of Financial Position

In thousands of USD

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	12	23,415	23,335
VAT receivable	14	2,231	2,351
Prepayments	15	3,711	6,252
Inventories	16	478	764
Deferred tax asset	11	1,486	1,535
Restricted cash	26	98	–
		31,419	**34,237**
Current assets			
Advances given to SAT	17	4,709	7,122
VAT receivable	14	–	30
Inventories	16	271	385
Other receivables	18	66	193
Prepayments	15	120	62
Cash and cash equivalents	19	24	113
		5,190	**7,905**
TOTAL ASSETS		**36,609**	**42,142**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	20		
Share capital		401	407
Share premium		111,840	111,840
Foreign currency translation reserve		734	1,205
Accumulated deficit		(83,507)	(78,271)
		29,468	**35,181**
Non-current liabilities			
Provision for future site restoration	22	1,516	778
Due to the Republic of Kazakhstan	23	1,719	1,557
		3,235	**2,335**
Current liabilities			
Trade and other payables	24	2,767	3,657
Due to SAT		53	53
Income tax payable		144	117
Taxes payable other than income tax		252	130
Advances received		690	669
		3,906	**4,626**
TOTAL EQUITY AND LIABILITIES		**36,609**	**42,142**

The notes on pages 32 to 64 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated Statement of Cash Flows

In thousands of USD

	Notes	2012	2011
Cash flows from operating activities			
(Loss)/profit before income tax		(5,181)	2,710
Adjustments for:			
Impairment of prepayments and other receivables	6	3,163	–
Write down to net realisable value and provision for obsolete inventory	6	277	489
Assessment of additional VAT	6	85	–
Depreciation of property, plant and equipment	6	1,093	1,344
Losses on disposal of property, plant and equipment	9	61	49
Write-off of other payables and accrued expenses	9	(1,207)	(262)
Interest income on bank deposits	10	–	(24)
Interest expense on bank borrowings	10	–	1,634
Gain on restructuring	10	–	(7,994)
Unwinding of discount on provision for future site restoration	10	53	89
Unwinding of discount on due to the Republic of Kazakhstan	10	189	168
Unrealised foreign exchange loss		–	106
Translation adjustment		16	470
Operating cash flow before working capital changes		**(1,451)**	**(1,221)**
Change in prepayments and other receivables		20	(108)
Change in inventories		109	145
Change in VAT receivable		29	228
Change in trade and other payables and advances received		26	(2,134)
Change in due to the Republic of Kazakhstan		–	(92)
Change in taxes payable		125	19
Cash used in operating activities		**(1,142)**	**(3,163)**
Interest received		–	24
Net cash used in operating activities		**(1,142)**	**(3,139)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(314)	(66)
Return of prepayments for non-current assets		255	–
Placement of restricted cash	26	(98)	–
Net cash used in investing activities		**(157)**	**(66)**
Cash flows from financing activities			
Issue of ordinary shares	1	–	50,000
Advance payment to SAT under cooperation agreement	2	–	(50,000)
Proceeds from SAT	27	1,210	3,018
Net cash from financing activities		**1,210**	**3,018**
Net decrease in cash and cash equivalents		**(89)**	**(187)**
Cash and cash equivalents at the beginning of the year		113	300
Cash and cash equivalents at the end of the year	19	**24**	**113**

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 15 and Note 17.

The notes on pages 32 to 64 form an integral part of these consolidated financial statements

ShalkiyaZinc N.V.
Consolidated Statement of Changes in Equity

In thousands of USD

	Share capital	Share premium	Cumulative translation reserve	Accumulated deficit	Total
At 1 January 2011	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**
Loss for the year	–	–	–	(5,236)	(5,236)
Other comprehensive loss	(6)	–	(471)	–	(477)
Balance at 31 December 2012	**401**	**111,840**	**734**	**(83,507)**	**29,468**

The notes on pages 32 to 64 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 acquired 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 in 2011. During 2012, SAT acquired the shares of former management and other significant shareholders and became a holder of 98.13% interest in the Company. SAT is the ultimate parent company of the Company.

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

Shareholders	Number of shares, 2012	Percentage of the Company's share capital, 2012	Number of shares, 2011	Percentage of the Company's share capital, 2011
SAT	29,797,991	98.13%	25,591,327	84.28%
Freefloat in the form of GDRs	567,778	1.87%	567,778	1.87%
Former management	–	–	1,388,199	4.57%
Other significant shareholders	–	–	2,818,465	9.28%

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 has suspended its production activity 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 ("MINT") for the exploration and extraction of complex ore at the Talap field (the "Talap Subsurface Use Contract"). In 2012, the Talap Subsurface Use Contract was terminated by MINT (Note 26).

These consolidated financial statements were authorised for issue on 25 April 2013 by the Company's Board of Directors.

2. BASIS OF PREPARATION

Basis of preparation

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

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 2010-2012, 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 and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group.

As disclosed in Note 1, the Group has suspended its production activity since 2008 and its recommencement is contingent upon the Group's ability to raise financing to complete construction of the new processing plant. The Group incurred net loss of USD 5,236 thousand for the year ended 31 December 2012 and, as of that date, the Group's accumulated deficit amounted to USD 83,507 thousand.

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.

2. BASIS OF PREPARATION (continued)

As at 31 December 2012, the Group's capital expenditure related to the construction of the new processing plant amounted to USD 22,981 thousand, including USD 3,711 thousand in prepayments. Per management's assessment the Group would need an additional USD 139 million to complete construction of the new processing plant, USD 334 million for expansion of the Shalkiya mine to ensure sufficient ore supply for the new processing plant and USD 72 million for replacement of the mining equipment. 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 an average gross margin of 28% at zinc market price of USD 4,145 per ton expected in 2017 (expected year of commencement of commercial production), 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 thirty-six months. Also, additional financing is required to fund its operating costs (mainly general and administrative expenses).

Furthermore, under the subsurface use contracts, the Subsidiary undertakes to comply with a detailed mining programme attached to the contract. This programme must be agreed with the MINT. In addition, the Subsidiary must submit an annual implementation report. The subsurface use contracts and the related work programmes impose a range of obligations on the Subsidiary, and there may be adverse consequences for a breach of any of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the Group's subsurface use licences and/or contracts. As disclosed in Note 26, at 31 December 2012 and 2011, the Group was technically not in compliance with the terms of the Shalkiya Subsurface Use Contract. Also, as disclosed in Note 26, in 2012, the Talap Subsurface Use Contract was terminated by the MINT.

The matters disclosed above indicate the existence of a material uncertainty in obtaining sufficient financing for capital expenditures required to resume production operations. This may cast significant doubt about the Group's ability to continue as a going concern, therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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 bank 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 into 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 5.2 million was offset against the prepayment;
- up-front prepayment of USD 2.9 million to Midiel AB (Note 15) made by SAT in 2011 was transferred to the Group and offset against the prepayment.

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

2. BASIS FOR PREPARATION (continued)

During 2012, SAT continued to support the Group:

- SAT provided additional financial aid in the amount of USD 1.2 million which was offset against the prepayment;
- SAT made an up-front prepayment of USD 1.1 million to Midiel AB which was transferred to the Group and offset against the prepayment.

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 these consolidated financial statements.

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

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.

3. NEW ACCOUNTING PRONOUNCEMENTS

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the recognition or measurement of transactions and financial position of the Group.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the recognition or measurement of transactions and financial position of the Group.

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.

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 year. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year;
(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 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 150.74 (2011: USD 1 = Tenge 148.40). The principal average rate of exchange used for translating income and expenses in 2012 was USD 1 = Tenge 149.11 (2011: USD 1 = Tenge 146.62).

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is written-off.

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 and constructions	10 to 20
Vehicles	7 to 9
Machinery and production equipment (except for flotation machines)	6 to 7
Other	8 to 10
Mine development costs 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 entities or other available fair value indicators.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – key measurement terms

Financial instruments of the Group are carried at amortised cost as described below.

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 of the Group represent loans and receivables. Management determines the classification of its financial assets at initial recognition. 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, restricted cash and other receivables.

Classification of financial liabilities

The Group's financial liabilities represent financial liabilities carried at amortised cost. Financial liabilities include financial payables and due to SAT.

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.

Derecognition of financial assets

The Group derecognises financial assets when the assets are redeemed or the rights to cash flows from the assets otherwise expire.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Other receivables

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

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

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

Prepayments

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

Inventories

Inventories are recorded at the lower of cost and net 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Site restoration provisions

Site restoration provisions are made in respect of the estimated future costs of mine closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and 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.

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 railway 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 year. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting year. 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 year 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 year.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker ("CODM"). The functions of the CODM are performed by the Board of Directors. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The CODM carries out analysis of financial information prepared in compliance with IFRS. Accordingly, financial information prepared under internal reporting requirements does not differ from financial information prepared in accordance with IFRS.

The Group operations and assets comprise of one operating segment. Accordingly no separate segment reporting information is presented in these consolidated financial statements. All non-current assets of the Group are located in Kazakhstan.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions 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.

Impairment of non-current assets

Note 13 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.

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.

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

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 2012 and 2011 was nil. As at 31 December 2012 the carrying amount of mining assets was USD 1,697 thousand (2011: USD 1,030 thousand) (Note 12).

Useful lives of other property, plant and equipment

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

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

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. Refer to Note 22 for details.

Allowances for doubtful accounts and prepayments

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. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the impairment allowance on prepayments is recognised in the consolidated financial statements.

Details are disclosed in Note 15 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 16.

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

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

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

As at 31 December 2012 the Group has tax loss carry forwards amounting to USD 29,343 thousand (2011: USD 26,507 thousand). These losses relate to the Subsidiary and can be carried forward for three 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 2012 the Group did not recognise deferred tax assets on tax losses as the management did not consider it probable that future taxable profit would be available against which the deduction can be utilised. Management, however, recognised deferred tax assets related to the temporary deductible differences mainly due to write down of inventories to their net realisable value, provision for future site restoration and due to the Republic of Kazakhstan since management believes that it is probable that taxable profit will be available starting from 2017 against which the deductible temporary differences can be utilised.

6. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of USD	**2012**	**2011**
Impairment allowance on prepayments *(Note 15)*	3,118	–
Depreciation *(Note 12)*	1,093	1,344
Payroll and related taxes *(Note 7)*	885	895
Consulting services	333	550
Provision for obsolete inventory *(Note 16)*	277	120
Maintenance costs	195	277
Utilities	174	180
Rent	105	40
Assessment of additional VAT *(Note 14)*	85	–
Fines and penalties	79	49
Impairment allowance on other receivables *(Note 18)*	45	–
Provision for unused vacation	44	63
Communication	14	15
Bank charges	11	14
Materials	9	14
Write down to net realisable value	–	369
Other	346	85
	6,813	**4,015**

7. PAYROLL AND RELATED TAXES

In thousands of USD	**2012**	**2011**
Salaries and wages, gross	812	823
Social tax and social contributions	73	72
	885	**895**

8. AVERAGE NUMBER OF EMPLOYEES

	2012	**2011**
Directors	1	1
Kentau Processing Plant	30	30
Shalkiya mine	69	69
Administrative personnel	17	14
	117	**114**

9. OTHER OPERATING INCOME AND EXPENSES

In thousands of USD	**2012**	**2011**
Other operating income		
Railway services	1,228	1,072
Write-off of other payables and accrued expenses	1,207	262
Other	198	143
	2,633	**1,477**
Other operating expenses		
Materials	282	319
Rent of railway transport	281	151
Losses on disposal of property, plant and equipment	103	49
Security	27	106
Other	49	91
	742	**716**

Income from write-off of other payables and accrued expenses in 2012 includes income from write-off of fines and penalties payable for environmental pollution of USD 1,107 thousand recognised in 2009 and written-off due to expiry of limitation period for execution of the court decision according to the provisions of the Civil Code of the Republic of Kazakhstan (Note 26).

10. FINANCE INCOME AND COSTS

In thousands of USD	**2012**	**2011**
Finance income		
Gain on restructuring	–	7,994
Interest income on bank deposits	–	24
	–	**8,018**
Finance costs		
Unwinding of discount on due to the Republic of Kazakhstan (*Note 23*)	189	168
Unwinding of discount on provision for future site restoration (*Note 22*)	53	89
Interest expense on bank borrowings (*Note 21*)	–	1,634
Foreign exchange losses less gains on bank borrowings *(Note 21)*	–	106
Other	8	3
	250	**2,000**

Gain on restructuring in 2011 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.

11. INCOME TAX

(a) Components of income tax benefit

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

In thousands of USD	**2012**	**2011**
Current tax	(29)	(17)
Deferred tax	(26)	86
	(55)	**69**

11. INCOME TAX (continued)

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

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

In thousands of USD	**2012**	**2011**
Profit/(loss) before income tax	**(5,181)**	**2,710**
Theoretical tax expense/(benefit) at statutory rate of 20%:	(1,036)	542
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible impairment allowance on prepayments	623	–
Assessment of additional VAT	17	–
Fines and penalties	14	37
Other permanent differences	(130)	88
Change in estimate of site restoration provision and due to the Republic of Kazakhstan	–	85
Tax losses for which no deferred income tax asset was recognised	567	–
Utilisation of tax losses for which no deferred income tax asset was recognised in prior years	–	(821)
Income tax expense/(benefit) for the year	**55**	**(69)**

(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% (2011: 20%).

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

11. INCOME TAX (continued)

In thousands of USD	1 January 2012	Recorded to profit or loss	Currency translation difference	31 December 2012
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	602	(297)	(6)	299
Inventories	452	69	(8)	513
Other receivables	22	9	–	31
Trade and other payables	–	4	–	4
Provision for future site restoration and due to the Republic of Kazakhstan	459	189	(9)	639
Recognised deferred tax asset	**1,535**	**(26)**	**(23)**	**1,486**

At 31 December 2012, net deferred tax assets of USD 1,486 thousand (2011: USD 1,535 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.

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 2012 and 2011.

12. PROPERTY, PLANT AND EQUIPMENT

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

In thousands of USD	Land	Mine development costs	Buildings and constructions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Cost								
At 1 January 2011	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
Additions	–	719	–	839	28	3	7	1,596
Disposals	–	(36)	(11)	(3,930)	(137)	(118)	–	(4,232)
Translation difference	(1)	(28)	(60)	(363)	(2)	(11)	(326)	(791)
At 31 December 2012	**38**	**2,469**	**3,785**	**20,508**	**150**	**475**	**21,045**	**48,470**
Accumulated depreciation and impairment								
At 1 January 2011	–	(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)
Depreciation charge	–	–	(208)	(837)	(22)	(26)	–	(1,093)
Disposals	–	–	11	3,921	86	111	–	4,129
Translation difference	–	12	54	367	4	6	28	471
At 31 December 2012	**–**	**(772)**	**(3,491)**	**(18,531)**	**(148)**	**(338)**	**(1,775)**	**(25,055)**
Net book value								
At 31 December 2011	39	1,030	508	1,980	45	172	19,561	23,335
At 31 December 2012	**38**	**1,697**	**294**	**1,977**	**2**	**137**	**19,270**	**23,415**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Mine development costs represent capitalised estimated future costs of mine closure, restoration and environmental rehabilitation. Additions to mine development costs in 2012 include increase in provision for future site restoration due to the change in estimate of site restoration costs in amount of USD 696 thousand (2011: disposal due to decrease in the amount of USD 423 thousand) (Note 22).

Due to the suspension of the operating activities in November 2008, the Group has stood 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	**2012**	**2011**
Tower-type drop hammer	6,549	6,649
Mine winders	6,263	6,354
Capitalised costs on increase of capacity	5,400	5,194
Capital repair of canteen building	812	825
Headframe workshop unit	783	795
Flotation equipment	377	406
Loading bridge	354	348
Other	507	793
Less: impairment provision	(1,775)	(1,803)
	19,270	**19,561**

13. IMPAIRMENT

The Shalkiya CGU

As of 31 December 2012 the carrying amount of property, plant and equipment related to the Shalkiya CGU is USD 23,415 thousand (2011: USD 23,335 thousand).

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 recoverable amount was determined based on fair value less cost to sell. The measurement of fair value of property, plant and equipment of the mentioned cash 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 for the period until the expiry of the Shalkiya Subsurface Use Contract in 2046. Management concluded that cost to sell these assets is not significant, and, therefore, their fair value determined at 31 December 2010 approximated 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, estimated capital expenditures on construction of the new processing plant and expected time of recommencement of operations of the Subsidiary. At 31 December 2011, management assessed the key assumptions applied in projected future cash flows for the purpose of the valuation, and 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 at 31 December 2011 there were no indications of impairment of assets of the Shalkiya CGU.

One of the assumptions having the most significant impact on fair value of property, plant and equipment was the estimated amount of capital expenditures required to resume the Subsidiary's production of zinc and lead. In 2012, based on information prepared by the independent engineering consultants, estimated capital expenditures on construction of the new processing plant and expansion of the Shalkiya mine increased significantly. This coupled with global decline in metals and mining industry was considered by management as impairment indicators for impairment, and accordingly management conducted an impairment test as of 31 December 2012.

13. IMPAIRMENT (continued)

The recoverable amount of property, plant and equipment as of 31 December 2012 was determined based on fair value less cost to sell. Cash flows for fair value calculations were projected for the period until the expiry of the Shalkiya Subsurface Use Contract in 2046. Estimates of future cash flows include amount of capital expenditures required to resume production operations.

Principal assumptions having a significant impact on projected future cash flows include:

- zinc and lead prices forecasts;
- production costs;
- estimated capital expenditures on construction of the new processing plant and expansion of the Shalkiya mine;
- expected time of recommencement of operations.

Zinc and lead prices forecasts are based on publicly available long-term broker forecasts for the period of 2013-2025 where zinc prices vary from USD 2,205 per ton in 2013 to the peak price of USD 4,299 per ton in 2018 which subsequently decline to USD 3,461 per ton in 2025. For the price projections for the period of 2026-2046 management used the broker forecast price in 2025 and applied the long-term price index of 3% per annum as the growth rate. Management projects an average gross margin of 28% at zinc market price of USD 4,145 per ton expected in 2017 (expected year of commencement of commercial production). All other variables held constant, a decrease of over 27% in zinc and lead prices could lead to full impairment of the Shalkiya CGU assets.

Production costs were projected based on technical project prepared by the independent engineering consultants applying the Kazakhstan production price index varying from 2.7% to 5.0% per annum as the growth rate.

Estimated capital expenditures on construction of the new processing plant and expansion of the Shalkiya mine were determined based on updated technical project prepared by the independent engineering consultants. Expected capital expenditures are as follows:

- completion of construction of the new processing plant – USD 139 million;
- expansion of the Shalkiya mine – USD 334 million;
- replacement of mining equipment – USD 72 million.

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.

Management expects to start construction of the new processing plant in January 2014. Estimated timing required to complete the construction is thirty-six months. Management expects to recommence operations after the completion of construction of the new processing plant (expected in January 2017).

Cash flows were discounted applying annual pre-tax interest rate of 19.00% which was based on the weighted average cost of capital of the Group.

As a result of the impairment test management concluded that there is no impairment of the non-financial assets of the Shalkiya CGU assets as of 31 December 2012. However, as discussed in Note 2, recoverability of property, plant and equipment substantially depends on the Group's ability to obtain sufficient financing for the capital expenditures required to resume the Subsidiary's commercial production and the outcome of negotiations with the Government on updated working program for the Shalkiya Subsurface Use Contract (Note 28).

13. IMPAIRMENT (continued)

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 of 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.

14. VAT RECEIVABLE

In thousands of USD	**31 December 2012**	**31 December 2011**
VAT receivable classified as:		
Non-current	2,231	2,351
Current	-	30
	2,231	**2,381**

VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. In November 2012, Almaty Tax department of the Tax Committee of the Ministry of Finance conducted a thematic tax audit of VAT of the Subsidiary for the period from 1 January 2008 to 30 June 2012 and assessed additional VAT liabilities in the amount of USD 85 thousand which were offset against VAT receivable balance. Decrease in VAT receivable was recorded to general and administrative expenses (Note 6).

At 31 December 2012, full amount of VAT receivable (2011: amount of USD 2,351 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.

15. PREPAYMENTS

In thousands of USD	**31 December 2012**	**31 December 2011**
Prepayments for equipment and machinery	6,829	6,252
Prepayments for consumables and services	238	182
Less: allowance for impairment	(3,236)	(120)
	3,831	**6,314**
Classified as:		
Non-current	3,711	6,252
Current	120	62
	3,831	**6,314**

Prepayments as at 31 December 2012 include up-front prepayment of USD 3,711 thousand (2011: USD 2,895 thousand) made to Midiel AB in 2011 and 2012, and USD 3,118 thousand (2011: 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. In January 2013, Midiel AB returned portion of the prepayment in the amount of USD 265 thousand (2012: USD 255 thousand).

15. PREPAYMENTS (continued)

Until August 2012 management of the Group was in the process of negotiation on the terms with Outotec OY to agree on delivery of the mills by 2013 as soon as operation of the new plant would be resumed. Management believed the Group was in a strong position that the prepayment was fully recoverable. In 2012, the Group did not reach agreement with Outotec OY on revised terms of supply and payment of the full cost of equipment, and it was decided to terminate the contract. Outotec OY refused to refund the prepayment, and in October 2012 management of the Group filed the claim to Arbitration Institute of the Stockholm Chamber of Commerce seeking refund of the full prepayment made by the Group. Management believes that the Group has strong position on this matter which will be sustained by the arbitrary. However, management took a conservative position and recorded full impairment of prepayment to Outotec OY as of 31 December 2012 in amount of USD 3,118 thousand after offset of USD 214 thousand of payables to Outotec OY, which was a non-cash transaction.

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

In thousands of USD	**2012**	**2011**
Allowance at the beginning of the year	120	121
Charge for the year *(Note 6)*	3,118	–
Translation difference	(2)	(1)
Allowance at the end of the year	**3,236**	**120**

16. INVENTORIES

In thousands of USD	**31 December 2012**	**31 December 2011**
Stores and materials	2,202	2,347
Less: provision for obsolescence	(1,453)	(1,198)
	749	**1,149**
Classified as:		
Non-current	478	764
Current	271	385
	749	**1,149**

As at 31 December 2011 finished goods and work-in-progress were written down to nil as the estimated selling price did not cover cost of production (including estimated cost to complete) and selling expenses. In 2012 and 2011, the Group also recognised provisions for obsolete inventories as a result of physical stock counts conducted.

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	**2012**	**2011**
Provision at the beginning of the year	1,198	1,098
Charge for the year *(Note 6)*	277	120
Translation difference	(22)	(20)
Provision at the end of the year	**1,453**	**1,198**

17. ADVANCES GIVEN TO SAT

In January 2011, the Group entered into 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 the Group's obligations (Note 2). Please see the movement of the advances given to SAT:

In thousands of USD	31 December 2012	31 December 2011
Balance at 1 January	7,122	–
Advances given to SAT during the year *(Note 2)*	–	50,000
Transfer of bank borrowings from the BTA Bank *(Note 21)**	–	(30,988)
Transfer of the Group's payables to Atlas Copco Customer Finance AB to SAT *(Note 28)**	–	(3,642)
Transfer of prepayment to Midiel AB made by SAT to the Group *(Note 15)**	(1,115)	(2,895)
Offset against financial aid received by the Group from SAT*	(1,210)	(5,170)
Translation differences	(88)	(183)
Balance at 31 December	**4,709**	**7,122**

** - the amounts represent 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.*

Management of the Group expects that outstanding amount will be settled in 2013.

18. OTHER RECEIVABLES

In thousands of USD	31 December 2012	31 December 2011
Other financial receivables	218	306
Less: allowance for doubtful debts	(152)	(113)
	66	**193**

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

In thousands of USD	2012	2011
Allowance at the beginning of the year	113	113
Charge for the year *(Note 6)*	45	–
Translation difference	(6)	–
Allowance at the end of the year	**152**	**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
2012	66	17	24	–	–	–	25
2011	193	122	36	1	8	20	6

At 31 December 2012 and 2011, the Group's other receivables were denominated in Tenge.

19. CASH AND CASH EQUIVALENTS

In thousands of USD	31 December 2012	31 December 2011
Cash in banks, Tenge denominated	18	50
Cash in banks, USD denominated	3	24
Cash in banks, EUR denominated	1	25
Cash on hand, USD denominated	–	13
Cash on hand, Tenge denominated	2	1
	24	**113**

20. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

In thousands of USD	Number of outstanding shares	Share capital	Share premium
At 1 January 2011	**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**
Translation difference	–	(6)	–
At 31 December 2012	**30,365,769**	**401**	**111,840**

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

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 30,365,769 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 400,798 at an exchange rate of USD 1.3199.

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.

20. EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (continued)

Earnings/(loss) per share

The numerator for the calculation of the basic (loss)/earnings per share for the year ended 31 December 2012 is the loss after tax of USD 5,236 thousand (2011: profit after tax of USD 2,779 thousand) and the denominator for the calculation of the basic (loss)/earnings per share is 30,365,769 shares (2011: 29,146,909 shares).

	For the year ended	
	31 December 2012	**31 December 2011**
Basic (loss)/earnings per share, *in US cents*	(17.24)	9.53
Diluted (loss)/earnings per share, *in US cents*	(17.24)	9.53
(Loss)/earnings attributable to ordinary shareholders, in thousands of USD	(5,236)	2,779
Weighted average number of outstanding shares	30,365,769	29,146,909

21. BANK BORROWINGS

In thousands of USD	**31 December 2012**	**31 December 2011**
Opening balance	–	34,790
Interest expense for the year *(Note 10)*	–	1,634
Transfer of the debt to SAT	–	(30,988)
Gain on restructuring *(Note 10)*	–	(5,694)
Foreign exchange difference *(Note 10)*	–	106
Translation difference	–	152
	–	**–**

The bank borrowings were due to BTA Bank. In 2011, the Group 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 2012 and 2011, property, plant and equipment with a net carrying value of USD 10,022 thousand and USD 10,180 thousand, respectively, were still pledged to BTA Bank.

22. PROVISION FOR FUTURE SITE RESTORATION

In thousands of USD	**31 December 2012**	**31 December 2011**
At 1 January	778	1,115
Change in estimate due to change in discount rate	310	(49)
Change in estimate due to change in other assumptions	386	(374)
Unwinding of discount *(Note 10)*	53	89
Translation difference	(11)	(3)
At 31 December	**1,516**	**778**

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 696 thousand (2011: USD 423 thousand) represent change in future site restoration and abandonment cost due to revision of expected discount and long-term inflation rates.

The following are the key assumptions on which the discounted carrying amount of the obligation is based in 2012:

- 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 closer to the end of the Shalkiya Subsurface Use Contract term, in 2044-2046;
- The long-term inflation rate is 5.6% per annum (2011: 4.5%);
- The discount rate applied is 6.88% per annum (2011: 7.87%).

23. DUE TO THE REPUBLIC OF KAZAKHSTAN

In thousands of USD	**31 December 2012**	**31 December 2011**
At 1 January	1,557	1,481
Repayment during the year	–	(92)
Unwinding of discount *(Note 10)*	189	168
Foreign exchange differences	(27)	–
At 31 December	**1,719**	**1,557**

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 2012	31 December 2011
Trade payables for services	1,805	2,096
Trade payables for purchased property, plant and equipment	805	219
Other	18	–
Total financial payables	*2,628*	*2,315*
Payables to employees	88	227
Accrued expenses	49	1,107
Other	2	8
	2,767	**3,657**

In 2012, the Group wrote-off the fines and penalties payable for environmental pollution included in accrued expenses in the amount of USD 1,107 thousand (Note 26).

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

In thousands of USD	2012	2011
Tenge	1,389	1,411
US Dollar	1,010	681
Euro	173	223
Swedish Krona	56	–
	2,628	**2,315**

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are 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. As of 31 December 2012 and 2011 the Group did not have interest bearing financial instruments.

Currency risk

As a result of 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 table below shows the total amount of assets and liabilities denominated in a foreign currency that give rise to foreign exchange risk:

31 December 2012	US Dollar	EUR
Assets	3	1
Liabilities	(1,010)	(173)
Net position	(1,007)	(172)

31 December 2011	US Dollar	EUR
Assets	24	25
Liabilities	(681)	(223)
Net position	(657)	(198)

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 2012		
US Dollar	+10.0%	(101)
	-10.0%	101
EUR	+10.0%	(17)
	-10.0%	17
31 December 2011		
US Dollar	+19.5%	(136)
	-19.5%	136
EUR	+21.8%	43
	-21.8%	(43)

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As the entity's operations ceased in 2008 (Note 2), credit risk mainly arises from cash and cash equivalents, restricted cash and other receivables.

With respect to banks and financial institutions, only entities with high ratings are accepted.

The Group does not have the system of assessing the creditworthiness of its customers, policy for assigning internal ratings and setting credit limits for counterparties.

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

The table below shows credit ratings (if available) as at the end of the relevant reporting year:

In thousands of USD	**Rating (Moody's)**	**2012**	**2011**
Other receivables	Not available	66	193
Restricted cash	Not available	98	–
Cash and cash equivalents			
BTA Bank	Caa2	15	15
RBS Kazakhstan	Not available	3	–
ING Bank	A2	3	49
Kazkommertsbank	Ba3	1	35
Total cash on current accounts and term deposits		22	99
Total maximum exposure to credit risk		**186**	**292**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages the liquidity risk using short-term forecasts of the expected cash flows from operating activities. As the Group heavily relies on financing from SAT, management has developed a range of internal regulations, aimed at establishing control procedures for appropriate invoice processing and payments, as well as preparation of operational budgets for timely request of financial aid from SAT.

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

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 2012						
Trade and other financial payables	2,628	–	–	–	–	2,628
Due to SAT	53	–	–	–	–	53
	2,681	**–**	**–**	**–**	**–**	**2,681**
At 31 December 2011						
Trade and other financial payables	2,315	–	–	–	–	2,315
Due to SAT	53	–	–	–	–	53
	2,368	**–**	**–**	**–**	**–**	**2,368**

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

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 at 31 December:

	Carrying amount		Fair value	
In thousands of USD	**2012**	**2011**	**2012**	**2011**
Financial assets				
Cash and cash equivalents	24	113	24	113
Restricted cash	98	–	98	–
Other receivables	66	193	66	193
Financial liabilities				
Financial payables	2,628	2,315	2,628	2,315
Due to SAT	53	53	53	53

The estimated fair value of financial instruments is based on estimated future cash flows expected to be received discounted using current interest rates for new instruments with similar credit risk and remaining maturity.

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. 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 SAT). The decisions in respect of the Group's financing activities (either through equity or debt) are made by the Group's ultimate 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. No changes were made in the objectives, policies or processes during the year ended 31 December 2012.

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 in 2012 the Group fully complied 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.

26. COMMITMENTS AND CONTINGENCIES (continued)

As of 31 December 2011 the Group did not have such special bank account for liquidation fund as required by the subsurface use contract. In 2012, the Group initiated a bank deposit for liquidation fund and transferred USD 98 thousand; however, the amount was not sufficient to meet the liquidation fund obligations under the subsurface use contracts. The Group expects to transfer the remaining amount in the first half of 2013 to fully comply with liquidation fund requirements.

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, years	Minimum volume for the entire period, thousands of USD	Unimplemented part of minimal work program as of 31 December 2012, thousands of USD	Amount subject to implementation in 2013, thousands of USD
Shalkiya	2002 – 2046	81,244	81,244	–

At 31 December 2012 and 2011, the Group was technically not in compliance with the terms of the Shalkiya Subsurface Use Contract. In 2012, the Group prepared an updated Project on the development of Shalkiya field (the "Project") which assumes commencement of construction of the new processing plant in 2014 with its completion by the end of 2016. Starting 2017 the Group expects to generate revenue and become profitable. These plans are significantly dependent upon the Group's ability to obtain sufficient financing (Note 2). Based on the Project, the Group expects to obtain an updated working program for the Shalkiya Subsurface Use Contract with the MINT in the first half of 2013, which shall cancel previous non-compliance with the terms of the Shalkiya Subsurface Use Contract.

On 17 October 2012, the Talap Subsurface Use Contract was terminated by the MINT. The Group had to apply either for the extension of the period of exploration and development phase or to provide additional agreement to the Talap Subsurface Use Contract on transition to the production phase. The Group was not able to perform aforementioned activities due to the circumstances which are out of control of the Group. Also, the requirement to set up a liquidation fund was not fully met by 31 December 2012, but the Group expects to resolve the incompliance in the first half of 2013 (see section "Liquidation fund"). Management plans to file an appeal to the court regarding the termination of the Talap Subsurface Use Contract in 2013.

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 Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed with additional taxes, penalties and fines. Tax periods remain open to review by the Kazakhstani tax authorities for five years.

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

26. COMMITMENTS AND CONTINGENCIES (continued)

Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. In 2010 and 2009, the Group was a defendant in a legal action involving alleged environmental pollution. As of 31 December 2010 the Group recorded the fines and penalties payable in the amount of USD 1,107 thousand for environmental pollution.

In 2012, the Group wrote-off the aforementioned payable (Note 24) and recognised related income (Note 9), as the limitation period for execution of the court decision ceased according to the provisions of the Civil Code of the Republic of Kazakhstan, and, legally, the Group has no further obligation to settle the amount. It is not anticipated that any further material obligation will arise from these contingent liabilities.

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.

As at 31 December, the outstanding balances with related parties were as follows:

In thousands of USD	**2012**	**2011**
Advances given to SAT *(Note 15)*	4,709	7,122
Due to SAT	53	53

In 2012, the Group obtained additional borrowings from SAT in the amount of USD 1,210 thousand (2011: USD 3,018 thousand). The whole amount due to SAT was offset against advances given to SAT (Note 15).

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 two persons at 31 December 2012 (31 December 2011: four persons). Compensation to key management personnel consists of short-term employee benefits. Since the Group 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 121 thousand for the year ended 31 December 2012 (31 December 2011: USD 117 thousand).

In thousands of USD

Name	Position	2012	2011
Alken Kuanbay	Acting Chief Executive Officer	73	60
Azelgareyeva Ramilya	Director of Finance and Economics Department	48	31
Sarkytbaev Marat	General Director	–	22
Abuov Asylbek	Deputy General Director	–	4
Total		**121**	**117**

28. SUBSEQUENT EVENTS

In March 2013, the Subsidiary received borrowings from SAT in the amount of USD 50,000 thousand. On 14 March 2013, the Subsidiary repaid the principal amount of the non-current borrowings due to the Company of USD 50,000 thousand (Note 31). Pursuant to the decision of the general meeting of the owners dated 1 March 2013, the Company made a cash contribution to the charter capital of the Subsidiary in the amount of USD 50,000 thousand on 15 March 2013. The Subsidiary used these funds to repay the borrowings received from SAT in March 2013.

Pursuant to the decision of the general meeting of the owners dated 18 March 2013, the Subsidiary applied to the government authorities on reorganisation of the Subsidiary from the limited liability partnership into the joint stock company in accordance with the legislation of the Republic of Kazakhstan. Upon completion of the reorganisation which is subject to approval by the Ministry of Justice of the Republic of Kazakhstan and the Committee for the Control and Supervision of the Financial Market and Financial Organisations of the Republic of Kazakhstan, the carrying value of the net assets of the Subsidiary at the reorganisation date will be recorded as contribution to the share capital of the ShalkiyaZinc Ltd. JSC.

29. INDEPENDENT AUDITORS' REMUNERATION

In thousands of USD	2012	2011
Audit of financial statements of the Group	144	74

Company Income Statement of ShalkiyaZinc N.V.

FOR THE YEAR ENDED 31 DECEMBER 2012

In thousands of USD	**Notes**	**2012**	**2011**
Result of subsidiary after taxation	32	–	(50,000)
Other income and expenses	33	(226)	1,596
Net loss		**(226)**	**(48,404)**

Company Balance Sheet of ShalkiyaZinc N.V.

AS AT 31 DECEMBER 2012
(After proposed appropriation of results)

In thousands of USD	**Notes**	**31 December 2012**	**31 December 2011**
ASSETS			
Current assets			
Short-term portion of VAT receivable		2	–
Other receivables		–	–
Cash and cash equivalents		3	49
		5	**49**
TOTAL ASSETS		**5**	**49**
Shareholders' equity and liabilities			
Shareholders' equity	34		
Share capital		407	407
Share premium		111,834	111,834
Foreign currency translation reserve		773	769
Accumulated deficit		(114,335)	(114,109)
		(1,327)	**(1,099)**
Current liabilities			
Other accrued liabilities		378	683
Short-term loan		954	465
		1,332	**1,148**
TOTAL EQUITY AND LIABILITIES		**5**	**49**

30. 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 32 to 64.

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.

31. LONG TERM LOAN TO THE SUBSIDIARY

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

In thousands of USD	**2012**	**2011**
Opening balance at 1 January, gross	48,409	44,109
Less: impairment loss provision	(48,409)	(44,109)
Opening balance at 1 January	–	–
Change in estimates of future cash flows	2,859	4,300
Impairment loss	(2,859)	(4,300)
Closing balance at 31 December	51,268	48,409
Less: impairment loss provision	(51,268)	(48,409)
Closing balance at 31 December	–	–

Long-term loan amount of USD 50,000 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.

31. LONG TERM LOAN TO THE SUBSIDIARY (continued)

As detailed in Note 28 to the consolidated financial statements, in March 2013, the Subsidiary repaid the principal amount of the long-term amount of USD 50,000 thousand.

32. RESULT OF SUBSIDIARY AFTER TAXATION

The investment in the Subsidiary is related 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 2012 was USD 20,524 thousand.

In 2011, the Company made a contribution to the charter capital of the Subsidiary in the amount 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.

33. OTHER INCOME AND EXPENSES

In thousands of USD	**2012**	**2011**
Income on loans	2,859	4,300
Impairment of loans and receivables	(2,859)	(1,998)
Other expenses	(239)	(673)
Foreign exchange gain/(loss)	13	(33)
	(226)	**1,596**

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

34. SHAREHOLDERS' EQUITY

In thousands of USD	**Share capital**	**Share premium**	**Foreign currency translation reserve**[1]	**Accumulated deficit**	**Total**
At 1 January 2011	**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)**
Loss for the year	–	–	–	(226)	(226)
Other comprehensive loss	(6)	–	4	–	(2)
Balance at 31 December 2012	**401**	**111,834**	**773**	**(114,335)**	**(1,327)**

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

34. SHAREHOLDERS' EQUITY (continued)

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

In thousands of USD	31 December 2012	31 December 2011
Equity per consolidated financial statements	29,468	35,181
Unrecognised losses of the Subsidiary	20,524	14,539
Impairment of the loan to the Subsidiary	(51,268)	(50,869)
Other differences	(51)	50
Equity per the Company financial statements	**(1,327)**	**(1,099)**

35. DIRECTORS REMUNERATION

None of directors received remuneration for their services in 2012 and 2011 respectively. The remuneration of Alken Kuanbay and Ramilya Azelgereeva disclosed in Note 27 represents the amount of salary that they have received, as they are employees of the Company, Alken Kuanbay is an Acting Chief Executive Officer and Ramilya Azelgereeva is the Head of Finance and Economic department.

36. AVERAGE NUMBER OF EMPLOYEES

As at 31 December 2012 the Group employed 117 employees (31 December 2011: 114 employees).

37. INDEPENDENT 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 DIRECTORS

Kenges Rakishev

Amsterdam

25 April 2013

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 2012 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 26.

Directors' interest

Kenges Rakishev holds the 98.13% of the issued share capital of the Company.