This document comprises a prospectus relating to KazakhGold Group Limited (the "**Company**") prepared in accordance with the Prospectus Rules of the Financial Services Authority made under section 73A of the Financial Services and Markets Act 2000 ("**FSMA**") and the Companies (General Provisions) (Jersey) Order 2002 (the "**Jersey Prospectus Order**").

Applications have been made to the Financial Services Authority for up to 47,100,000 global depositary receipts (the "**GDRs**") (with each GDR representing one ordinary share of £0.0001 nominal value each in the Company (the "**Shares**")), consisting of 11,700,000 GDRs to be issued on or around 30 November 2005 (the "**Closing Date**") (representing 7,100,000 newly issued Shares (the "**New Shares**") and 4,600,000 existing Shares (all existing Shares, including but not limited to existing Shares offered in the Global Offer, the "**Existing Shares**")), up to 1,400,000 additional GDRs to be issued pursuant to the over-allotment arrangements described below (representing 1,400,000 Existing Shares) and up to 34,000,000 additional GDRs to be issued from time to time against deposit of Shares with The Bank of New York as depositary (the "**Depositary**"), to be admitted to listing on the Official List of the Financial Services Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities (together "**Admission**"). Conditional dealings in the GDRs are expected to commence on the London Stock Exchange on 25 November 2005 under the symbol "KZG". It is expected that Admission will become effective and that unconditional dealings in the GDRs will commence on the London Stock Exchange at 8.00 a.m. (London time) on 1 December 2005. **All dealings before the commencement of unconditional dealings will be on a "when issued" basis and will be of no effect if Admission does not take place. Such dealings will be at the sole risk of the parties concerned.**

A copy of this document has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Jersey Prospectus Order and the Registrar has given, and has not withdrawn, his consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Articles 2 and 4(1) of the Control of Borrowing (Jersey) Order 1958 as amended to the issue of 100,000,000 GDRs and 100,000,000 Shares. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for correctness of any statement made, or opinions expressed, with regard to it. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended against liability from the discharge of its functions under that law.

The Company accepts responsibility for the information contained in this document. To the best of the knowledge of the Company, which has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

Anyone considering acquiring GDRs in the Global Offer should read this document in its entirety and, in particular, *"Risk Factors"*.

KazakhGold Group Limited

(incorporated as a public company with limited liability under the laws of Jersey)

Global Offer of 13,100,000 GDRs and admission to listing on the Official List and to trading on the London Stock Exchange at an Offer Price of $15.00 per GDR

The GDRs are being offered outside the United States in offshore transactions in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**US Securities Act**"). The Shares and the GDRs have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Global Co-ordinator, Bookrunner and Lead Manager

ING

Co-Lead Manager

Troika Dialog

25 November 2005

The Shares to be issued and made available pursuant to the Global Offer in the form of GDRs will, following the Closing Date, rank *pari passu* in all respects with the other issued Shares and will carry the right to receive all dividends and distributions declared, made or paid on or in respect of the issued Shares after the Closing Date.

ING Bank N.V., London Branch (a "**Manager**" or the "**Lead Manager**") is acting for KazakhGold Group Limited and no one else in connection with the Global Offer, and will not be responsible to anyone other than KazakhGold Group Limited for providing the protections afforded to its clients, or for providing advice in relation to the Global Offer or any transaction or arrangement referred to in this document.

Troika Dialog (Bermuda) Ltd. ("**Troika Dialog**", a "**Manager**" and, together with the Lead Manager, the "**Managers**") is acting for KazakhGold Group Limited and no one else in connection with the Global Offer, and will not be responsible to anyone other than KazakhGold Group Limited for providing the protection afforded to its clients, or for providing advice in relation to the Global Offer or any transaction or arrangement referred to in this document.

The distribution of this document and the offer of the GDRs in certain jurisdictions may be restricted by law.

No action has been or will be taken by the Company, the Company's shareholders at the date of this document (the "**Existing Shareholders**"), the Managers or any other person to permit a public offering of the GDRs or the Shares or to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the GDRs or the Shares) in any jurisdiction where action for that purpose may be required.

Accordingly, neither this document nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Global Offer and the distribution of this document are subject to the restrictions set out in "*Subscription and Sale*".

Prospective investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company or either of the Managers. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA and paragraph 3.4 of the Prospectus Rules of the Financial Services Authority or the Jersey Prospectus Order, neither the delivery of this document nor any subscription or purchase of GDRs or Shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company and its subsidiaries and subsidiary undertakings from time to time (the "**Group**") since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The contents of this document are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

In connection with the Global Offer, the Managers, and any of their respective affiliates acting as an investor for its or their own account(s) may acquire GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this document to the GDRs being issued, offered, acquired or otherwise dealt with should be read as including any issue or offer to, or acquisition or dealing by, the Managers or either of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offer, the Company has appointed ING Bank N.V., London Branch as stabilising manager (the "**Stabilising Manager**"). Gold Lion Limited (the "**Selling Shareholder**") has agreed with the Stabilising Manager that the Stabilising Manager may, acting as principal, acquire or procure acquirers for such number of additional GDRs (the "**Over-allotment GDRs**"), representing additional Existing Shares made available by the Selling Shareholder, as represents up to 12% of the total number of GDRs to be made available in the Global Offer (excluding any Over-allotment GDRs) at $15.00 per GDR (the "**Offer Price**") to cover over-allotments and/or cover short positions resulting from stabilisation transactions (the "**Over-allotment Arrangements**"). Any Existing Shares represented by Over-allotment GDRs made available pursuant to the Over-allotment Arrangements will rank *pari passu* with the Shares, including for all dividends and other distributions declared, made or paid on the Shares and will form a single class for all purposes with the other Shares.

In connection with the Global Offer, the Stabilising Manager, or any of its agents may, to the extent permitted by applicable law, at its discretion over-allot or effect transactions with a view to supporting the market price of the GDRs and the Shares at a level higher than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising measures, if commenced, may be

discontinued at any time and may only be undertaken during the 30 day period from the announcement of the Offer Price. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Within one week following the end of the stabilisation period, the following information will be published through a Regulatory Information Service:

- whether or not stabilisation was undertaken; and
- for each stabilisation transaction that was carried out (a) the date at which stabilisation started, (b) the date on which stabilisation last occurred and (c) the price range within which stabilisation was carried out.

Save as specified above, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

NOTICE IN CONNECTION WITH THE UNITED STATES, AUSTRALIA, CANADA AND JAPAN

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, GDRs or Shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into Australia, Canada or Japan. In particular, the GDRs offered by this document have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and, subject to certain exceptions, may not be offered or sold directly, or indirectly, in or into Australia, Canada or Japan, or any person resident in Australia, Canada or Japan.

The Shares and the GDRs have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sole, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The information in this document is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding United States federal tax penalties, and was written to support the promotion or marketing of the Global Offer. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

The Global Offer and the associated tax strategies are not confidential, proprietary or exclusive. Notwithstanding anything to the contrary herein, there is no limitation on the disclosure by any recipient of this document of the tax treatment or tax structure of the Global Offer described therein.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements which reflect the current view of the Group or, as appropriate, of the directors of the Company (the "**Directors**") with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services).

These forward-looking statements relate to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise.

All forward-looking statements included in this document address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this document entitled "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect the Group's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity.

Any forward-looking statements speak only as of the date of this document. Subject to any obligations under the Listing Rules, the Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Data

Unless otherwise indicated, the financial information in this document has been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

Anyone considering acquiring GDRs must rely on their own examination of the Group, the terms of the Global Offer and the financial information in this document.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document may not conform exactly to the total figure given for that column or row.

Market, Economic and Industry Data

Market, economic and industry data used throughout this document has been derived from various industry and other independent sources. The accuracy and completeness of such information is not guaranteed.

Information contained in this document relating to the gold mining industry and the competitors of the Group (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various securities laws. The Company confirms that such information has been accurately reproduced from its sources and, as far as the Company is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, the Company has relied on the accuracy of this information without carrying out an independent verification. Certain of the information in this document in relation to Kazakhstan has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Company only accepts responsibility for accurately reproducing such extracts as they appear in this section. It accepts no further or other responsibility in respect of such information.

All references in this document to the "Economist Intelligence Unit" are to the Economist Intelligence Unit, a division of The Economist Group, a provider of economic, political and business analysis.

All references in this document to "Centras" are to JSC "Centras Securities" an investment company providing, *inter alia*, research on various industries in Kazakhstan.

All references in this document to "GFMS Limited" are to GFMS Limited, independent researchers of the global market and an associate member of the London Bullion Market Association.

Ore reserve and mineral resource reporting—basis of preparation

Wardell Armstrong International Limited ("**WAI**") has reviewed certain of the Company's reserves and resources set out in the table under the heading "*Technical Report—Executive Summary—Resources*". Information on the reserves and resources reviewed by WAI is set out in tables under the headings "*Technical Report—Geology of Aksu Deposit—In-situ Resources—Underground Resources*", "*Technical Report—Geology of the Quartzite Hills Deposit—In-situ Resources*", "*Technical Report—Geology of the Zholymbet Deposit—In-situ Resources*" and "*Technical Report—Geology of Bestobe Deposit—In-situ Resources*". For information on certain risks relating to ore reserve and resource estimation, see "*Risk Factors—Risks relating to the Gold Mining Industry—Gold mining companies face many risks related to their operations (including their exploration and development activities) that may affect their cash flows and overall profitability—Ore reserve and resource estimation risks*".

In this document, the reserve and resource estimates which have been reviewed by WAI are based on data initially prepared by the Company in accordance with the former Soviet Union system of classification of geological reserves and resources (the "**FSU Classification**"), and have been substantiated by evidence obtained from WAI's site visits and observation and are supported by details of drilling results, analyses and other evidence and take account of all relevant information supplied by the management and Directors of the Company.

The reserve and resource estimates provided in this document comply with the reserve and resource definitions of the FSU Classification. For information on the FSU Classification, including a comparison of this method of classification with the 1999 Australasian Code of Reporting of Mineral Resources and Reserves (the "**JORC Code**"), see "*Technical Report—Geology and Resources*".

NO INCORPORATION OF WEBSITE INFORMATION

The contents of the Company's website do not form part of this document.

CURRENCY PRESENTATION

Unless otherwise indicated, all references in this document to "pounds sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, all references to "$" or "US dollars" are to the lawful currency of the United States and all references to "KZT" or "Tenge" are to the lawful currency of the Republic of Kazakhstan ("**Kazakhstan**").

REFERENCES TO DEFINED TERMS

Certain terms used in this document, including certain capitalised terms and certain technical and other terms, are defined, and certain selected industry and technical terms used in this document are defined and explained, in "*Definitions*" and "*Glossary*".

EXCHANGE RATES

The following table shows for the dates and periods indicated the period-end, average, high and low official Tenge to US dollar exchange rate as reported by the National Bank of Kazakhstan (the "**NBK**") expressed in Tenge per $1.00.

Period	Period-end	Average	High	Low
2002	155.60	153.28	155.60	150.60
2003	144.22	149.58	155.75	143.66
2004	130.00	136.04	143.33	130.00
Six months ended 30 June 2004	136.45	138.52[(1)]	143.33	136.00
Six months ended 30 June 2005	135.26	131.21[(1)]	136.00	129.83

(1) Calculated as the average of the average exchange rates for the three months ended 31 March and the three months ended 30 June for the relevant year.

The following table shows the high and low official Tenge to US dollar exchange rate as reported by the NBK for each month during the six months prior to 24 November 2005, expressed in Tenge per $1.00.

Month	Period end	Average	High	Low
June 2005	135.26	133.75	136.00	131.39
July 2005	135.84	135.66	136.12	134.99
August 2005	135.25	135.52	135.89	135.05
September 2005	133.89	134.31	135.35	133.89
October 2005	134.00	133.83	134.23	133.57
November 2005 (to 24 November 2005)	133.89	134.10	134.42	133.77

The above rates may differ from the actual rates used in the preparation of the financial statements of joint stock company ("**JSC**") Kazakhaltyn Mining—Metallurgical Concern ("**Kazakhaltyn**") and other financial information appearing in this document. The inclusion of these exchange rates is not meant to suggest that the Tenge amounts actually represent such US dollar amounts or that such amounts could have been converted into US dollars at any particular rate, if at all.

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SUMMARY

The following summary information does not purport to be complete and should be read as an introduction to the more detailed information appearing elsewhere in this document, including the audited financial information for Kazakhaltyn for the years ended 31 December 2002, 2003 and 2004 and the unaudited interim financial information for Kazakhaltyn for the six months ended 30 June 2004 and 2005 from which it is partly derived. Any decision by a prospective investor to invest in the GDRs should be based on consideration of the document as a whole and not solely on this summarised information. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the European Economic Area no civil liability will attach to the Responsible Persons in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this document. Where a claim relating to the information contained in this document is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated.

Business Overview

The Group is one of the leading gold mining companies in Kazakhstan based upon the Company's estimate of total reserves and resources of 46.6 million ounces, or approximately 1,450 tonnes, of gold. The Company believes these are the largest known gold reserves and resources in Kazakhstan. The Group's principal operations are in northern Kazakhstan and it also has some newly acquired assets in eastern Kazakhstan. The Group's business dates back to 1929, when gold ore was discovered at the Aksu deposit in northern Kazakhstan. Exploration began at the Group's Bestobe and Zholymbet deposits in 1932. The Group's principal assets comprise:

- the Aksu mine, which includes the Aksu and nearby Quartzite Hills deposits. The Company estimates that as at 13 June 2005 the B and C_1 gold reserves and the C_2 and P_1 gold resources under the FSU Classification at the Aksu and Quartzite Hills deposits were approximately 5.4 million ounces and 15.0 million ounces, respectively. For information on WAI's independent review of the resources at the Aksu and Quartzite Hills deposits, see "*Technical Report—Geology of Aksu Deposit—WAI's Review Summary*" and "*—Geology of the Quartzite Hills Deposit—WAI's Review Summary*". The Aksu mine comprises four operating shafts for underground mining, including one dedicated ventilation shaft, one open pit, tailings in on-site tailings dams and waste dumps that contain low grade ore. The Aksu mine includes a newly constructed heap leach plant (the "**Aksu Heap Leach Plant**"), which commenced operations on 13 July 2005 with approximately 0.5 million tonnes per annum throughput capacity, recently modernised hybrid carbon-in-pulp ("**CIP**") and carbon-in-leach plant facilities (the "**Aksu CIP Facilities**"), with approximately 1.0 million tonnes per annum throughput capacity which commenced operations on 28 August 2005, and recently modernised gravity and flotation facilities (the "**Aksu Flotation Facilities**" and, together with the Aksu CIP Facilities, the "**Aksu Processing Plant**"), with approximately 0.2 million tonnes per annum throughput capacity which recommenced operations earlier in that month;
- the Bestobe mine which had, according to the Company's estimates, B and C_1 gold reserves and C_2 and P_1 gold resources under the FSU Classification of approximately 3.1 million ounces and 10.2 million ounces, respectively, as of 13 June 2005. For information on WAI's independent review of the resources at the Bestobe deposit, see "*Technical Report—Geology of Bestobe Deposit—WAI's Review Summary*". The Bestobe mine comprises four operating shafts for underground mining, including one dedicated ventilation shaft, one open pit, tailings in on-site tailings dams and waste dumps that contain low grade ore. The Bestobe mine includes a newly constructed heap leach plant (the "**Bestobe Heap Leach Plant**"), which commenced operations on 15 August 2005 with approximately 1.0 million tonnes per annum throughput capacity, and a flotation plant (the "**Bestobe Flotation Plant**"), with approximately 0.25 million tonnes per annum throughput capacity. A new CIP plant (the "**Bestobe CIP Plant**"), with throughput capacity of approximately 2.5 million tonnes per annum on commencement of operations, is expected to commence operations in the first quarter of 2007 to replace the Bestobe Flotation Plant; and
- the Zholymbet mine which had, according to the Company's estimates, B and C_1 gold reserves and C_2 and P_1 gold resources under the FSU Classification of approximately 4.3 million ounces and 8.2 million ounces, respectively, as of 13 June 2005. For information on WAI's independent review of the resources at the Zholymbet deposit, see "*Technical Report—Geology of the Zholymbet Deposit—WAI's Review Summary*". The Zholymbet mine comprises four operating shafts for underground mining, including one dedicated ventilation shaft, tailings in on-site tailings dams and waste dumps that contain low grade ore. The Zholymbet mine includes a newly constructed CIP plant (the "**Zholymbet CIP Plant**") which commenced operations on 2 August 2005 with approximately 0.5 million tonnes per annum throughput capacity. A new heap leach plant (the "**Zholymbet Heap Leach Plant**") is expected to commence operations at Zholymbet in the first quarter of 2006, with throughput capacity of approximately 1.0 million tonnes per annum on commencement of operations.

Each of the Group's three principal mines are located within 100 kilometres of the city of Stepnogorsk in the Akmola region, where the Group's principal operating subsidiary, Kazakhaltyn, has its headquarters and from where its central management oversees the Group's mining and processing operations in northern Kazakhastan.

The Group's other assets include the recently acquired Akzhal and Vasilevskyi deposits; assets located at the Boldykol and Zhanan mines and in the cities of Semipalatinsk and Ust-Kamenogorsk; and mineral rights with respect to the Boldykol and Zhanan deposits. The Group is currently in negotiations with the Ministry of Energy and Mineral Resources with respect to the subsurface use contract for the Boldykol and Zhanan mines. Each of the Akzhal, Boldykol, Vasilevskyi and Zhanan mines are located within 210 kilometres of the city of Semipalatinsk, in which the Group has established its headquarters for managing its operations in eastern Kazakhstan.

In addition, the Group has recently submitted tenders to acquire mineral rights to seven exploration properties from the Kazakh government. Three of these properties are located in the Akmola region in northern Kazakhstan, the same region as the Group's principal Aksu, Bestobe and Zholymbet operations. Three properties are located in the East Kazakhstan region, the same region as the Group's Boldykol and Zhanan mines. The seventh property is located in the Karaganda region in central Kazakhstan. The outcome of the tenders is expected to be announced by the end of 2005.

During the Soviet era, the Aksu, Bestobe and Zholymbet mines were among the largest gold mines in Kazakhstan and in the 1980s production reached up to 244,000 ounces per year in aggregate. During this period, production was focused on the extraction of high-grade ore from underground mining rather than oxide and low grade gold ores. The processing of gold ore was based on flotation and gravity technologies.

The Assaubayev family acquired control of Kazakhaltyn through an open tender in 1999. Having conducted extensive research between 1999 and 2003 on the mineralogy of the gold reserves at the Group's main deposits and the viability of the available technologies to process such gold reserves, the Group designed and implemented a modernisation programme for the transition from flotation and gravity technologies to heap leaching and cyanidation technologies. The adoption of heap leaching and cyanidation technologies enable the Group to process low grade ore from open pits and waste dumps, and to re-process on-site tailings, in addition to processing ore extracted from its underground mines, all at lower cost per ounce than using flotation and gravity technologies.

Whilst the Group conducted this research and developed the modernisation programme, Kazakhaltyn produced 34,317 ounces and 36,182 ounces of gold in 2002 and 2003, respectively. As part of the modernisation programme required the closure of the Aksu and Zholymbet flotation plants in August 2004, production in 2004 declined to 26,272 ounces. By September 2005, operations had commenced at the newly constructed Aksu Heap Leach Plant and Bestobe Heap Leach Plant and the newly constructed Aksu Processing Plant and Zholymbet CIP Plant. The Company expects the commencement of operations at these plants will enable a significant increase in gold production in 2006 and thereafter. The Company expects to commence operations at the Zholymbet Heap Leach Plant in the first quarter of 2006, and at the newly constructed Bestobe CIP Plant in the first quarter of 2007. The expansion of the throughput capacity at all of the new or recently modernised processing facilities is expected to continue after 2006.

As at 30 June 2005, the Group had approximately 2,800 employees.

Strategy

The Company's strategy is to increase the Group's gold production significantly, lower the Group's operating costs per ounce and create one of Central Asia's leading gold mining companies. The Company will pursue this strategy by:

- adopting modern processing technologies to maximise the potential of the Group's existing reserves;
- expanding the Group's production significantly over the medium term;
- capitalising on the Group's established skills by seeking growth opportunities in Kazakhstan and elsewhere in Central Asia where its exploration, mining and processing skills have the potential to add value to shareholders; and
- seeking international joint ventures and other arrangements to maximise the potential of its existing resources and new acquisitions.

Key Strengths

The Company believes that the Group's key strengths include:

- relatively low extraction and processing costs in respect of its open pits, waste dumps and tailings;
- a developed infrastructure network located in close proximity to its major assets;

- experienced management with proven ability to turn around, finance and develop under-performing assets; and
- a strong position from which to acquire exploration properties in Kazakhstan as one of the leading domestic Kazakh gold mining companies.

Summary Reserves and Resources Information

In connection with the Global Offer, WAI has reviewed the Group's stated B and C_1 reserves as at 13 June 2005 which were prepared by the Group using the FSU Classification. Based on this review, WAI has prepared the statement set out below, which has been extracted without material adjustment from the "*Technical Report*", of the Group's mineable resources which, in WAI's view, could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken. In addition, after such exploration, such resources could be reclassified as "reserves" under the JORC Code if the necessary feasibility studies were undertaken. However, such further exploration and feasibility studies have not yet been undertaken and WAI has not reclassified the Group's B and C_1 reserves as either "reserves" or "resources" under the JORC Code. For information on some of the risks associated with ore reserve and resource estimation, see *"Risk Factors—Risks Relating to the Gold Mining Industry—Gold mining companies face many risks related to their operations (including their exploration and development activities) that may affect their cash flows and overall profitability—Ore reserve and resource estimation risks".*

	As reviewed by WAI			
	Ore	Grade	Gold	Gold
Mine	(millions of tonnes)	(grams per tonne)	(thousands of kilograms)	(millions of ounces)
Aksu (including the Quartzite Hills deposit)	61.9	2.70	167.2	5.4
Bestobe	35.0	2.74	95.9	3.1
Zholymbet	55.0	2.42	133.3	4.3
Total	151.9	2.61	396.4	12.7

The statement set out above forms part of the basis for WAI's financial appraisal as set out in "*Technical Report—Financial Appraisal—WAI Model—Valuation*".

In addition to the above resources, which is based on WAI's review of the Group's stated B and C_1 reserves, as at 13 June 2005 the Group had the following C_2 and P_1 resources under the FSU Classification at its principal Aksu, Bestobe and Zholymbet mines. WAI has not conducted a review of any of the Group's C_2 or P_1 resources.

	As stated by the Group			
	Ore	Grade	Gold	Gold
Mine	(millions of tonnes)	(grams per tonne)	(thousands of kilograms)	(millions of ounces)
Aksu (including the Quartzite Hills deposit)				
C_2	21.8	7.16	156.3	5.0
P_1	62.0	5.00	310.0	10.0
Bestobe				
C_2	9.2	12.90	118.2	3.8
P_1	33.3	6.00	200.0	6.4
Zholymbet				
C_2	23.8	4.40	104.6	3.4
P_1	44.1	3.40	150.0	4.8
Total				
C_2	54.8	6.92	379.1	12.2
P_1	139.5	4.73	660.0	21.2

For information on certain risks relating to the presentation of the Group's reserves and resources in this document, see *"Risk Factors—Risks Relating to the Group's Business—Information on reserves and resources".* For information on the FSU Classification, including a comparison with the JORC Code, see "*Technical Report—Geology and Resources*".

The Company believes that the recently acquired Akzhal, Vasilevskyi and Zhanan deposits have significant development potential but the Group has not undertaken any verification of the reserves and resources at these deposits to date.

Summary Historical Financial and Operating Information

Other than the "Other financial and operating data" set out below, which has been extracted without material adjustment from the Group's internal records, the summary information presented in Tenge set out below has been derived from and should be read in conjunction with Kazakhaltyn's historical audited balance sheets, statements of income and cash flows as at and for the years ended 31 December 2002, 2003 and 2004, respectively, and the related notes thereto, and its historical unaudited interim balance sheets, statements of income and cash flows as at and for the six months ended 30 June 2004 and 30 June 2005 included elsewhere in this document.

Kazakhaltyn's historical financial information has been prepared in accordance with IFRS. The following information should be read in conjunction with "*Operating and Financial Review and Results of Operations*", the related historical financial information and the accompanying notes thereto and the "*Technical Report*" included elsewhere in this document.

	Year ended 31 December				Six months ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited)	(audited)		(unaudited)	(unaudited)	
	(KZT '000, except earnings per share)			($'000, except earnings per share)	(KZT '000, except earnings/ (loss) per share)		($'000, except (loss) per share)
Income statement data							
Revenue	1,545,606	1,526,355	1,141,180	8,389	603,278	290,396	2,213
Cost of sales	(1,236,530)	(1,115,945)	(937,321)	(6,890)	(427,761)	(266,548)	(2,031)
Gross profit	309,076	410,410	203,859	1,499	175,517	23,848	182
Administrative expenses	(163,085)	(172,246)	(186,191)	(1,369)	(80,722)	(317,078)	(2,417)
Sales expenses	(9,055)	(8,781)	(23,635)	(174)	(8,216)	(37,086)	(283)
Other operating income	806,973	123,015	210,477	1,547	61,972	12,656	96
Other operating expenses	(111,681)	(37,841)	(24)	—	(6,415)	(88,579)	(675)
Profit/(loss) before finance income/(expense) and tax	832,228	314,537	204,486	1,503	142,136	(406,239)	(3,097)
Finance income	—	10,529	57,926	426	28,963	14,571	111
Finance expense	(200,047)	(215,577)	(222,218)	(1,633)	(95,273)	(225,295)	(1,717)
Profit/(loss) before tax	632,181	109,509	40,194	296	75,826	(616,963)	(4,703)
Taxation	(263,381)	(70,742)	(34,808)	(256)	(29,393)	—	—
Profit/(loss) for the year/period	368,800	38,767	5,386	40	46,433	(616,963)	(4,703)
Earnings/(loss) per share	KZT 240	KZT 25	KZT 4	$0.02	KZT 30	KZT (401)	$(3)

(1) Converted into US dollars for convenience using an exchange rate of KZT 136.04 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2004.

(2) Converted into US dollars for convenience using an exchange rate of KZT 131.21 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2005.

	Year ended 31 December				Six months ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited)	(audited)		(unaudited)	(unaudited)	
		(KZT '000)		($'000)	(KZT '000)		($'000)
Cash flow data							
Cash generated from/ (absorbed by) operating activities	59,713	(169,058)	(477,494)	(3,510)	(108,349)	(1,274,076)	(9,710)
Cash used in investing activities	(80,187)	(76,142)	(1,191,788)	(8,761)	(303,792)	(939,514)	(7,160)
Cash generated from financing activities	12,276	243,332	1,773,483	13,036	848,952	2,126,339	16,206
Net change in cash and cash equivalents	(8,198)	(1,868)	104,201	765	436,811	(87,251)	(664)

(1) Converted into US dollars for convenience using an exchange rate of KZT 136.04 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2004.

(2) Converted into US dollars for convenience using an exchange rate of KZT 131.21 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2005.

	Year ended 31 December				Six months ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited) (KZT '000)	(audited)	($'000)	(unaudited) (KZT '000)	(unaudited)	($'000)
Balance sheet data							
Cash and cash equivalents	3,454	1,586	105,787	814	438,397	18,536	137
Non-current assets	2,601,968	2,571,972	5,318,590	40,912	2,851,301	6,291,545	46,514
Total assets	3,208,138	3,418,899	6,703,829	51,568	4,420,011	8,759,212	64,758
Borrowings (short-term and long-term)	1,247,204	1,490,536	3,267,004	25,131	2,339,389	5,647,120	41,750
Other current liabilities	590,557	525,985	542,879	4,176	625,331	835,109	6,174
Other non-current liabilities	13,923	7,157	473,981	3,646	13,637	473,981	3,504
Total equity	1,356,454	1,395,221	2,419,965	18,615	1,441,654	1,803,002	13,330

(1) Converted into US dollars for convenience using an exchange rate of KZT 130.00 per $1.00, being the official Tenge to US dollar exchange rate as reported by the NBK as at the period end.

(2) Converted into US dollars for convenience using an exchange rate of KZT 135.26 per $1.00, being the official Tenge to US dollar exchange rate as reported by the NBK as at the period end.

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
Other financial and operating data					
Processed ore (thousands of tonnes)	257	270	217	131	44
Recovered grade (grams per tonne)	5.08	5.12	4.64	4.05	5.32
Recovery rate (percentage)	81.8	81.4	81.2	81.1	91.0
Gold sales (ounces)	34,317	36,182	26,272	13,837	6,848
Gold sales (thousands of kilograms)	1,067	1,125	817	430	213
Average production cost per ounce (KZT)[1]	35,164	30,844	35,665	30,932	38,843
Average production cost per ounce (US dollars)[1][2]	229	206	262	223	296

(1) Average production cost per ounce (in Tenge per ounce) is calculated by dividing the cost of sales relating to gold sales by the number of ounces of gold sold during the corresponding year/period.

(2) Converted into US dollars for convenience using the average official Tenge to US dollar rates for the relevant period as reported by the NBK.

Current trading and prospects

For the three months ended 30 September 2005, 26,213 ounces of gold were produced at the Aksu, Bestobe and Zholymbet mines, of which 12,290 ounces were produced in September 2005. In October 2005, approximately 15,300 ounces were produced at the Aksu, Bestobe and Zholymbet mines. The outlook for the Group's trading for the year ended 31 December 2005 remains in line with the Company's expectations and the Group's gold production for the year is expected to exceed levels achieved in 2002, 2003 or 2004.

Pursuant to its continuing obligations arising from having bonds listed on the Kazakhstan Stock Exchange, Kazakhaltyn is obliged to publish financial information on a quarterly basis. Financial information for the nine months ended 30 September 2005 is required to be published by 30 November 2005. Kazakhaltyn has agreed with the Kazakhstan Stock Exchange that this financial information may be published by 31 December 2005. Such financial information, when published, will be unaudited.

Summary of the Global Offer

Under the terms and subject to the conditions contained in an agreement between the Company, the Selling Shareholder and the Managers, the Company has agreed to make available 7,100,000 New Shares and the Selling Shareholder has agreed to make available 4,600,000 Existing Shares (exclusive of the Existing Shares to be made available pursuant to the Over-allotment Arrangements), in each case in the form of GDRs (with each GDR representing one Share). The Managers have severally agreed to procure acquirers for, or failing which to acquire themselves, 11,700,000 GDRs at $15.00 per GDR. The Company will not receive any of the proceeds from the sale of GDRs representing Existing Shares, the net proceeds of which will be paid to the Selling Shareholder. The Company intends to use the net proceeds received by it pursuant to the Global Offer to reduce the Group's borrowings, for capital expenditure in connection with its modernisation programme and for general corporate purposes. The GDRs are being offered outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act.

THE GLOBAL OFFER

The Company	KazakhGold Group Limited
The Group	The Company, together with its subsidiaries and affiliates.
The Selling Shareholder	Gold Lion Limited
Risk factors	For a discussion of certain factors regarding the Company, the Shares and the GDRs. See "*Risk Factors.*"
Offer Price	$15.00 per GDR.
Shares	The Shares are ordinary shares in the share capital of the Company, each with a nominal value of £0.0001. For more information, see "*Description of the Shares and Applicable Jersey Legislation*."
GDRs	Each GDR will represent one Share and be issued pursuant to the deposit agreement (the "**Deposit Agreement**") to be dated on or about 30 November 2005 between the Company and the Depositary. Initially the GDRs will be evidenced by a single master GDR and will be registered in the name of a common nominee for Euroclear and Clearstream. Separate certificates in definitive registered form will only be issued in respect of the GDRs in certain circumstances in accordance with the terms of the Deposit Agreement. For more information, see "*Summary of Provisions Relating to the GDRs while in Master Form*."
The Global Offer	The Global Offer comprises 13,100,000 GDRs, representing 7,100,000 New Shares and 6,000,000 Existing Shares. Each GDR represents one Share. The GDRs are being offered outside of the United States to selected investors in accordance with Regulation S. As part of the Global Offer, the Selling Shareholder is selling 4,600,000 Existing Shares in the form of GDRs (assuming no Shares are acquired pursuant to the Over-allotment Arrangements) and 6,000,000 Existing Shares (assuming the maximum number of Shares are acquired pursuant to the Over-allotment Arrangements). The Company will not receive any of the proceeds from any sale of the GDRs representing Existing Shares, the net proceeds of which will be paid to the Selling Shareholder. Pursuant to an underwriting agreement (the "**Underwriting Agreement**") dated 25 November 2005 between the Company, the Managers and the Selling Shareholder, each Manager has severally agreed that, subject to certain other conditions, it will acquire or procure acquirers for the GDRs which are allocated pursuant to the Global Offer. Subject to these conditions, the Global Offer is fully underwritten by the Managers.
Over-allotment Arrangements	The Selling Shareholder has agreed with the Stabilising Manager that it may, acting as principal, acquire or procure acquirers for such number of additional GDRs, representing additional Existing Shares made available by the Selling Shareholder, as represent up to 12% of the total number of GDRs to be made available in the Global Offer (excluding any Over-allotment GDRs) at the Offer Price to cover over-allotments and/or short positions resulting from stabilisation transactions.

Principal shareholders	Immediately prior to the Global Offer, Dr. Kanat Assaubayev, Mrs. Marussya Assaubayeva, Mr. Baurzhan Assaubayev, Mr. Aidar Assaubayev and Mr. Sanzhar Assaubayev, directly and indirectly, owned or were interested as discretionary beneficiaries under The ABM SK Trust in 99% in aggregate of the Company's issued share capital. Immediately after the Global Offer, Dr. Kanat Assaubayev, Mrs. Marussya Assaubayeva, Mr. Baurzhan Assaubayev, Mr. Aidar Assaubayev and Mr. Sanzhar Assaubayev, directly and indirectly, will own or be interested as discretionary beneficiaries under The ABM SK Trust in 74.3% in aggregate of the Company's issued share capital (assuming that no Shares are sold pursuant to the Over-allotment Arrangements). Dr. Kanat Assaubayev, Mrs. Marussya Assaubayeva, Mr. Baurzhan Assaubayev and Mr. Aidar Assaubayev are Directors of the Company.
Closing Date	The GDRs are expected to be sold to investors on or about 30 November 2005.
Shares issued and outstanding immediately prior to the Global Offer	40,000,000 Shares
Shares issued and outstanding after the Global Offer	47,100,000 Shares
Transfer restrictions	The GDRs will be subject to certain restrictions on transfer. For more information, see "*Subscription and Sale—Transfer restrictions*."
Voting rights and ownership limitations	Matters coming before shareholders for a vote are generally determined by a poll. For more information, see "*Description of the Shares and Applicable Jersey Legislation*." Each Share gives the holder one vote. The decisions of the general meeting of shareholders are taken by a simple or a super majority of votes of Shares whose holders are present in person or represented by a proxy at the meeting. Holders of the GDRs will be entitled to instruct the Depositary how to vote the number of Shares their GDRs represent. For more information, see "*Terms and Conditions of the Global Depositary Receipts*". As at the date of the document, the Company's articles of association do not contain any limitations on the number of Shares or voting rights that may be held by any one or more persons.
Reasons for the Global Offer and use of proceeds	The reason for the Global Offer is to enable the Company to access capital from the international capital markets. The Company intends to use the net proceeds received by it pursuant to the Global Offer to invest in the construction of the Bestobe CIP Plant and the Zholymbet Heap Leach Plant; in the expansion of the Aksu Heap Leach Plant, the Bestobe Heap Leach Plant, the Aksu CIP Facilities and the Zholymbet CIP Plant; in mining development; and in exploration, reduce the Group's borrowings and for general corporate purposes, including working capital. Following the Closing Date, and subject to feasibility under Kazakhstan's regulatory environment, the Company intends to make an application for the Shares, or the shares of a subsidiary, to be admitted to trading on the Kazakhstan Stock Exchange. The Company will not receive any of its proceeds from the sale of GDRs

	representing Existing Shares, all of which will be paid to the Selling Shareholder.
Dividends and dividend policy	The Board anticipates that, following the Closing Date, cash resources will be retained for the development of the Group's business and will not be distributed until the Group completes its current modernisation programme and the newly constructed heap leach plants and CIP plants reach maximum production capacity. Upon successful completion of this programme and subject to the Group achieving an appropriate level of profitability, the Company intends to commence paying dividends, progressively increasing their amount to up to 25% of its consolidated annual net income. However, the declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Group's operations, its financial position, cash requirements, acquisition or investment opportunities, prospects, profits available for distribution and other factors deemed to be relevant at the time.
Listing and market	Prior to the Global Offer, there has been no market for the GDRs. Applications have been made to the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the FSMA for a block listing of up to 47,100,000 GDRs to be admitted to listing on the Official List and to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a stock exchange. Application has been made for the GDRs to be quoted on the London Stock Exchange's International Order Book.
Conditional dealings and commencement of trading on the London Stock Exchange	Conditional dealings in the GDRs will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on 25 November 2005. The earliest date for settlement of such dealings is expected to be 1 December 2005. It is expected that Admission will take place and unconditional dealings in the GDRs will commence on the London Stock Exchange at 8.00 a.m. (London time) on 1 December 2005. All dealings in the GDRs prior to the commencement of unconditional dealings will be on a conditional basis, will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned.
Settlement and delivery of the GDRs	Payment for the GDRs will take place through Euroclear or Clearstream. Successful applicants will be allocated GDRs through Euroclear or Clearstream. It is expected that Euroclear or Clearstream accounts should be credited on or about 30 November 2005. Upon Admission, the GDRs will be traded through the London Stock Exchange and prices will be quoted in U.S. dollars. Trades in GDRs on the London Stock Exchange will be settled through Euroclear or Clearstream on a T+3 basis, payable in US dollars.
Lock-up	The Company has agreed that it will not, and that none of its subsidiaries nor any person acting on its or their behalf will, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option

	or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares or GDRs, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except pursuant to the Global Offer as described in this document. Each of the Existing Shareholders has agreed, subject to certain exceptions, that it will not, and that no person acting on its behalf will, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares or GDRs, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except pursuant to the Global Offer as described in this document. In respect of Lord Daresbury, these provisions will not apply in respect of any GDRs he acquires pursuant to the Global Offer (or any Shares represented by such GDRs). The ABM SK Trust has agreed that it will not, and that no person acting on its behalf will, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any shares in the Selling Shareholder or any securities convertible into or exercisable or exchangeable for shares in the Selling Shareholder or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of shares in the Selling Shareholder, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date.
Directors interests	As at the date of this document, the Directors of the Company, together with The ABM SK Trust (whose only named discretionary beneficiaries are the Executive Directors and Mr. Sanzhar Assaubayev), in aggregate directly and indirectly beneficially owned 100% of the Company's issued share capital. After the Global Offer, the Directors, together with The ABM SK Trust, will directly and indirectly beneficially own in aggregate 74.3% of the Company's issued share capital (assuming no Shares are acquired pursuant to the Over-allotment Arrangements) and 71.3% of the Company's issued share capital (assuming the maximum number of Shares are acquired pursuant to the Over-allotment Arrangements).

Investing in the GDRs involves a high degree of risk. Prospective investors should carefully consider the following risk factors, and all information contained in this document, before investing in the GDRs. Additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect the Group's business, operating results and financial condition. If any of these events occur, the Group's business, operating results and financial condition could be materially and adversely affected, the price of the GDRs may decline and/or its ability to pay dividends could be impaired. Prospective investors should pay particular attention to the fact that 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.

Risks Relating to the Group's Business

Holding company structure and restrictions on dividends

The Company's operating results and its financial condition are entirely dependent on the trading performance of members of the Group. The Company's ability to pay dividends will depend on the level of distributions, if any, received from the Company's subsidiaries. The Company's subsidiaries may from time to time be subject to restrictions on their ability to make distributions to the Company, as a result of factors such as restrictive covenants contained within loan agreements, foreign exchange limitations, regulatory, fiscal or other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Group's business, operating results and financial condition.

As a Kazakh resident company, payments of dividends and other distributions from Kazakhaltyn to its direct parent, Romanshorn LC AG, are currently subject to a withholding tax of 15% in Kazakhstan. Whilst it is the Company's intention to remove Romanshorn LC AG from the current Group structure so that Kazakhaltyn is the direct subsidiary of the Company, such reorganisation is not expected to take place before the end of 2006 and is subject to there not being any legal or regulatory hindrance in Kazakhstan at such time, including the Kazakh state exercising its pre-emption right, if it is applicable. For information on the Kazakh state's pre-emption right, see "*Regulation—Regulation of Mineral Rights—State pre-emption right*". If this reorganisation were to occur, payments of dividends or other distributions from Kazakhaltyn to the Company may be subject to the Kazakhstan/UK Double Taxation Treaty, which currently reduces the rate of withholding tax to 5%, if the applicable conditions are met. In the event that the Company is unable to, or does not, effect this reorganisation, payments of dividends and other distributions may be subject to a withholding of 15% which could affect the trading price of the GDRs. There can also be no assurance that, following the removal of Romanshorn LC AG from the current Group structure, the applicable conditions to the Kazakhstan/UK Double Taxation Treaty will be met or that such treaty will reduce the level of withholding. For more information on the withholding tax on dividends in Kazakhstan, see "*The Republic of Kazakhstan—Taxation*".

The Group's mining licences and contracts

The Group's exploration, mining and processing activities are dependent upon the grant, renewal or continuance in force of appropriate subsurface 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. There can be no assurance that such subsurface use, contracts, licences, permits and regulatory approvals and consents would be granted, renewed or continue in force, or, if so, on what terms.

The process of entering into new subsurface use contracts or extending existing subsurface use contracts in Kazakhstan is time consuming and is complicated by the fact that several Kazakh government ministries are involved in contract review and approval. The relevant laws and regulations are often unclear and sometimes are not consistently applied by the authorities.

To the extent that the Group has controlled the process through which its existing subsidiaries obtained licences and/or entered into subsurface use contracts, it has attempted to comply with all rules it considered applicable. To the extent the Group has acquired subsidiaries with existing licences or which have already entered into subsurface use contracts, the process of the initial granting of such licences or entering into subsurface use contracts was beyond its control, and the Group cannot be certain about the occurrence of any previous violations that could cause the relevant Kazakh government ministry or a third party to challenge the validity of any of these licences or contracts. The Group has so far not been subject

to any such challenge and believes that it has a good working relationship with the Ministry of Energy and Mineral Resources of Kazakhstan that plays the most significant role in the subsurface use contract approval process.

The Group's subsurface use contracts and related working programmes contain a range of obligations on the Group, and there may be adverse consequences of breach 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. When, in the past, changing circumstances have made it necessary for the Group to vary its obligations under its subsurface use contracts or related working programmes, the Group has entered into discussions and negotiations with the relevant regulators and, when necessary, agreed amendments to the relevant terms of the subsurface use contracts or related working programmes concerned. In its past dealings with the Kazakh regulators responsible for monitoring the Group's compliance with the terms of its subsurface use contracts and related working programmes, the Group has found such regulators to be receptive to the solutions proposed by the Group, and has accordingly secured satisfactory waivers and/or amendments to the terms of its subsurface use contracts or related working programmes. However, it cannot be guaranteed that the Kazakh regulators responsible for monitoring the Group's compliance with the terms of its subsurface use contracts and related working programmes will continue to be as receptive in respect of any future negotiations in relation to varying the Group's obligations under the terms of its existing subsurface use contracts or related working programmes and that the Group will be able to avoid any adverse consequences if it were held to be in breach of the obligations under its subsurface use contracts or related working programmes in the future.

Withdrawal of licences, termination of subsurface use contracts or failure to secure requisite licences or subsurface use contracts in respect of any of the Group's operations may have a material adverse impact on the Group's business, operating results and financial condition.

For further information regarding the Group's subsurface use licences, subsurface use contracts and working programmes, see "*Regulation—Regulation of Mineral Rights*".

Information on reserves and resources in this document

This document contains information on the Group's reserves and resources as stated by the Group. Certain of these reserves and resources have been reviewed by WAI in connection with the preparation of the "*Technical Report*" included elsewhere in this document. However, the scope of WAI's review did not extend to either the Group's C_2 or P_1 resources. There can be no assurance that, had WAI conducted a review of these resources, it would correspond to the Group's statement of these resources. As a result, prospective investors should treat with caution the information on the Group's C_2 or P_1 resources set out in the tables contained in "*Summary—Summary Reserves and Resources Information*" and "*Business—Reserves, Resources and Exploration—Reserves and Resources*". For information on ore reserve and resource estimation risks, see "*Risk Factors—Risks Relating to the Gold Mining Industry—Gold mining companies face many risks related to their operations (including their exploration and development activities) that may affect their cash flows and overall profitability—Ore reserve and resource estimation risks*".

Potential benefits from the Group's modernisation programme may not be achieved to the extent or within the time period that is currently anticipated, and the Group may encounter additional costs and difficulties in its implementation, which would reduce or delay the realisation of increased revenues and cost savings

Historically, the Group processed gold ore using flotation and gravity processing technologies. As part of its modernisation programme, the Group has recently completed the construction of the Aksu Heap Leach Plant, the Bestobe Heap Leach Plant, the Aksu Processing Plant and the Zholymbet CIP Plant. The Group expects to commence operations at the newly constructed Zholymbet Heap Leach Plant in 2006 and the Bestobe Heap Leach Plant in 2007. The successful implementation of this modernisation programme would allow the Group to complete the transition from flotation and gravity technologies to heap leaching and cyanidation, which will enable the Group to process low grade ore extracted from open pits and waste dumps and to re-process on-site tailings, in addition to ore extracted from underground, which is expected to reduce the Group's mining and processing costs per ounce.

There can be no assurance, however, that the Group will not encounter unanticipated additional costs and difficulties in implementing its modernisation programme, that the programme will be completed on schedule or that the operations of the Group after the completion of its modernisation programme will turn out to be as profitable as is currently anticipated. Significant additional costs, difficulties or delays in

completing the modernisation programme could have a material adverse effect on the Group's business, operating results and financial position.

Changes in the Group's production costs have a major impact on its profitability. Its main production expenses are raw materials, which include energy costs, salaries and overheads. Changes in costs of the Group's mining and processing operations can occur as a result of unforeseen events, and could result in changes in profitability or reserve estimates. Many of these changes may be beyond the Group's control.

The volume and grade of the ore the Group recovers may not conform to current expectations

The Group's reserves and resources constitute estimates that comply with standard evaluation methods generally used in CIS countries and are stated in accordance with the FSU Classification. In respect of these estimates, no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realised or that mineral reserves can be mined or processed profitably. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated levels. In addition, there can be no assurance that mineral recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions or during production.

Lower market prices, increased production costs, reduced recovery rates and other factors may render the Group's reserves uneconomic to exploit and may result in revision of its reserve estimates from time to time. Reserve data are not indicative of future results of operations. If the Group's actual mineral reserves and resources are less than current estimates, the Group's results of operations and financial condition may be materially impaired.

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, tax, customs, currency, banking and competition are still developing, and uncertainties in the law could have a material adverse effect on the Group's operations

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, tax, customs, currency, capital markets, pensions, insurance, banking and competition are still developing. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. Furthermore, the judicial system in Kazakhstan may not be fully independent of social, economic and political forces. Court decisions can be difficult to predict and enforce, and the Group's best efforts to comply with applicable law may not always result in compliance. Furthermore, as the statutes on subsoil use do not define the course of action available to the government by reference to the gravity of a breach, a minor breach could conceivably lead to harsh consequences, such as suspension or termination of the subsoil user rights. Due to the relative newness of the subsoil use legislation, there are few precedents that would make the consequences of a breach more predictable.

The Kazakhstan government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector. However, there can be no assurance that the Kazakhstan government will continue such policy.

Given Kazakhstan's short legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on the Group's business. The ongoing rights of the Group under its subsoil use contracts, licences and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain.

The taxation system in Kazakhstan is at an early stage of development and experience. The interpretation and application of tax laws and regulations are evolving, which significantly increases the risks with respect to the Group's operations and investment in Kazakhstan

As tax legislation in Kazakhstan has been in force for only a relatively short time, tax risks in Kazakhstan are substantially greater than typically found in countries with more developed tax systems. Tax legislation is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. The Group pays subsoil users' and other taxes, including royalties, commercial discovery bonuses, corporate income tax, VAT, excise, security tax, land tax, vehicle tax, property tax and customs duties, and has been making, and expects to continue to make, contributions to various social and governmental funds. Tax regulation and compliance is subject to review and investigation by the authorities who may impose extremely severe fines, penalties and interest charges.

Kazakhstan's tax laws are not always clearly determinable and have not always been applied in a consistent manner. In addition, the tax laws continue to evolve. The uncertainty of application and the evolution of tax laws create a risk of additional and substantial payments of tax by the Group, which could have a material adverse effect on the Group's financial position and results of operations. The tax authorities are able to raise additional tax assessments for taxes for five years after the end of the relevant tax period, and the calendar years 2000 to 2004 remain open. For all taxes, the fact that the tax authorities have conducted an audit of a particular period does not prevent them from revisiting that period and raising an additional assessment. In addition, Kazakhstan's tax system does not have the concept of the tax authorities giving legally binding rulings on tax issues that are put to them.

The Kazakh state may be entitled to exercise pre-emptive rights over assets acquired by the Group, transfers of shares in the Company's subsidiaries completed prior to the Global Offer and transfers of Shares by the Selling Shareholder under the Global Offer, including pursuant to the Over-allotment Arrangements

The Subsurface Law, as amended on 1 December 2004 and 14 October 2005, provides the Kazakh state with a pre-emptive right to acquire subsurface use rights and equity interests in any entity holding subsurface use rights and in any entity which may directly and/or indirectly determine and/or exert influence on decisions made by a subsurface user, if the main activity of such entity is related in subsurface use in Kazakhstan, when such person wishes to transfer such rights or interests. This pre-emptive right permits the Kazakh state to purchase any such subsurface use rights and/or equity interests being offered for transfer on terms no less favourable than those offered by other purchasers.

The relevant government authority has the right to terminate a subsurface user contract if a transaction takes place in breach of this law. These provisions apply both to Kazakh and overseas entities. The exact scope of the law is uncertain and there is no precedent to indicate how it may be applied. It is unclear whether the right of pre-emption could be exercised in respect of transfers which have occurred without notice to the relevant authority and whether, for instance, such prior transactions could be unwound. There have been a number of transfers of shares in Kazakhaltyn and Kazakhaltyn has made a number of acquisitions since this law came into force without such pre-emption right being exercised. There is a risk that the Kazakh state may be entitled to exercise a pre-emptive right over the transfer of Shares by the Selling Shareholder under the Global Offer, including pursuant to the Over-allotment Arrangements. The Company is of the view that retrospective action by the Kazakh government is very unlikely. The Kazakh government is aware of the relevant transfers, including the transfers of Shares under the Global Offer, including pursuant to the Over-allotment Arrangements. However, there can be no assurance that the authorities will not seek to exercise this pre-emption right in respect of these transfers. In the event that the Kazakh state exercised its pre-emption rights in respect of any transfer of assets or equity interests within or to the Group, such exercise may have a material adverse effect on the trading price of the GDRs. For more information on the Kazakh state's pre-emptive right, see "*Regulation—Regulation of Mineral Rights—State pre-emptive right*".

The Competition Committee may set aside certain of the Group's acquisitions

Under Kazakh competition law, the prior consent of the Competition Committee is required for any acquisition of control of a Kazakh entity, or over 20% of the shares or 10% of the assets in such an entity.

Failure to obtain such prior consent could render such acquisition invalid, upon the application by the Competition Committee to a Kazakh court. However, the Competition Committee can only make such application to a court on the basis that competition has been reduced as a result of such acquisition or the acquirer's abuse of its dominant position in the market.

The acquisitions of Kazakhaltyn by Romanshorn LC AG and the recent acquisitions of Visart LLP and Rudnik Vasilevskyi LLP and the assets of JSC Altyn Tobe were all subject to such prior consent. Kazakhaltyn notified the Competition Committee of the Romanshorn LC AG acquisitions prior to such acquisitions. However, this notification was not made in the prescribed form. No response has been received from the Competition Committee.

In relation to the recent acquisitions of Visart LLP and Rudnik Vasilevskyi LLP and assets of JSC Altyn Tobe, whilst the Group did not apply for consent prior to the acquisitions, on 16 August 2005 the Group applied for consent in respect of the acquisitions of Rudnick Vasilevskyi LLP and Visart LLP and on 23 September 2005 the Group applied for consent for the acquisition of the assets of JSC Altyn Tobe. Under Kazakh law, the Competition Committee is required to respond to a request for consent within one month of receipt of the request. As at the date of this document, the Group has yet to receive any

response. In the event that the Competition Committee were to find any or all of the Group's acquisitions of Visart LLP and Rudnik Vasilevskyi LLP and assets of JSC Altyn Tobe to be anti-competitive and were to set aside any or all of these transactions, the Company may lose its interest in such subsidiary or assets, which could have a material adverse effect on the Group's business, operating results and financial position. For more information on anti-monopoly regulation in Kazakhstan, see "*Regulation—Anti-monopoly Regulation*".

The Group has been controlled by the Assaubayev family and will be controlled by Abacus (C.I.) Limited as trustee of The ABM SK Trust (the "ABM SK Trust") a Jersey discretionary trust whose only named discretionary beneficiaries are members of the Assaubayev family and whose interests could conflict with those of the holders of the GDRs

Following the Global Offer, 74.3% of the Company's outstanding Shares (or 71.3% if the maximum number of Shares are sold pursuant to the Over-allotment Arrangements) will be indirectly controlled by The ABM SK Trust, a Jersey discretionary trust whose only named discretionary beneficiaries are members of the Assaubayev family. As long as The ABM SK Trust continues directly or indirectly to own a majority of the Shares, it will be able to control the outcome of all matters requiring a simple majority vote of the shareholders of the Company, including, but not limited to, the election and removal of Directors, proposed amendments to the Company's articles of association, which govern the rights attaching to the Shares, and approval of acquisitions or disposals of significant subsidiaries or assets or other significant corporate transactions required to be subject to shareholder consent. Through its ability to control the election of Directors and the representation on the Board, The ABM SK Trust will also be able to control or exert significant influence on all of the Group's policy decisions and its strategic direction. The interests of The ABM SK Trust, and those members of the Assaubayev family who are named discretionary beneficiaries of the trust, may not be aligned and, at times, could conflict with those of the holders of the GDRs, whose investment in the GDRs could be adversely affected by such conflict.

The influence of the Assaubayev family on the Group could expose the Group to certain risks

While businesses which are influenced or controlled by one family have certain advantages over their competitors, such as independent leadership or a family passion for the business's mission or survival, they could also be exposed to certain risks. There could be a conflict of interest between the family's interest and the business's interest with respect to, for instance, dividend policy, or employment policy, when the family might want to encourage family members to join the business whilst the business might want to follow an employment policy based purely on merit. There could be differences among family members, which could lead to tension within the ownership group affecting the business. Where such businesses have a family member as chief executive officer (such as the Company whose chief executive officer is Dr. Kanat Assaubayev) they may experience difficulties in finding a competent successor to replace such chief executive officer and may have difficulties in attracting professional management to the organisation. Any of these disadvantages of these types of businesses, if experienced by the Group, could have an adverse effect on its business, operating results and financial condition.

The Group could be subject to excess profits tax if its internal after tax profit rate (as defined in the Tax Code) exceeds certain thresholds specified in certain of its subsurface contracts

Under the terms of the Group's subsurface user contracts, in the event that Kazakhaltyn's internal after tax profit rate as defined in the Tax Code No 209 dated 12 June 2001 (as amended) (the "**Tax Code**" and the "**Internal Profit Rate**") exceeds certain thresholds, Kazakhaltyn is required to pay excess profits tax at a rate determined by the level of such Internal Profit Rate. Kazakhaltyn's Internal Profit Rate does not currently exceed these thresholds and, as such, it does not pay any excess profits tax. The Company does not believe that Kazakhaltyn's Internal Profit Rate will exceed these thresholds or that it will be liable to pay this tax in the foreseeable future. If Kazakhaltyn's Internal Profit Rate were to exceed these thresholds, Kazakhaltyn would become liable to pay this tax which could have a material adverse effect on the Group's business, operating results and financial condition. For more information on excess profits tax, see "*Business—Subsurface Use Contracts—Kazakhaltyn's Subsurface Use Licences and Contracts—Subsurface use contracts—Subsurface Use Contract No. 145—Taxation payments*".

Uninsured risks

The insurance industry is not yet well developed in Kazakhstan and many forms of insurance protection that are typically used in more economically developed countries, such as business interruption insurance,

are unavailable. Kazakh law requires mining companies to insure only against certain limited risks, and because Kazakh law currently prohibits foreign insurance companies from operating directly in Kazakhstan, the underdeveloped insurance market in Kazakhstan offers only limited opportunities for insuring risks associated with the Group's business, and reinsurance with an international insurance house would substantially increase costs. The Group, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect upon the Group's business, operating results and financial position.

As most of the Group's production costs are currently in Tenge, while gold is generally sold in US dollars, the Group's Tenge revenues and overall net income could be materially affected by an appreciation in the value of the Tenge. In addition, a decision by the NBK to abandon its non-intervention policy in the foreign exchange markets and to support the Tenge could have an adverse impact on Kazakhstan's public finances and economy and could negatively affect the Group's business, operating results and financial position

Gold is generally sold throughout the world in US dollars but, historically, most of the Group's operating costs were incurred in Tenge. Between 2002 and 2004, the Tenge has strengthened against the US dollar, which increased the Group's costs in US dollar terms. Recently, the Tenge has weakened against the US dollar but if it was to strengthen against the US dollar, this could have an adverse effect on the Group's financial condition and results of operations. If a large portion of the Group's operating costs continues to be incurred in Tenge, any significant and sustained appreciation of the Tenge against the US dollar will reduce the Group's Tenge revenues and overall net income. In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy and could negatively affect the Group's business, operating results and financial position.

As the Group does not use commodity or derivative instruments to protect against a fall in gold prices, the Group is exposed to the impact of any significant drop in the gold price

Historically the Group has sold its gold production at market prices and has not entered into forward sales, derivative or other hedging arrangements to establish a price in advance for the sale of its future gold production. In general, hedging in this manner reduces the risk of exposure to a fall in the gold price. As the Group does not currently enter into transactions to hedge against the future price at which its gold production is sold and does not expect to in the near future, the Group can realise the positive impact of any increase in the gold price. However, this also means that the Group is not protected against decreases in the gold price and if the gold price decreases significantly, the Group's revenues may be materially adversely affected.

Risks Relating to the Gold Mining Industry

The profitability of the Group's operations, and the cash flows generated by these operations, are significantly affected by changes in the market price for gold

The market price for gold can fluctuate widely. These fluctuations are caused by numerous factors beyond the Group's control, including: speculative positions taken by investors or traders in gold; changes in the demand for gold use in jewellery, for industrial uses and for investment; changes in the supply of gold from production, disinvestment, scrap and hedging; financial market expectations regarding the rate of inflation; the strength of the US dollar (the currency in which the gold price trades internationally) relative to other currencies; changes in interest rates; actual or expected gold sales by central banks; gold sales by gold producers in forward transactions; global or regional political or economic events; and costs of gold production in major gold-producing nations, such as South Africa, the United States, Australia and Uzbekistan.

The price of gold is often subject to sharp, short-term changes resulting from speculative activities. While the overall supply of and demand for gold can affect its market price, because of the considerable size of aboveground stocks of the metal, in comparison to other commodities, these factors typically do not affect

the price in the same manner or degree as the supply of and demand for other commodities tend to affect their market price.

For information on the market price for gold over the past six years, see "*Operating and Financial Review and Results of Operations—Significant Factors Affecting the Results of Operations—World gold price*".

If revenue from gold sales falls below the cost of production for an extended period, the Group may experience losses and be forced to curtail or suspend some or all of its capital projects and/or operations and change its dividend payment policies. In addition, the Group would have to assess the economic impact of low gold prices on its ability to recover any losses it may incur during that period and on its ability to maintain adequate cash and accounting reserves. However, the Group's current average total cash costs and total production costs are significantly below the prevailing gold price.

Gold mining companies face many risks related to their operations (including their exploration and development activities) that may affect their cash flows and overall profitability

Uncertainty and cost of mineral exploration and acquisitions

Exploration activities are speculative and are often unproductive. These activities also often require substantial expenditure to: establish gold reserves through drilling and metallurgical and other testing techniques; determine appropriate recovery processes to extract gold from the ore; and construct, renovate or expand mining and processing facilities.

Once gold mineralisation is discovered it can take several years to determine whether gold reserves exist. During this time the economic viability of production may change.

The Group considers from time to time the acquisition of gold reserves, development properties and operating mines, either as stand-alone assets or as part of companies. Its decisions to acquire these properties have historically been based on a variety of factors including historical operating results, estimates of and assumptions about future reserves, cash and other operating costs, the gold price and projected economic returns, and evaluations of existing or potential liabilities associated with the property and its operations. Other than historical operating results, all of these parameters may differ significantly from the Group's estimates and assumptions. In addition, there is intense competition for attractive properties.

As a result of these uncertainties, the exploration programmes and acquisitions engaged in by the Group may not result in the expansion or replacement of the current production with new gold reserves or operations. This could adversely affect the Group's business, operating results and financial position.

Development risks

The Group's profitability will depend, in part, on the actual economic returns and the actual costs of developing mines, which may differ significantly from the Group's current estimates. The development of the Group's mining projects may be subject to unexpected problems and delays. The Group's decision to develop a mineral property is typically based, in the case of an extension or, in the case of a new development, on the results of a feasibility study. Feasibility studies derive estimates of expected or anticipated project economic returns. These estimates are based on assumptions about: future gold prices; anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed; anticipated recovery rates of gold from the ore; anticipated capital expenditure and cash operating costs; and the anticipated return on investment.

Actual cash operating costs, production and economic returns may differ significantly from those anticipated by such studies and estimates. There are a number of uncertainties inherent in the development and construction of an extension to an existing mine, or in the development and construction of any new mine. These uncertainties include, in addition to those discussed immediately above: the timing and cost, which can be considerable, of the construction of mining and processing facilities; the availability and cost of skilled labour, power, water, consumables, such as cyanide, lubricants and fuel, and transportation facilities; the availability and cost of appropriate smelting and refining arrangements; the need to obtain necessary environmental and other governmental permits, and the timing of those permits; and the availability of funds to finance construction and development activities.

The costs, timing and complexities of mine development and construction can increase because of the remote location of many mining properties. New mining operations could experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement

of mineral production could occur. Accordingly, the Group's future development activities may not result in the expansion or replacement of current production with new production, and any new production sites or facilities may be less profitable than currently anticipated or may not be profitable at all.

Ore reserve and resource estimation risks

The Group's stated reserves and resources described in this document are based on the FSU Classification which was developed in 1960 and revised in 1981. This system is widely used by companies in the Commonwealth of Independent States (including in Kazakhstan). The primary difference between the FSU Classification and international methodologies is that the FSU Classification relies on "geometrical" methods to determine reserves, as compared with international methodologies, which use sampling and extrapolation techniques.

Whilst it is often possible to reclassify reserves and resources under the FSU Classification into the categories used in international methodologies when a detailed evaluation of the exploration data is undertaken and the necessary feasibility studies are conducted, as no such evaluation has been undertaken of the exploration data from the Group's mines and such feasibility studies have not been conducted, the Group's stated gold reserves and resources described in this document should be treated with caution.

The Group undertakes annual revisions to its estimates of its reserves and resources based upon actual exploration and production results, depletion, new information and fluctuations in production and economic parameters.

The Company intends to reclassify its reserves and resources over time under an international methodology of classification, such as the JORC Code. Any such reclassification or any revision of the Group's estimates of its reserves and resources may result in reductions in its estimates, which could adversely impact upon the life of mine plans and consequently the total value of the Group's mining asset base and, as a result, have a negative impact upon the market price of the GDRs. For more information on ore reserve and resource estimation methodologies, see "*Technical Report—Geology and Resources*" and "*Business—Reserves, Resources and Exploration—Ore Reserves and Resources Estimation*".

Mining industry risks

Gold mining is susceptible to numerous events that may have an adverse impact on a gold mining business. These events include, but are not limited to: environmental hazards, including discharge of metals, pollutants or hazardous chemicals; industrial accidents; underground fires; labour disputes; unexpected geological formations; unanticipated ground and water conditions; fall of ground accidents; failure of mining pit slopes and tailings dam walls; legal and regulatory restrictions and changes to such restrictions; and other natural phenomena, such as floods or adverse weather conditions.

The occurrence of one or more of these events may result in the death of, or personal injury to, miners, the loss of mining equipment, damage to or destruction of mineral properties or production facilities, monetary losses, delays in production, environmental damage and potential legal liabilities. As a result, the Group's operations could be affected and, if such effects were material, its financial position could be adversely impacted to a significant extent.

Gold mining companies are subject to extensive environmental laws and regulations

Kazakhstan has adopted environmental regulations requiring industrial companies to undertake programmes to reduce, control or eliminate various types of pollution and to protect natural resources. The Group must actively monitor specific air emission levels, ambient air quality, quality of nearby surface water, level of contaminants in soil and creation of solid waste. The Group must also submit an annual report on pollution levels to the environmental authorities in Kazakhstan. In addition, the environmental authorities conduct additional testing to validate the Group's results. If the Group exceeds certain emissions levels in Kazakhstan, additional payment obligations arise. As the risk of environmental pollution is greater when using heap leaching and cyanidation, compared with gravity concentration and flotation enrichment, the Group's transition to heap leaching and cyanidation will require greater efforts from the Group to comply with its environmental obligations.

Pursuant to environmental laws and regulations, upon the cessation of mining operations gold mining companies are also obligated to close their operations and rehabilitate the lands that they mine in accordance with these laws and regulations. Estimates of the total ultimate closure and rehabilitation costs

for gold mining operations are significant and based principally on current legal and regulatory requirements that may change materially.

As required under its subsurface use contracts, the Group makes regular contributions into liquidation funds to be used upon the cessation of mining operations for environmental clean-ups of the territories covered by its subsurface use contracts. However, in the event that these funds are insufficient to meet the cost of the Group's clean-up obligations, the Group is obliged to fund any such shortfall.

Environmental laws and regulations are continually changing and are generally becoming more restrictive. If the Group's environmental compliance obligations were to change as a result of changes in the laws and regulations or in certain assumptions it makes to estimate liabilities, or if unanticipated conditions were to arise in its operations, the Group's expenses and provisions would increase to reflect these changes. If material, these expenses and provisions could adversely affect its business, operating results and financial position.

General Risk Relating to Emerging Markets

Investors in companies whose assets are located in emerging markets, such as Kazakhstan, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, regulatory, economic and political risks. Investors should also note that emerging economies, such as Kazakhstan's, are subject to rapid change and that the information set out in this document may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of these risks, investing in the GDRs is appropriate. Generally, investment in a company whose assets are located in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the GDRs.

Risks Relating to Kazakhstan

All of the Group's mining operations are conducted in Kazakhstan. Accordingly, the Group is substantially dependent on the economic and political conditions prevailing in Kazakhstan.

Kazakhstan's existence as an independent state resulted from the dissolution of the Soviet Union. As such, it has a relatively short history as an independent nation and there remains potential for social, political, economic, legal and fiscal instability. These risks include, among other things, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes to tariffs applicable to the Group and its products, changes with respect to taxes, royalty rates, or withholding taxes on distributions to foreign investors; changes in anti-monopoly legislation, nationalisation or expropriation of property; and interruption or blockage of hydrocarbons or other strategic materials exports. The occurrence of any of these factors could have a material adverse effect on the business, financial condition and results of operations of the Group.

Most of the Group's assets are located in Kazakhstan, which is in the process of moving from a command to a market-driven economy. Kazakhstan has actively pursued a programme of economic reform and inward foreign investment designed to establish a free market economy, but there can be no assurance that in the future such reforms and other reforms will continue.

Kazakhstan's president, Nursultan Nazarbayev, has been in office since Kazakhstan became an independent sovereign state in 1991. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development.

President Nazarbayev is due to stand for re-election in December 2005. While it is anticipated that he will run again successfully, there can be no assurance that this will be the case. Should a new president be elected, the investment climate in Kazakhstan could change. For example, a new government could adopt taxation or subsoil use regimes that would be less favourable to mining companies. Changes to Kazakhstan's property, tax or mining regulatory regimes or other changes that affect the investment climate in Kazakhstan, could negatively affect the Group's business, financial condition and results of operations.

Since the dissolution of the Soviet Union, a number of former Soviet republics have experienced periods of political instability, civil unrest, military action or incidents of violence. Kazakhstan has not experienced

any such unrest and, to date, this regional instability has not affected Kazakhstan or the Group's operations in Kazakhstan. However, future political instability, civil unrest or continued violence in the region could affect the political or economic stability of Kazakhstan, and could have an adverse effect on the Group's business, financial condition, results of operations or prospects.

Risks Relating to the Shares and the GDRs

Prior to the Global Offer, there has been no trading market for the GDRs. There is no assurance that any active trading market for the GDRs will develop or be sustained after the Global Offer, or that the Offer Price will correspond to the price at which the GDRs will trade in the public market subsequent to the Global Offer. If no trading market develops for the GDRs, investors may experience difficulties in selling the GDRs.

If a substantial number of the Shares or the GDRs are offered for sale, the trading price of the GDRs may be depressed.

Sales of additional Shares or GDRs into the public market following the Global Offer, on the London Stock Exchange or otherwise, could adversely affect the market price of the GDRs. Following the Global Offer, 47,100,000 Shares will be issued and outstanding, including up to 13,100,000 Shares represented by 13,100,000 GDRs issued in connection with the Global Offer. Each of the Existing Shareholders has agreed, subject to certain exceptions, that it will not and that no person acting on its behalf will, with regard to, *inter alia*, its holding of Shares, amounting to approximately 75.2% of the Company's issued share capital following the Global Offer (or 72.2% if the maximum number of Shares are sold pursuant to the Over-allotment Arrangements), issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares or GDRs, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except pursuant to the Global Offer as described in this document. In relation to Lord Daresbury, these provisions will not apply in respect of any GDRs he acquires pursuant to the Global Offer (or any Shares represented by such GDRs). The Lead Manager may release any of the Existing Shareholders from such obligation in its sole discretion at any time and without prior public announcement. Substantially all of the Shares that are not subject to these lock-ups, which is expected to be approximately 24.8% of the Company's issued share capital (or 27.8% if the maximum number of Shares are sold pursuant to the Over-allotment Arrangements), may be freely tradeable in the form of GDRs immediately after the Global Offer. Upon expiration of the lock-up period (or earlier with consent), all of the Shares may be available for sale in the form of GDRs on the London Stock Exchange or otherwise. Sales of substantial amounts of Shares or GDRs, or the availability of the Shares and GDRs for sale, could decrease the market price of the GDRs.

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the GDRs may prove to be highly volatile. The market price of the GDRs may fluctuate significantly in response to a number of factors, many of which are beyond the Group's control, including: variations in operating results in the Group's reporting periods; changes in financial estimates by securities analysts; changes in market valuation of similar companies; announcements by the Group of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; additions or departures of key personnel; any shortfall in revenues or net income or any increase in losses from levels expected by securities analysts; future issues or sales of GDRs; and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the GDRs.

REASONS FOR THE GLOBAL OFFER AND USE OF PROCEEDS

The reason for the Global Offer is to enable the Company to access capital from the international capital markets. Following the Closing Date, and subject to feasibility with Kazakhstan's regulatory environment, the Company intends to make an application for the Shares, or the shares of a subsidiary, to be admitted to trading on the Kazakhstan Stock Exchange.

The net proceeds to the Company from the Global Offer are estimated to be approximately $98.2 million after deducting combined management and underwriting commissions and the estimated offering expenses.

The Company intends to use the net proceeds received by it pursuant to the Global Offer to:

- invest approximately $46 million in 2006 in the construction of the Bestobe CIP Plant and the Zholymbet Heap Leach Plant; in the expansion of the Aksu Heap Leach Plant, the Bestobe Heap Leach Plant, the Aksu CIP Facilities and the Zholymbet CIP Plant; in mining development; and in exploration;
- reduce the Group's borrowings; and
- for general corporate purposes, including working capital.

The Company will not receive any of the proceeds from the sale of GDRs representing Existing Shares, the net proceeds of which will be paid to the Selling Shareholder.

DIVIDENDS AND DIVIDEND POLICY

The Board anticipates that, following the Closing Date, cash resources will be retained for the development of the Group's business and will not be distributed until the Group completes its modernisation programme. Upon successful completion of this programme, and subject to the Group achieving an appropriate level of profitability, the Company intends to commence paying dividends, progressively increasing their amount to up to 25% of its consolidated annual net income. However, the declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Group's operations, its financial position, cash requirements, acquisition or investment opportunities, prospects, profits available for distribution and other factors deemed to be relevant at the time.

Certain Trends in World Gold Mining Industry

The global gold industry production in 2004 was broadly on the same level as in 1997 after experiencing a growth period from 1995 to 2001. Recent years have seen declining production in established gold producing countries, such as South Africa, Australia, Canada and the United States, whilst there has been a sharp increase in gold production in China and Russia and in developing countries, such as Peru and Tanzania. Increasingly, established international gold mining companies are exploring new regions as their reserves are being depleted in conventional locations for gold mining. Over the past decade, Indonesia, largely as a result of production from the Grasberg mine majority-owned by Freeport Copper & Gold, and Peru, largely as a result of production from Newmont's Yanacocha mine, have experienced the highest rise in gold output.

In recent years, China and Russia have increased their respective shares of world gold production to 9% and 7%. China is currently the world's fourth largest gold producer and Russia is the fifth largest, after South Africa, the United States, and Australia. Whilst Russian gold production increased in 2004, it remains below the peak levels of production reached in the late 1960s and early 1970s. The recent increase in Russian gold production was accelerated by the liberalisation of the industry after the 1998 crisis, which encouraged local banks to lend funds to local producers. The gold industry is a relatively new business in China compared with Russia. The increase in Chinese gold production over the past twenty years was stimulated by state investment subsidies and soft loans in the 1980s and, more recently, the liberalisation of the local market and the ending of the official purchase programme through which local producers were forced to sell all of their output to the People's Bank of China.

Although the average total gold production costs worldwide have generally risen sharply since 2001, producers' margins have widened as a result of the surge in the price of gold over this period. The U.S. dollar gold price increased from an average of $271 per ounce in 2001 to $409 per ounce in 2004. GFMS Limited estimated that the average quoted cash costs in 2004 for gold producers were $253 per ounce whilst total operating costs (including depreciation, amortisation, reclamation and mine closure costs) were $313 per ounce. However, during this period there have been significant regional differences in margins. For example, in recent years many South African gold producers have experienced a decrease in margins due to increasing production costs resulting from the ongoing strength in the South African rand and rising domestic cost pressures related to wages and water, transport and raw materials costs.

Gold Mining in Central Asia

It is thought that several countries in Central Asia, such as Uzbekistan, Kyrgyzstan and Kazakhstan, have significant unexplored gold deposits due, in part, to the investment environment in Central Asia in the 1990s which was generally not conducive to attracting the foreign direct investment required to modernise these economies and stimulate exploration and exploitation of gold deposits. In addition, international investors were often unfamiliar with the harsh physical environment and remote locations of the deposits. Combined with the decline in gold prices at the end of the 1990s, the development of several major projects in the region, such as the Vasilkovskoye and Bakyrchik mines in Kazakhstan, the Kyrgyz Republic's second biggest gold deposit at Jerooy and Kyzylmasai and the Kochbulak fields in Uzbekistan, were delayed, abandoned or scaled down. However, the focus of Central Asian governments on gold production has recently increased across the region.

The table below sets out information on gold production during the period from 1995 to 2004 in Uzbekistan, Kyrgyzstan Kazakhstan and Tajikistan and, for comparative purposes, Russia and China and the total worldwide gold production:

	Gold Production by Year										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rank in world production (based on 2004 tonnage)
	(in tonnes, except world ranking)										
China	147.9	158.5	162.8	165.2	162.8	172.2	192.8	201.9	205.6	217.3	4th
Russia	142.1	132.8	138.0	127.3	138.4	154.3	165.0	180.6	182.3	181.6	5th
Uzbekistan	66.6	78.3	81.7	80.4	88.1	87.5	83.4	82.6	80.0	83.7	8th
Kyrgyzstan .	2.1	4.1	17.4	21.1	20.0	22.0	24.6	17.9	22.7	22.1	20th
Kazakhstan	15.0	12.2	10.9	8.9	9.9	12.8	14.7	14.0	13.0	13.7	25th
Tajikistan . .	1.7	1.5	2.6	3.1	2.7	3.7	4.3	4.3	4.1	3.9	43rd
World total	2,291.3	2,375.3	2,492.6	2,542.0	2,573.8	2,591.1	2,620.8	2,589.1	2,592.6	2,464.4	—

Source: Gold Survey 2005 Update 1, GFMS Limited

Gold mining in Kazakhstan

According to data published by the World Gold Council, in 2004 Kazakhstan was the 25th largest gold producer in the world, producing 13.7 tonnes of gold.

According to Centras, the largest reserves of gold in Kazakhstan are located in eastern, northern and central Kazakhstan. The table below presents the geographic distribution of the deposits with the largest reserves:

	Name of the Deposit
Eastern Kazakhstan	Bakyrchik, Bolshevik, Akjal, Vasilyevskoye, Ridder-Sokolnoye, Suzdalskoye, Zhanan, Sekizovskoye
Central Kazakhstan	Aksu, Quartzite Hills, Zholymbet, Bestobe, Uschoky, Yenbekshi, Pustynnoye, Maikain
Northern Kazakhstan	Vasilkovskoye, Symbat, Komarovskoye, Elevatornoye, Akkarginskoye, Varvarinskoye, Zhetykarinskoye
Western Kazakhstan	Yubileynoye
Southern Kazakhstan	Akbakay group deposits (Akbakay, Beskempyr, Aksakal, Karyernoye), Aksakal-Beskempyr, Mynaral, Zharkulak, Karamurun, Arkharly, Kumysty

Source: Analytical overview of gold-mining industry of the Republic of Kazakhstan for 2004, Centras

Gold is mined in Kazakhstan not only at gold ore deposits, but also at complex deposits, which are mined primarily to extract other metals, such as zinc or copper, and where gold is subsequently extracted as a co-product of the non-ferrous metals production process.

At present, approximately 100 companies have a licence or a subsurface contract for developing gold deposits in Kazakhstan but, of these, only 35 produce gold. The largest producers of gold in Kazakhstan at present are JSC Kazzinc, where gold is extracted as a product of zinc production, and TOO Kazakhmys Corporation, where gold is extracted as a product of copper production. The next largest gold mining companies in Kazakhstan by tonnage of gold reserves are JSC Vasilkovskoye Zoloto and Ivanhoe Mines Ltd.

OJSC Vasilyovskoye Zoloto, a joint venture between Fooldgate Holding, a Dutch gold mining company, and the Kazakh government, has rights to the Vasilyovskoye gold deposit, located in the Kokshetau district of the Akmola region, 17 kilometres north west of the city of Kokshetau.

Ivanhoe Mines Ltd has a 70% interest in the Bakyrchik gold deposit, located in north-eastern Kazakhstan approximately 100 kilometres from the city of Semipalatinsk. No large-scale development of this deposit has been undertaken to date.

Business Overview

The Group is one of the leading gold mining companies in Kazakhstan based upon the Company's estimate of total reserves and resources of 46.6 million ounces, or approximately 1,450 tonnes, of gold. The Company believes these are the largest known gold reserves and resources in Kazakhstan. The Group's principal operations are in northern Kazakhstan and it also has some newly acquired assets in eastern Kazakhstan. The Group's business dates back to 1929, when gold ore was discovered at the Aksu deposit in northern Kazakhstan. Exploration began at the Group's Bestobe and Zholymbet deposits in 1932. The Group's principal assets comprise:

- the Aksu mine, which includes the Aksu and nearby Quartzite Hills deposits. The Company estimates that as at 13 June 2005 the B and C_1 gold reserves and C_2 and P_1 gold reserves under the FSU Classification at the Aksu and Quartzite Hills deposits were approximately 5.4 million ounces and 15.0 million ounces, respectively. For information on WAI's independent review of these resources at the Aksu and Quartzite Hills deposits, see "*Technical Report—Geology of Aksu Deposit—WAI's Review Summary*" and "*—Geology of the Quartzite Hills Deposit—WAI's Review Summary*". The Aksu mine comprises four operating shafts for underground mining, including one dedicated ventilation shaft, one open pit, tailings in on-site tailings dams and waste dumps that contain low grade ore. The Aksu mine includes the newly constructed Aksu Heap Leach Plant, which commenced operations on 13 July 2005 with approximately 0.5 million tonnes per annum throughput capacity and the recently modernised Aksu Processing Plant, with approximately 1.0 million tonnes per annum throughput capacity at the Aksu CIP Plant, which commenced operations on 28 August 2005, and approximately 0.2 million tonnes per annum throughput capacity at the Aksu Flotation Facility, which recommenced operations earlier in that month;
- the Bestobe mine which had, according to the Company's estimates, B and C_1 gold reserves and C_2 and P_1 gold resources under the FSU Classification of approximately 3.1 million ounces and 10.2 million ounces, respectively, as at 13 June 2005. For information on WAI's independent review of the resources at the Bestobe deposit, see "*Technical Report—Geology of Bestobe Deposit—WAI's Review Summary*". The Bestobe mine comprises four operating shafts for underground mining, including one dedicated ventilation shaft, one open pit, tailings in on-site tailings dams and waste dumps that contain low grade ore. The Bestobe mine includes the newly constructed Bestobe Heap Leach Plant, which commenced operations on 15 August 2005 with approximately 1.0 million tonnes per annum processing capacity, and the Bestobe Flotation Plant, with approximately 0.25 million tonnes per annum throughput capacity. The Bestobe CIP Plant with throughput capacity of approximately 2.5 million tonnes per annum on commencement of operations is expected to commence operations in the first quarter of 2007 to replace the Bestobe Flotation Plant; and
- the Zholymbet mine which had, according to the Company's estimates, B and C_1 gold reserves and C_2 and P_1 gold resources under the FSU Classification of approximately 4.3 million ounces and 8.2 million ounces, respectively, as of 13 June 2005. For information on WAI's independent review of the resources at the Zholymbet deposit, see "*Technical Report—Geology of the Zholymbet Deposit—WAI's Review Summary*". The Zholymbet mine comprises four operating shafts for underground mining, including one dedicated ventilation shaft, tailings in on-site tailings dams and waste dumps that contain low grade ore. The Zholymbet mine includes the newly constructed Zholymbet CIP Plant which commenced operations on 2 August 2005 with approximately 0.5 million tonnes per annum throughput capacity. The new Zholymbet Heap Leach Plant is expected to commence operations in the first quarter of 2006, with throughput capacity of approximately 1.0 million tonnes per annum on commencement of operations.

Each of the Group's three principal mines are located within 100 kilometres of the city of Stepnogorsk in the Akmola region, where the Group's principal operating subsidiary, Kazakhaltyn, has its headquarters and from where its central management oversees the Group's mining and processing operations in northern Kazakhastan.

The Group's other assets include the recently acquired Akzhal and Vasilevskyi deposits; assets located at the Boldykol and Zhanan mines and in the cities of Semipalatinsk; and Ust-Kamenogorsk; and mineral rights with respect to the Boldykol and Zhanan deposits. The Group is currently in negotiations with the Ministry of Energy and Mineral Resources with respect to the subsurface use contract for the Boldykol and Zhanan mines. Each of the Akzhal, Boldykol, Vasilevskyi and Zhanan mines are located within

210 kilometres of the city of Semipalatinsk, in which the Group has established its headquarters for managing its operations in eastern Kazakhstan.

In addition, the Group has recently submitted tenders to acquire mineral rights to seven exploration properties from the Kazakh government. Three of these properties are located in the Akmola region in northern Kazakhstan, the same region as the Group's principal Aksu, Bestobe and Zholymbet operations. Three properties are located in the East Kazakhstan region, the same region as the Group's Boldykol and Zhanan mines. The seventh property is located in the Karaganda region in central Kazakhstan. The outcome of the tenders is expected to be announced by the end of 2005.

During the Soviet era, the Aksu, Bestobe and Zholymbet mines were among the largest gold mines in Kazakhstan and in the 1980s production reached up to 244,000 ounces per year in aggregate. During this period, production was focused on the extraction of high-grade ore from underground mining rather oxide and low grade gold ores. The processing of gold ore was based on flotation and gravity technologies.

The Assaubayev family acquired control of Kazakhaltyn through an open tender in 1999. Having conducted extensive research between 1999 and 2003 on the mineralogy of the gold reserves at the Group's main deposits and the viability of the available technologies to process such gold reserves, the Group designed and implemented a modernisation programme for the transition from flotation and gravity technologies to heap leaching and cyanidation technologies. The adoption of heap leaching and cyanidation technologies enable the Group to process low grade ore from open pits and waste dumps, and to re-process on-site tailings, in addition to processing ore extracted from its underground mines, all at a lower cost per ounce than using flotation and gravity technologies.

Whilst the Group conducted this research and developed the modernisation programme, Kazakhaltyn produced 34,317 ounces and 36,182 ounces of gold in 2002 and 2003, respectively. As part of the modernisation programme required the closure of the Aksu and Zholymbet flotation plants for reconstruction in August 2004, production in 2004 declined to 26,272 ounces. By September 2005, operations had commenced at the newly constructed Aksu Heap Leach Plant, the Bestobe Heap Leach Plant, the Aksu Processing Plant and the Zholymbet CIP Plant. The Company expects that the commencement of operations at these plants will enable a significant increase in gold production in 2006 and thereafter. The Company expects to commence operations at the new Zholymbet Heap Leach Plant in the first quarter of 2006 and at the newly constructed Bestobe CIP Plant in the first quarter of 2007. The expansion of the throughput capacity at all of the new or recently modernised processing facilities is expected to continue after 2006.

As at 30 June 2005, the Group had approximately 2,800 employees.

Strategy

The Company's strategy is to increase the Group's gold production significantly, lower the Group's operating costs per ounce and create one of Central Asia's leading gold mining companies. The Company will pursue this strategy by:

Adopting modern processing technologies to maximise the potential of the Group's existing reserves

Since the Soviet era, the Group has processed gold ore using flotation and gravity technologies. As part of the Group's modernisation programme, it is currently in the process of transitioning from flotation and gravity technologies to modern heap leaching and cyanidation technologies. This will enable it to recover gold from ore extracted from underground mines and low grade ore extracted from open pits and waste dumps, and to re-process on-site tailings. The transition will also enable the Group to produce gold doré rather than flotation and gravity concentrates. The Group believes that this change in technologies will enable it to reduce the Group's mining and processing costs per ounce and increase the profitability of exploiting its existing reserves through the sale of higher margin gold doré.

Expanding the Group's production significantly over the medium term

As part of the Group's implementation of its modernisation programme, in the third quarter of 2004, the Group ceased processing ore at the Aksu and Zholymbet flotation plants to allow for the complete reconstruction of these plants and subsequently temporarily ceased mining operations at the Aksu and Zholymbet mines. In the third quarter of 2005, the Group commenced operations at the newly constructed Aksu Heap Leach Plant, the Bestobe Heap Leach Plant, the Aksu CIP Facilities and the Zholymbet CIP Plant, using cyanidation technology. The Group expects to commence operations at the newly constructed

Zholymbet Heap Leach Plant in the first quarter of 2006 and complete the construction of the Bestobe CIP Plant in the first quarter of 2007. Almost all of the new or reconstructed processing facilities are expected to increase their throughput capacity significantly in the future. The expansion of the throughput capacity of the Group's main processing facilities is expected to continue until the Group's current modernisation programme is fully implemented. The Company also expects the increase in the Group's throughput capacity to enable a significant increase in gold production.

Capitalising on the Group's established skills by seeking growth opportunities in Kazakhstan and elsewhere in Central Asia where its exploration, mining and processing skills have the potential to add value to shareholders

The Company's growth strategy is to increase the Group's B and C_1 reserves and C_2 and P_1 resources through conducting further exploratory work at its existing mines. In addition, the Company intends to expand the Group's current portfolio of gold mining operations by actively pursuing selective acquisitions. In July 2005, the Group acquired the Akzhal and Vasilevskyi mines in eastern Kazakhstan. During the same month, it also purchased the assets located at the Boldykol and Zhanan mines and in the cities of Semipalatinsk and Ust-Kamenogorsk and mineral rights with respect to Zhanan and Boldykol deposits. In addition, the Group has recently submitted tenders to acquire mineral rights to seven exploration properties from the Kazakh government, and the outcome is expected to be announced by the end of 2005. The Group intends to continue to acquire underperforming operating gold mines and exploration properties in Kazakhstan and elsewhere in Central Asia through participating in government tenders and negotiating with potential sellers in the private sector. In searching for a potential acquisition target, the Group evaluates whether it can apply its current processing technologies to the relevant ore reserves and whether it will be able to produce gold at a low cost per ounce if the acquisition is completed. Factors considered include whether the location of a potential target will enable synergies to be exploited with any of the Group's existing operations located nearby, thereby facilitating integration of the target into the Group's operations more quickly and cost efficiently. The Group is also targeting large operating mines, and clusters of smaller operating mines and exploration properties, which will benefit from economies of scale and, in the latter case, may be centrally managed from a single centre located in close proximity to all newly acquired mining and processing facilities.

The Company also intends to seek to reclassify its reserves and resources over time under an international methodology of classification, such as the JORC Code, to maximise shareholder value.

Seeking international joint ventures and other arrangements to maximise the potential of its existing resources and new acquisitions

The Group has a highly experienced management team with extensive expertise in geology, metallurgy and mining and processing technologies that are currently being used in Kazakhstan. In April 2005, the Group entered into an arrangement with China National Gold Corporation, a Chinese state-owned gold mining company, to assess the further development of underground mining at the Bestobe mine. In September 2005, the Group entered into a framework agreement with Barrick Gold, one of the world's largest gold mining companies by market capitalisation. The framework agreement provides the basis for future cooperation in relation to the exploration of new properties in Kazakhstan and elsewhere in Central Asia.

Key Strengths

The Company believes that the Group's key strengths include that:

The Group has relatively low extraction and processing costs in respect of its open pits, waste dumps and tailings

As more than a half of the Group's B and C_1 reserves of gold comprise open pits, tailings and waste dumps, the Group benefits from relatively low extraction and processing costs for gold extracted from these reserves. A significant proportion of the Group's ore reserves at each of the Aksu, Bestobe, Quartzite Hills and Zholymbet deposits is in the form of oxide ore, which may be extracted through open pit mining which is significantly cheaper than extracting ore from underground mining. There is no extraction cost for tailings or ore from waste dumps as these materials have already been extracted either by open pit or underground mining, and tailings do not require crushing or milling. As the Group proceeds with its modernisation programme and shifts the emphasis in its mining and processing operations the Company believes it will be able to reduce the cost at which it produces gold per ounce significantly.

The Group has a developed infrastructure network located in close proximity to its major assets

The Group's principal operations are located in close proximity to, and are centrally managed from, Stepnogorsk, the second largest city in the Akmola region in northern Kazakhstan with a population of approximately 63,000. The Aksu, Bestobe and Zholymbet mines are linked by a developed network of roads and railways, in the case of Aksu, and roads, in the case of Bestobe and Zholymbet, to Stepnogorsk, which enables the Group to benefit from relatively low costs for the transport of supplies and products such as ore and flotation and gravitation concentrates. The Group's mines in northern Kazakhstan are all situated in close proximity to power stations and transmission lines and, as a result, the Group benefits from low transmission and other electricity costs. In addition, as the employees at the Group's Aksu, Bestobe and Zholymbet mines are drawn primarily from the nearby towns of Aksu, Bestobe and Zholymbet, it benefits from relatively low labour costs as it does not incur the costs of rotating its staff between mine sites and population centres. The Company believes that the combination of relatively low transportation, electricity and labour costs, together with the cost benefits of centrally managing the Aksu, Bestobe and Zholymbet facilites from Stepnogorsk, will enable the Group to reduce the cost at which it produces gold per ounce significantly as production increases. The Company also believes it will also be able to increase production without the need for significant capital expenditure to improve the power and transport infrastructure available to the Group at its principal mines.

As the Group's Akzhal, Vasilevskyi and Zhanan mines in eastern Kazakhstan are also located relatively close to each other and are linked by a developed network of roads, to the city of Semipalatinsk, a regional centre with a population of over 300,000. Whilst the mines in eastern Kazakhstan purchase electricity from a different supplier to the Group's mines in northern Kazakhstan, its cost and the costs of transmission are also relatively low.

The Group's experienced management has proven its ability to turn around, finance and develop under-performing assets

The Group's management team has a proven track record in managing operations under its control and has demonstrated its ability to turn around, finance and develop newly acquired underperforming assets and return them to profitability, as was the case with the Aksu, Bestobe and Zholymbet mines which the Group acquired in 1999. The Group's senior management combines extensive industry experience and geological and metallurgical expertise and the Company's newly formed board of directors includes three non-executives with international experience in the gold and natural resources sector. For more information on the Group's management, see "*Directors and Senior Management.*"

The Group is in a strong position from which to acquire exploration properties in Kazakhstan as one of the leading domestic Kazakh gold mining companies

Whilst a number of international gold mining companies have mineral rights in Kazakhstan, none of the major international gold mining companies has established a significant presence in the Kazakh market and the gold mining industry in Kazakhstan is dominated by Kazakh companies. The Company believes the Group has the largest gold reserves of the gold mining companies operating in Kazakhstan. As such, the Company believes it is in a strong position to exploit its resources, knowledge of Kazakh gold industry and understanding of the domestic regulatory requirements to compete to acquire mineral rights to exploration properties in Kazakhstan. For example, for acquisition from the state, the criteria taken into account in selecting purchasers are likely to include not only the purchase price, but also the resources available to a proposed purchaser and the extent of its other operations in Kazakhstan.

History

The Company is a holding company which was incorporated under the laws of Jersey on 26 September 2005 to act as a holding company for the Group and for the purposes of the Global Offer.

The Group's principal operating subsidiary, Kazakhaltyn, is the ultimate successor to the Kazakh state-owned enterprise open joint stock company ("**OJSC**") Kazakhaltyn, and owns and operates gold mining operations in northern and eastern Kazakhstan.

Kazakhaltyn's business dates back to 1929 with the discovery of gold ore reserves in northern Kazakhstan. The business was a part of the USSR's Non-ferrous Metallurgy Ministry during the Soviet era. Between 1953 and 1992 the business was conducted under the name of "Kazzoloto" Ore Mining and Processing Enterprise. After the collapse of the Soviet Union in 1991, "Kazzoloto" Ore Mining and Processing

Enterprise was transformed into an independent economic unit, OJSC Kazakhaltyn. In 1996 the Kazakh government transferred management of OJSC Kazakhaltyn to Gold Pool LLP. However, these management rights were subsequently cancelled in 1997 due, *inter alia*, to Gold Pool LLP's failure to perform its obligations under the management agreement.

Following the bankruptcy of the state owned OSJC Kazakhaltyn in August 1998, the Kazakh government put the assets of OSJC Kazakhaltyn up for open tender. AskamSnab LLP, a company registered under the laws of Kazakhstan and controlled by the Assaubayev family, won the tender and purchased the bankrupt company's assets and certain of its liabilities in June 1999 for KZT 155 million. The liabilities assumed included approximately KZT 446 million of accrued but unpaid salaries and an obligation to pay Kazatomprom approximately KZT 277 million. As required pursuant to the terms of the tender, the family created a new legal entity to own the assets and continue the employment of the former employees of OJSC Kazakhaltyn. This entity was initially registered with the Akmola Regional Justice Department as a limited liability partnership on 10 September 1999 under the name Kazakhaltyn Mining and Processing Company Limited Liability Partnership ("**Kazakhaltyn LLP**"). A minority interest in this entity was later transferred to a third party.

To enable the listing of bonds on the Kazakhstan Stock Exchange, in July 2001 the limited liability partnership was transformed into an open joint stock company under the name OJSC Kazakhaltyn Mining Metallurgical Concern. Following the adoption of a new Joint Stock Company Law in Kazakhstan in May 2003 which, *inter alia*, removed the distinction between open and closed joint stock companies, OJSC Kazakhaltyn Mining Metallurgical Concern adopted a new charter and was renamed JSC Kazakhaltyn Mining Metallurgical Concern. The Assaubayev family restored its 100% control of Kazakhaltyn on 15 June 2005 when it acquired 7.1% of the issued share capital of Kazakhaltyn from the third party in consideration of the transfer of intellectual property rights unrelated to the Group's gold mining operations. In preparation for the Global Offer, on 12 October 2005, Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva transferred, via nominees, their entire interest in Romanshorn LC AG (the holding company of Kazakhaltyn) being the entire issued units in Romanshorn LC AG, to the Company for nil consideration.

Prior to the bankruptcy of state owned OJSC Kazakhaltyn, production at Aksu, Bestobe and Zholymbet was focused on mining and processing high grade ore whilst lower grade ore, if extracted, was generally sent to on-site waste dumps. However, recognising the potential to increase gold production and reduce the cost at which it produces gold per ounce through extracting and processing lower grade ore, during the period from 1999 to 2004, the new management of the company engaged in extensive research on the mineralogy of the Group's main deposits. Using both data collected during the Soviet era and from undertaking further exploration work, the Group confirmed the existence of large reserves of low grade ore which could be extracted by open pit mining. After a review of the viable processing technologies, in consultation with international specialists, the Group commenced a programme to transition from flotation and gravity processing to modern heap leaching and cyanidation techniques. In 2004, the Group began a modernisation programme which envisaged the construction of new heap leach plants at each of its main Aksu, Bestobe and Zholymbet mines and the complete reconstruction, or construction of new, CIP plants that would primarily rely on cyanidation processing technology. The newly constructed Aksu Heap Leach Plant, the Aksu Processing Plant, the Bestobe Heap Leach Plant and the Zholymbet CIP Plant commenced operations in the third quarter of 2005. The Group expects to commence operations at the newly constructed Zholymbet Heap Leach Plant in the first quarter of 2006 and the Bestobe CIP Plant in the first quarter of 2007.

Recent acquisitions and disposals

Acquisition of the Akzhal mine

In July 2005, the Group acquired all of the partnership interests of Visart LLP for approximately KZT 95 million. Visart LLP is a privately owned Kazakh partnership that has rights to the Akzhal mine in eastern Kazakhstan, an exploration property with no current gold production.

Acquisition of the Vasilevskyi mine

In July 2005, the Group also acquired all of the partnership interests of Rudnik Vasilevskyi LLP for approximately KZT 53 million. Rudnik Vasilevskyi LLP is a privately owned Kazakh partnership that has rights to the Vasilevskyi deposit in eastern Kazakhstan, an exploration property with no current gold production.

Acquisition of the assets and mineral rights of JSC Altyn Tobe

Pursuant to a tender process, in July 2005, the Group acquired certain assets from JSC Kazkommertsbank for approximately KZT 281 million, including assets located at the Boldykol and Zhanan mines and in the cities of Semipalatinsk and Ust-Kamenogorsk and mineral rights with respect to Boldykol and Zhanan deposits. These assets, previously owned by JSC Altyn Tobe, had been pledged to JSC Kazkommertzbank as security for JSC Altyn Tobe's indebtedness. Following a default by JSC Altyn Tobe on its obligations in respect of this indebtedness, JSC Kazkommertzbank enforced its security and conducted a tender to sell the assets. The Group is in the process of concluding subsurface contracts for the Boldykol and Zhanan mines with the Ministry of Energy and Mineral Resources. In the year ended 31 December 2004, Altyn Tobe produced approximately 10,000 ounces of gold.

Participation in tenders conducted by the Kazakh Government

The Group has recently submitted tenders to acquire mineral rights to seven exploration properties from the Kazakh government. Three of these properties are located in the Akmola region in northern Kazakhstan, the same region as the Group's principal Aksu, Bestobe and Zholymbet operations. Three of the properties are located in the East Kazakhstan region, the same region as the Group's Boldykol and Zhanan mines. The seventh property is located in the Karaganda region in central Kazakhstan. The outcome of the tenders is expected to be announced by the end of 2005.

Disposal of the Bailyusty deposit

As the Group considered that it would not be economic to develop the deposit further, in 2000 it sold its subsurface use rights, together with related mining assets and land, relating to the Bailyusty deposit in the Enbekshilder district of the Akmola region in southern Kazakhstan to SRV Consulting LLP for approximately KZT 720 million. SRV Consulting LLP transferred its obligation to pay this consideration to International Investments and Finance Institute LLC in 2002. Of the KZT 720 million, approximately KZT 620 million remained outstanding as at 30 June 2005.

Joint ventures

Barrick Gold

On 23 September 2005, the Group entered into a framework agreement with Barrick Gold Netherlands B.V. The framework agreement provides the basis for future cooperation in relation to the exploration of new properties in Kazakhstan and elsewhere in Central Asia. Under the terms of the arrangements, certain agreed upon exploration properties, including six of the tenders to acquire mineral rights from the Kazakh government described above, would be acquired by a joint venture company in which the Group and Barrick Gold would each have a 50% interest.

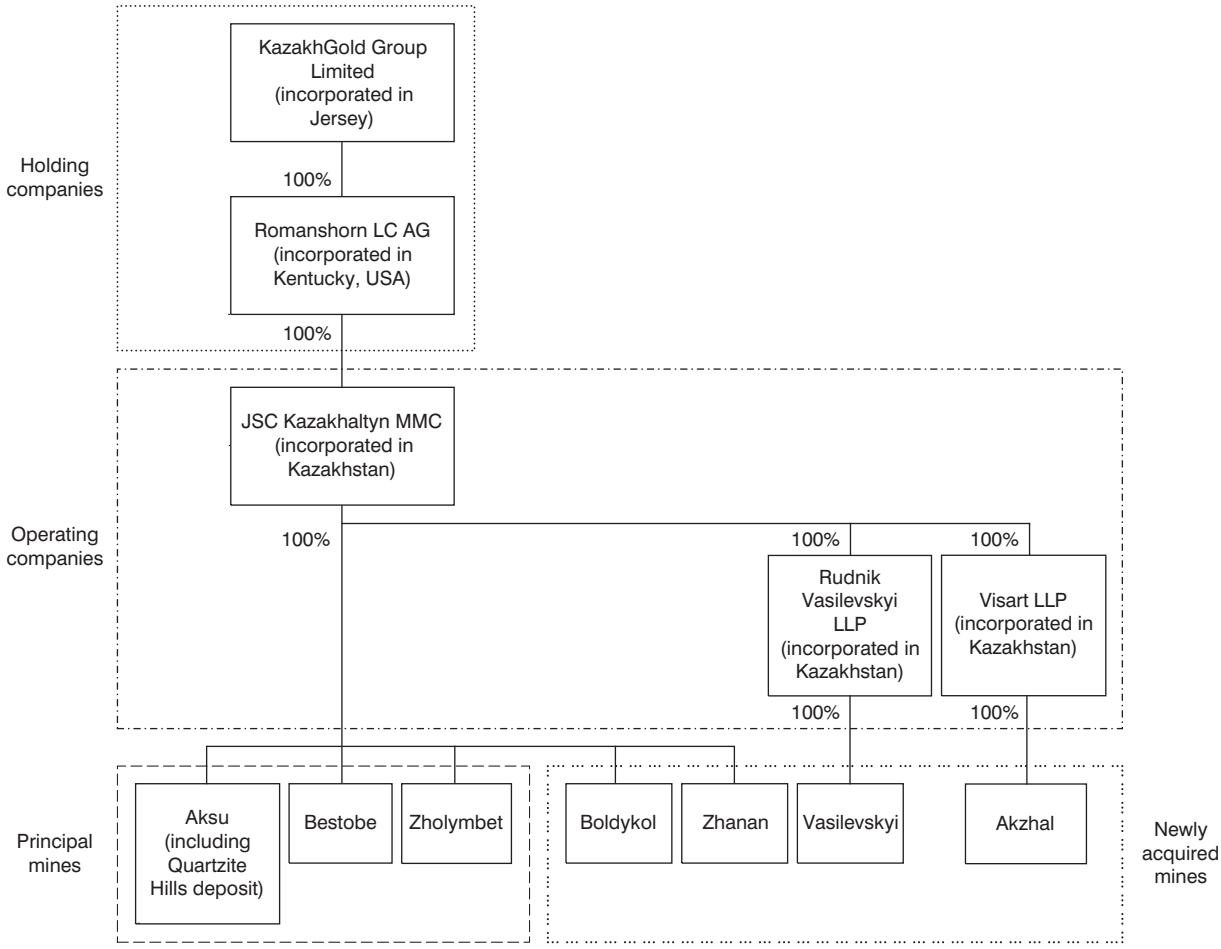
China National Gold Corporation

On 18 April 2005, the Group entered into a memorandum of understanding with China National Gold Corporation pursuant to which a joint venture company will be incorporated in relation to the further development of underground mining at the Bestobe mine. In return for contributing the machinery and equipment required for enhancing production and providing operational management at the underground mine at Bestobe, China National Gold Corporation will receive a controlling interest in the joint venture company. It is proposed that the Group will contribute the capital assets at the Bestobe underground mine to the joint venture company for a ten year period and that the joint venture company will apply for a new subsurface user contract.

Corporate Structure

The Company, which is incorporated in Jersey, is the holding company of the Group and the indirect parent company of Kazakhaltyn which is incorporated in Kazakhstan and wholly owned by a direct subsidiary of the Company. Kazakhaltyn is the operating company through which the Group holds its interests in the Aksu, Bestobe, Boldykol, Zhanan and Zholymbet mines. The Group's other operating companies are wholly owned subsidiaries of Kazakhaltyn.

The diagram below shows the Group's current structure.



Reserves, Resources and Exploration

Ore reserves and resources estimation

The Group's ore reserves and resources described in this document are presented in accordance with the FSU Classification. This system, developed in 1960 and revised in 1981, is still widely used today in the Commonwealth of Independent States, including in Kazakhstan, and divides mineral concentrations into seven categories of three major groups, based on the level of exploration performed. Explored reserves are designated as either A, B, or C_1, evaluated reserves are designated as C_2 and prognostic resources are designated as either P_1, P_2 or P_3.

Category A

The reserves in place are known in detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

Category B

The reserves in place have been explored but are only known in fair detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

Category C_1

The reserves in place have been estimated by a sparse grid of trenches, drill holes or underground workings. This category also includes reserves adjoining the boundaries of A and B reserves as well as reserves of very complex deposits in which the distribution cannot be determined even by a very dense grid.

The quality and properties of the deposit are known tentatively by analyses and by analogy with known deposits of the same type. The general conditions for exploitation are known tentatively.

Category C_2

The reserves have been extrapolated from limited data, probably from a single hole. This category includes reserves that are adjoining A, B, and C_1 reserves in the same deposit. Prognostic resources are estimated for mineralisation outside the limits of areas that have been explored in detail and are often based on data from trenches and from geochemical and geophysical surveys.

Category P_1

Resources under the P_1 category may extend outside the actual limits of the ore reserves defined in the C_2 category. The outer limits of P_1-type resources are determined indirectly by extrapolating from similar known mineral deposits in the area. P_1 is the main source from which C_2 reserves can be increased.

Category P_2

These resources represent possible mineral structures in known mineral deposits or ore-bearing regions. They are estimated based on geophysical and geochemical data. Morphology, mineral composition and the size of the ore body are estimated by analogy with similar mineralised geologic structures in the area.

Category P_3

Any potential ore-bearing deposits are classified as resources in the P_3 category. The presence of these resources relies on the theoretical definition of a "favourable geological environment". Resource figures are derived from figures of similar deposits in the region. Estimates of prognostic resources routinely depend on assumptions and projections regarding the probable dimensions (i.e. length, width and depth) and grade of the deposit that are subject to confirmation by more detailed investigations.

Comparison between the FSU Classification and international classification systems

Under the FSU Classification, C_1 and, in some cases, C_2 are considered to be categories of reserves. Whilst a direct comparison between international classification systems and the FSU Classification is difficult as each is based on different principles, in general terms "proved reserves" correlate to categories A and B under the FSU Classification, "probable reserves" correlate to category C_1 and some category C_2 under the FSU Classification and "inferred mineral resources" equate to category C_2 under the FSU Classification. However, it should be noted that these relationships may vary between deposits and at different times for the same deposits.

For more information on the FSU Classification, including a comparison of the method classification under the JORC Code, see "*Technical Report—Geology and Resources*".

The Company intends over time to reclassify its B and C_1 reserves and conduct any additional exploration required of its C_2 and P_1 resources to upgrade and reclassify them under in international methodology of classification, such as the JORC Code.

Reserves and resources

In connection with the Global Offer, WAI has reviewed the Group's stated B and C_1 reserves as at 13 June 2005 which were prepared by the Group using the FSU Classification. Based on this review, WAI has prepared the statement set out below, which has been extracted without material adjustment from the "*Technical Report*", of the Group's mineable resources which, in WAI's view, could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken. In addition, after such exploration, such reserves could be reclassified as "reserves" under the JORC Code if the necessary feasibility studies were undertaken. However, such further exploration and feasibility studies have not yet been undertaken and WAI has not reclassified the Group's B and C_1 reserves as either "reserves" or "resources" under the JORC Code. For information on some of the risks associated with ore reserve estimation, see "*Risk Factors—Risks Relating to the Gold Mining Industry—Gold mining companies face many risks related to these operations (including their exploration and development actvities) that may affect their cash flows and overall profitability—Ore reserve and resource estimation risks.*"

	As reviewed by WAI			
Mine	Ore (millions of tonnes)	Grade (grams per tonne)	Gold (thousands of kilograms)	Gold (millions of ounces)
Aksu (including Quartzite Hills deposit)				
Underground	10.3	8.26	85.1	2.7
Open Pit	29.0	2.06	59.7	1.9
Tailings	7.8	0.97	7.6	0.2
Waste Dumps	14.8	1.00	14.8	0.5
Total	61.9	2.70	167.2	5.4
Bestobe				
Underground	5.7	7.28	41.5	1.3
Open Pit	20.2	2.24	45.3	1.5
Tailings	6.3	1.00	6.3	0.2
Waste Dumps	2.8	1.02	2.8	0.1
Total	35.0	2.74	95.9	3.1
Zholymbet				
Underground	1.5	32.0	48.0	1.5
Open Pit	34.3	1.87	64.1	2.1
Tailings	9.3	1.00	9.3	0.3
Waste Dumps	9.9	1.20	11.9	0.4
Total	55.0	2.42	133.3	4.3
Total				
Underground	17.5	9.99	174.5	5.6
Open Pit	83.5	2.03	169.1	5.4
Tailings	23.4	0.99	23.2	0.7
Waste Dumps	27.5	1.07	29.5	0.9
Total	151.9	2.61	396.4	12.7

This statement forms part of the basis for WAI's financial appraisal as set out in "*Technical Report—Financial Appraisal—WAI Model—Valuation*".

In addition to the above resources, which is based on WAI's review of the Group's stated B and C_1 reserves, as at 13 June 2005 the Group had the following C_2 and P_1 resources under the FSU Classification at its principal Aksu, Bestobe and Zholymbet mines. WAI has not conducted a review of any of the Groups C_2 or P_1 resources.

	As stated by the Group			
Mine	Ore (millions of tonnes)	Grade (grams per tonne)	Gold (thousands of kilograms)	Gold (millions of ounces)
Aksu (including Quartzite Hills deposit)				
C_2	21.8	7.16	156.3	5.0
P_1	62.0	5.00	310.0	10.0
Total	83.8	5.56	466.3	15.0
Bestobe				
C_2	9.2	12.90	118.2	3.8
P_1	33.3	6.00	200.0	6.4
Total	42.5	7.49	318.2	10.2
Zholymbet				
C_2	23.8	4.40	104.6	3.4
P_1	44.1	3.40	150.0	4.8
Total	67.9	3.75	254.6	8.2
Total				
C_2	54.8	6.92	379.1	12.2
P_1	139.5	4.73	660.0	21.2
$C_2 + P_1$	194.2	5.35	1,039.1	33.4

Exploration

Exploration at the Aksu deposit began as early as 1929 when more than 200 veins were discovered by surface works. The veins were divided up between six distinct ore zones, each of which was characterised by different geological features. The Quartzite Hills deposit, which constitutes a part of the Aksu mine, was discovered in 1939 and there are currently six recognised ore bodies at this deposit of which one ore body has been mined out and the reserves exhausted. The exact date of discovery of, and the commencement of exploration at, the Bestobe deposit is not known. However, significant exploration work was undertaken on the deposit during the late 1950s and early 1960s.

Exploratory work began at Zholymbet in 1931. Extensive exploration works were conducted during the period from 1932 to 1939. The deposit was extensively studied during the period from 1940 to the 1960s through mining and drilling. Between 1959 and 1963 further geological survey work was conducted to create topographical maps using aerial photography and confirmed the accuracy of the 1930s exploration and operational work within the shafts and underground drives.

Since 1999, Kazakhaltyn has undertaken a surface-drilling programme at the Aksu, Bestobe and Zholymbet deposits. Cores are logged on site and mostly quantitative descriptions are recorded, including the rock type, structural features and mineralisation. Unlike many international gold mining companies, no photographic record is made of the rock core samples. Until the acquisition of a diamond saw in 2004, all core samples were assayed at an in-house laboratory. As a result, no independent record exists of the cores prior to this date, other than the geological logs. Since 2004, half of the each core sample is sent to an independent laboratory for verification purposes. From underground exploration drives, channel samples are cut from the sidewalls to obtain samples from a single channel. Channels are staggered on either sidewall and spaced at regular intervals that are offset on each sidewall. Core drilling is also undertaken from within some of the exploration drives, mostly where surface drilling is unsuccessful in penetrating to the desired zone.

The Group currently undertakes annual revisions of its estimates of reserves and resources based upon actual exploration and production results, depletion, new information and fluctuations in production and economic parameters. The last such review was completed in June 2005 and forms the basis of the Group's stated B and C_1 reserves and C_2 and P_1 resources contained elsewhere in this document. This annual revision was conducted prior to the completion of the acquisitions of the Akzhal, Boldykol, Vasilevskyi and Zhanan deposits in July 2005 and, as a result, the reserves and resources at these deposits have not been included in the Group's stated reserves and resources. The Group intends to include these recently acquired deposits within the scope of its annual revision of reserves and resources in 2006.

The Group's exploration strategy is focused on the extension of its existing ore bodies, both at its existing mine sites and at undeveloped sites. A significant part of its licensed mining area at its principal Aksu, Bestobe, Zholymbet mines, as well as at the recently acquired Akzhal, Boldykol, Vasilevskyi and Zhanan mines, remain substantially unexplored.

For more information on exploration undertaken at the Group's principal deposits, see "*Technical Report—Geology of Aksu Deposit—In-situ Resources—Detailed Exploration*", "*—Geology of the Quartzite Hills Deposit—In-situ Resources*", "*—Geology of the Zholymbet Deposit—In-situ Resources*" and "*—Geology of Bestobe Deposit—In-situ Resources*".

Mining

The Aksu mine began production in 1929 and the adjacent Quartzite Hills mine began production in 1954. The Aksu and Quartzite Hills mines are situated in the Akmola region of northern Kazakhstan approximately 180 kilometres south east of Kokshetau and 18 kilometres north of the city of Stepnogorsk. The Aksu and Quartzite Hills mines comprise four operating shafts for underground mining, including one dedicated ventilation shaft, one open pit, tailings in on-site tailings and waste dumps that contain low grade ore. Ore from each of the mines is processed on site.

The Bestobe mine began production in 1931. The mine is situated approximately 80 kilometres to the east of Stepnogorsk, 100 kilometres east of Aksu and 220 kilometres northeast of Astana and comprises four operating shafts for underground mining, including one dedicated ventilation shaft, one open pit, tailings in on-site tailings and waste dumps that contain low grade ore. Ore from the mine is processed on site.

The Zholymbet mine began production in 1931. The mine is situated approximately 100 kilometres to the south of Stepnogorsk and comprises four operating shafts for underground mining, including one

dedicated ventilation shaft, tailings in on-site tailings and waste dumps that contain low grade ore. Ore from the mine is processed on site.

For more information on the mining methods used by the Group at each of the Aksu, Bestobe and Zholymbet mines, see *"Technical Report—Mining—Mining Methods", "—Aksu mine", "—Bestobe mine" and "—Zholymbet mine"*.

Production and Processing

The table below sets out information for the Group's mining and processing operations at its main Aksu, Bestobe and Zholymbet mines for the years ended 31 December 2002, 2003 and 2004 and the six months ended 30 June 2004 and 2005:

	Year ended 31 December			Six months ended 30 June	
Aksu, Bestobe and Zholymbet mines	**2002**	**2003**	**2004**	**2004**	**2005**
Processed ore (thousand tonnes)	257	270	217	131	44
Recovered grade (grams per tonne)	5.08	5.12	4.64	4.05	5.32
Recovery rate	81.8	81.4	81.2	81.1	91.0
Gold sales (ounces)	34,317	36,182	26,272	13,837	6,848
Gold sales (thousands of kilograms)	1,067	1,125	817	430	213
Average production cost per ounce ($ per ounce)[1][2]	229	206	262	223	296
Capital expenditure (KZT million)	80	81	1,293	304	928
Capital expenditure ($ million)[2]	0.52	0.54	9.50	2.19	7.07

(1) Average production cost per ounce in Tenge is calculated by dividing cost of sales by the number of ounces of gold sold during the corresponding year/period.

(2) Converted into US dollars for convenience using the average official Tenge to US dollar rates for the relevant period as reported by the NBK.

During the Soviet era, the Aksu, Bestobe and Zholymbet mines were among the largest gold mines in Kazakhstan and in the 1980s production reached up to 244,000 ounces per year in aggregate. During this period, production was focused on the extraction of high-grade ore from underground mining rather than oxide and low grade gold ores. Lower grade ore, if extracted, was generally not processed and sent to on-site waste dumps. The processing of gold ore was based on flotation and gravity technologies.

Recognising the potential to increase gold production and reduce the cost at which it produces gold per ounce through extracting and processing lower grade ore, during the period from 1999 to 2004, the new management of the company engaged in extensive research on the mineralogy of the Group's main deposits. Using both data collected during the Soviet era and from undertaking further exploration work, the Group confirmed the existence of large reserves of low grade ore which could be extracted by open pit mining. After a review of the viable processing technologies, in consultation with international specialists, the Group commenced a programme to transition from flotation and gravity processing to modern heap leaching and cyanidation techniques.

In 2004, the Group began a modernisation programme which envisaged the construction of new heap leach plants at each of its main Aksu, Bestobe and Zholymbet mines and the complete reconstruction, or construction of new, CIP plants that rely primarily on cyanidation processing technology. The expansion of the throughput capacity of all of the Group's main processing facilities is expected to continue until the modernisation programme is fully implemented. The Company expects that this significant increase in throughput capacity will enable it to increase gold production in 2006 and thereafter.

Aksu processing plants

Ore from Aksu is processed using flotation, CIP and heap leach technology. The former processing plant at Aksu, which previously used flotation technology, has been reconstructed to rely primarily on CIP technology. The Aksu Processing Plant comprises both the Aksu CIP Facilities, with throughput capacity of approximately 1.0 million tonnes per annum and the Aksu Flotation Facilities, with throughput capacity of approximately 0.2 million tonnes per annum. Operations commenced at the Aksu CIP Facilities on 28 August 2005 whilst operations recommenced at the Aksu Flotation Facilities earlier that month, with gold being produced both in the form of gold doré and flotation concentrates. The newly constructed Aksu Heap Leach Plant started producing gold in the form of cathode sludge on 13 July 2005. The Aksu Heap Leach Plant has a throughput capacity of approximately 0.5 million tonnes per annum.

Bestobe processing plants

The processing plant at Bestobe was originally built in 1932. Unlike the Aksu and Zholymbet deposits, a significant proportion of the gold at Bestobe is able to be recovered using gravity concentration and the plant currently treats both underground ore and some oxidised material using gravity and flotation technologies. Gold recovered from the gravity circuit is amalgamated to produce gravity concentrate whilst gold bearing flotation concentrate is also produced. The Group plans to close the Bestobe Flotation Plant in either 2006 or 2007. The newly constructed Bestobe Heap Leach Plant commenced operations on 15 August 2005 treating a combination of tailings and oxide ore with approximately 1.0 million tonnes per annum throughput capacity. The existing Bestobe Flotation Plant plant has approximately 0.25 million tonnes per annum throughput capacity. Operations are scheduled to commence at the newly constructed Bestobe CIP Plant in the first quarter of 2007, with a planned throughput capacity of 2.5 million tonnes per annum on commencement of operations.

Zholymbet processing plants

The processing plant at Zholymbet was originally designed to treat sulphide ores using gravity and flotation technologies. As part of the Group's modernisation programme, the flotation sections were removed and the plant was modified to treat tailings. The newly constructed Zholymbet CIP Plant commenced operations on 2 August 2005 with a throughput capacity of 0.5 million tonnes per annum. The new Zholymbet Heap Leach Plant is expected to commence operations in the first quarter of 2006 with a throughput capacity of approximately 1.0 million tonnes per annum on commencement of operations.

Gravity concentration and flotation enrichment

Prior to the commencement of the Group's modernisation programme, the Group employed gravity concentration and flotation enrichment techniques at all of its concentration and extraction plants. The Group continues to employ these processing technologies at both the new Aksu Processing Plant and the existing Bestobe Flotation Plant. Due to certain characteristics of the ore extracted at the Aksu mine, the Group plans to continue to use flotation enrichment technology at Aksu after completion of the modernisation programme as part of the gold recovery process in combination with cyanidation.

Cyanide and heap leaching

Cyanide leaching

The first stage of the cyanide leaching process involves passing ore from the Group's mines through several stages of crushing and two stages of ball milling. Tailings are also pre-treated to remove oversized material and, following treatment with hydrocyclones, the undersized portion of the tailings is passed to the secondary ball milling stage. A mixture of water, the crushed and milled ore and cyanide is then pumped around a CIP circuit, with carbon pumped in a counter current direction to absorb the gold. The gold is then stripped from the carbon, through treatment with sodium hydroxide and electrolysis. On completion of this process, the cathodes used in the electrolysis are washed to remove gold sludge, which is then filtered and smelted on site to produce gold doré.

Heap leaching

As with cyanide leaching, the first stage of the heap leaching process involves passing ore from the Group's mines through several stages of crushing. The crushed material is then mixed with cement and water and transferred, via a series of portable conveyors, to heap leach pads. The pads are formed by stripping the proposed leach area of top soil, levelling it and laying and compacting a layer of clay. A welded plastic liner is placed onto the clay and sand is placed on top of the liner followed by crushed rock. The mixture of ore, cement and water is stacked onto the crushed rock. To reduce downtime in winter months caused by freezing, it is planned to heat the leach solution and allow an ice cap to form under which percolation can take place. Cyanide solution is sprayed onto the heaps through a system of pipes fitted with spray heads. The solution percolates through the ore, dissolving the gold. Gold bearing solutions are collected, via drainage pipes located above the sand layer, in a pond. Solution from the pond is pumped counter currently through carbon to recover the gold. The gold laden carbon is transported to a CIP plant for gold recovery.

Products and Sales

Products

Gold doré

As a result of the Group's transition from gravity and flotation to heap leaching and cyanidation processing technologies, the Group has started to produce gold doré. Gold doré consists of ingots of semi-purified gold. After being mined, the first stage in the purification of the gold ore produces a gold bar, known as gold doré, that is approximately 90% gold. The other 10% is silver with small amounts of copper. Doré bars are typically shipped to third party refineries for further processing before being sold to precious metals dealers. The Group typically sells gold doré at approximately 97% of the gold price fixed by the London Bullion Market Association.

Flotation concentrate

The Group ships flotation concentrates, which typically contains between 60 grams and 90 grams of gold per tonne of concentrate, by rail to customers in Russia, who generally purchase the gold contained in the flotation concentrate at a discount of between 30% and 35% to the gold price fixed by the London Bullion Market Association, depending on the actual gold content.

Gravity concentrate

The Group ships gravity concentrates, which typically contains between 60 grams and 100 grams per tonne of concentrate, by rail to customers in Russia at a discount of between 26% and 33% to the gold price fixed by the London Bullion Market Association, depending on the actual gold content.

Free gold

The Group sells free gold derived from gravity concentrates at Bestobe containing between 78% and 82% gold to outside refineries for further processing before being sold on to precious metal dealers. The free gold is typically sold at approximately 97% of the gold price fixed by the London Bullion Market Association, depending on the actual gold content of the free gold.

Refined gold

The Group ceased production of refined gold in 2002 due to the high level of processing fees paid to third party smelters which affected the Group's profitability margins.

Quartzite ore

A certain portion of the quartzite ore extracted at the Bestobe mine, containing from 40 grams to more than 100 grams of gold per tonne of ore, and typically containing between 60 grams and 80 grams of gold per tonne of ore, and is sold directly to the Group's customers in Russia without being processed at a discount of between 26% and 33% to the gold price fixed by the London Bullion Market Association, depending on the actual gold content.

Sales

Kazakhaltyn sells all of its gold doré and free gold pursuant to arrangements with Metalor SA, a specialist in gold and precious metals processing based in Neuchatel in Switzerland. Under the terms of these arrangements, Metalor SA pays Kazakhaltyn per ounce of gold doré supplied at a fixed percentage discount to the price fixed by the London Bullion Market Association and bears the cost of insurance from the time the products are transferred for international transportation by air. Whilst the contract is scheduled to terminate in June 2007, the Company does not anticipate any problems in extending these arrangements or entering into similar arrangements with another party.

The table below contains information on the Group's major customers in 2004, the type of products purchased from the Group, their location and the percentage of the Group's total revenue from the sale of gold products during that year:

Customer	Type of Product	Location of Customer	Percentage of the Group's Total Revenue from the Sale of Gold Products
Santa Product	Flotation concentrate and gravity concentrate	Sverdlovsk region Russia	35.9%
Metalor	Free gold	Switzerland	34.0%
Sredneuralsky copper smelter	Flotation concentrate and gravity concentrate	Sverdlovsk region Russia	27.7%
Kyshtym copper refinery	Flotation concentrate and gravity concentrate	Chelyabinsk region Russia	2.4%

In June 2005, the Group entered into a contract for the sale of flotation concentrate and quartzite ore with the Russian company RMK-Gold which terminates at the end of 2006.

The table below shows a breakdown of the Group's revenue by product category for the three years ended 31 December 2002, 2003 and 2004 and for the six months periods ended 30 June 2004 and 2005.

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
			(KZT million)		
Product					
Flotation concentrate	442	958	742	394	167
Gravity concentrate	—	21	26	—	—
Free gold	93	467	373	209	115
Refined gold	832	—	—	—	—
Quartzite ore	—	80	—	—	8
Exploration services	179	—	—	—	—
Total	1,546	1,526	1,141	603	290

As a result of the transition from flotation and gravity technologies to heap leaching and cyanidation technologies, in the future the Group intends to produce predominantly gold doré, with some flotation concentrates.

Hedging

The Group sells its gold production at market prices and currently does not enter into forward sales, derivative or other hedging arrangements to establish a price in advance for the sale of its future gold production. In general, hedging in this manner reduces the risk of exposure to volatility in the gold price. As the Group does not currently enter into transactions to hedge against the future price at which its gold production is sold, the Group can realise the positive impact of any increase in the gold price. However, this also means that the Group is not protected against decreases in the gold price. The Company will continue to review its hedging strategy at regular intervals.

Transportation

The Group exports all of its products. The Group is responsible for transportation costs from its mines to Almaty or Astana airport, in case of gold doré and free gold sent by air to Metalor in Switzerland, and from its mines to the border with the Russian Federation, in case of flotation and gravity concentrates and quartzite ore despatched by rail to customers in Russia.

Flotation concentrate, gravity concentrate and quartzite ore are transported to customers in Russia by rail from the Aksu railway station, which is connected to the Group's Aksu mine by a five kilometre branch line owned and maintained by Kazakhaltyn. All of the locomotives and freight wagons used by Kazakhaltyn are chartered from Kazakhstan Temir Zholy, the state-owned national railway.

Flotation concentrate, gravity concentrate and quartzite ore are transported from Bestobe and Zholymbet by road to the nearest national railway stations in a fleet of trucks, owned and maintained by Kazakhaltyn. The nearest railway station to the Bestobe mine is located in Aksu, which is connected with the Bestobe mine by an 86 kilometre road, of which 42 kilometres are asphalt and 44 kilometres are gravel. The nearest railway station to the Zholymbet mine is the Shortandy station in the Shortandy district of the Akmola region, which is connected with the Zholymbet mine by a 55 kilometre asphalt road. The Zholymbet mine is connected with the Aksu mine by a 204 kilometre asphalt road and with the Bestobe mine by a 286 kilometre road, of which 242 kilometres are asphalt and 44 kilometres are gravel.

The national railway system is operated by a management company on behalf of Kazakhstan Temir Zholy. Transportation costs influence the Group's operations indirectly as a component of its production costs. Tariffs for rail shipments are set twice per year by Kazakhstan Temir Zholy, in coordination with the Agency on Regulation of Natural Monopolies.

Supplies

The principal supplies purchased by the Group in its operations are electricity and consumables such as explosives, drilling bits, fuels and lubricants.

Energy

The extraction and processing of gold requires significant amounts of electricity. The majority of the Group's energy costs comprise electricity expenses. Most of Kazakhstan's energy generation comes from the Ekibastuz, Almaty, and Karaganda regions, and is based largely on coal-fired power stations. The Group obtains electricity primarily from AES Ekibastuz LLP, a subsidiary of the U.S. corporation AES, which owns the coal-fired Ekibastuz GRES-1 in Pavlodar, Kazakhstan's largest power plant. AES Kazakhstan is one of two electricity producers in the region where the Group's Aksu, Besyube and Zholymbet deposits are located. The Group purchases electricity pursuant to annual arrangements with AES Kazakhstan. The Group purchased electricity at between KZT 2.0 and KZT 2.1 per kW/h in 2004 and 2005.

Whilst the majority of Kazakhstan's power generation sector has been privatised, the transmission network is owned by the state-owned Kazakhstan Electricity Grid Operating Company ("**KEGOC**"). KEGOC allows customers to have free access to the grid and charges a transmission tariff that varies depending on the distance the electricity is transmitted. KEGOC charges customers an incremental tariff for transmission over 500 kilometres. As the Group's operations are located under 500 kilometres from the Ekibastuz power station, it pays a flat transmission tariff to KEGOC. This transmission tariff amounted to between KZT 1.0 and KZT 1.1 per kilowatt hour in 2004 and 2005.

Other supplies

The table below sets out the Group's ten largest suppliers in 2004, the type of products supplied, their location and the percentage of the Group's total purchases:

Supplier	Type of Product	Location of Supplier	Percentage of the Group's total purchases
Erasyl-Gold LLP	Drilling bits, steel, timber, lubricants, mining spares	Astana, Kazakhstan	32.88%
Baishuak LLP	Gasoline and diesel	Stepnogorsk, Kazakhstan	9.61%
Tan Ken LLP	Drilling bits, steel, chemical reagents, timber, lubricants and mining spares	Astana, Kazakhstan	9.45%
Aylak-Astana LLP	Drilling bits, steel, timber	Astana, Kazakhstan	9.08%
AES Ekibastuz LLP	Electricity	Pavlodar, Kazakhstan	7.65%
Vertex LLP	Explosives	Almaty, Kazakhstan	3.00%
Casting LLP	Milling balls	Almaty, Kazakhstan	2.34%
Beijing Perfect Import and Export Company Ltd	Activated carbon	China	2.07%
KEGOC	Electricity transmission	Astana, Kazakhstan	2.02%
Tianjin Nanke Fine Chemical Company Ltd	Chemicals	China	1.98%
Kazzinctek LLP	Castings	Riddev, Kazakhstan	1.91%
JSC AREK	Electricity	Astana, Kazakhstan	1.32%

The change from flotation and gravity technologies to heap leaching and cyanidation has resulted in a considerable reduction in purchases of chemicals that are used in flotation enrichment and gravity concentration and in an increase of expenses for chemicals for heap leaching and cyanidation. In addition, purchases of fuel and lubricants have increased as a result of a shift to open pit mining requiring the use of a large number of heavy trucks. The Group purchases cyanide for use in heap leaching and cyanidation from Beijing Perfect Import and Export Company Ltd., a Chinese company.

Capital expenditure

For information on the Group's capital expenditure in 2004 and the first six months of 2005, see "*Operating and Financial Review and Results of Operations—Cash flows*".

Research and Development

The Group conducts its geological exploration through an internal geological exploration unit located at the Aksu mine, and analyses gold and drilling samples at an in-house laboratory. The remuneration attributed to geological exploration unit was allocated KZT 9.87 million, KZT 11.01 million and KZT 16.61 million for its operations in 2002, 2003 and 2004, respectively. As at 31 December 2004, 82 permanent employees were engaged full-time in conducting research and development activities through the geological exploration unit.

Intellectual Property

The Group does not currently own any registered intellectual property rights material to its business.

Properties

For information on the Group's most significant properties, see "*General Information—Property*".

Environment

For information on the environmental regime applicable to the Group under Kazakh law and the Group's compliance with environmental requirements, see "*Regulation—Environmental Regulation*".

Insurance

Under the "Law on Obligatory Insurance of Civil Liabilities of Owners of Facilities, the Activities of which are Associated with a Risk of Causing Damage to Third Parties" dated 7 July 2004, the Group is required to maintain insurance for its facilities and activities which are associated with the risk of causing damage to third parties. The Group maintains a separate insurance policy for third party liabilities in relation to each of its subsurface use contracts. The aggregate limit on these insurance policies is KZT 27,188,000 for all events of loss covered under these policies. The Group does not yet have third party liability insurances for its recent acquisitions of assets and mineral rights of JSC Altyn Tobe, Visart LLP or Rudnik Vasilevskyi LLP. As this is a requirement under Kazakh law, the Group intends to obtain such insurances in the near future. Failure to obtain such insurance may result in a fine of up to approximately KZT 1 million.

Since 1 July 2005, pursuant to the Republic of Kazakhstan "Law on Labour Safety" dated 28 February 2004 and the "Law on Obligatory Insurance of Civil Liability of Employer for Injury to Employee at Workplace" dated 7 February 2005, every employer is obliged to maintain employer's liability insurances for accidents and employment-related injuries and illnesses. As such, the Group has obtained an insurance policy dated 10 August 2005 covering employment-related damages to life and health of all of the Group's employees up to the total limit of KZT 56,144,136. The "Law on the Protection of Environment" dated 15 July 1997 also requires the Group to maintain insurance as it engages in environmentally hazardous activities. However, this legislation was amended in June 2001 to provide that the procedure for obtaining mandatory environmental insurance is to be determined pursuant to a separate legislative act. The implementing draft "Law on Mandatory Environmental Insurance" is still being considered by Parliament. Notwithstanding this legislative uncertainty, the Group has obtained voluntary environmental insurance in respect of the warehouse at the Aksu mine. This insurance contract is valid until June 2006 and has a limit of KZT 8,910,000 for all events of loss. The Group does not currently maintain insurance in respect of its other mines and, as a result, there is a risk that it may be held to be in breach of its obligations under some of its subsurface use contracts. However, the Company does not believe that it is likely that the Kazakhstan authorities will take any action as the draft "Law on Mandatory Environmental Insurance" has not yet been finalised. The Group intends to take up additional environmental insurance protection if and when required by the pending legislation. In addition, the terms of the Group's subsurface use contracts provide that the Group obtain and maintain insurance coverage for:

- damage to property in connection with the transportation and storage of cargo at its operations;
- damage to property, including leased property, used in the operation of its business;
- risks associated with environmental contamination, including environmental clean-up costs;
- third party damage; and
- accidents and sickness, including the cost of medical treatment for its employees.

In 2005 the Group has entered into four voluntary insurance contracts in respect of its key assets with the aggregate limit of KZT 738,080,480 for all events of loss covered thereunder. Each of these insurance policies relate to a particular subsurface use contract and covers all of the Group's assets and properties involved in operations under such contract.

Employees

As at 30 June 2005, the Group had 2,785 permanent employees, of which 451 work at the Aksu mine, 845 at the Bestobe mine and 637 at the Zholymbet mine. As of 31 December 2004, Kazakhaltyn had 2,469 permanent employees, compared with 2,748 as at 31 December 2003 and 2,865 as at 31 December 2002. The reduction in the number of permanent employees during the two-year period prior to 31 December 2004 was, in part, attributable to the Company's ongoing review of its workforce to increase productivity and reduce inefficiencies, and the transition from gravitation and flotation to heap leaching and cyanidation processing techniques. Following the Group's three acquisitions in July 2005 in which it acquired rights to the Akzhal, Boldykol, Vasilevskyi and Zhanan mines in eastern Kazakhstan, the Group increased the number of its employees by 268.

The following table sets out information on the numbers of persons employed in the Group as at 31 December 2002, 2003 and 2004 by main category of activity:

	31 December		
	2002	2003	2004
Aksu mine	658	651	516
Bestobe mine	915	906	840
Zholymbet mine	802	790	652
Geological exploration unit	91	73	82
Central supply base	76	87	120
Construction and maintenance unit	24	16	18
Security services unit	170	129	122
Management	99	96	119
Total	2,865	2,748	2,469

In the year ended 31 December 2004, the total compensation paid to (or accrued with respect to) the Group's employees was KZT 346 million (comprising KZT 294 million in salaries and KZT 52 million in social tax).

The employees who work at the Aksu, Bestobe and Zholymbet mines are predominantly residents of the towns of Aksu (which has a population of approximately 4,500), Bestobe (which has a population of approximately 6,500) and Zholymbet (which has a population of approximately 5,000), each of which is located near the respective mine complex. Kazakhaltyn employs more than half of the working populations of Aksu, Bestobe and Zholymbet. As the Group employs local residents at the Aksu, Bestobe and Zholymbet mines, it benefits from relatively low labour costs compared with certain of its competitors with remote mining operations as the Group does not incur the cost of rotating its staff between mine sites and population centres.

In the past Kazakhaltyn has experienced difficulties in recruiting sufficient qualified engineers and technicians for some of its facilities and, in particular, at the Bestobe mine. In anticipation of future growth, Kazakhaltyn is actively recruiting engineers and technicians, including through recruitment initiatives at Kazakhstan's educational and research institutions, and has recently hired more than 50 of qualified specialists from the Murantau mine in the neighbouring Republic of Uzbekistan.

As at 31 December 2004, approximately 1,420 or 57.5% of the Group's employees were members of the Trade Union of Mining and Metallurgical Industry of Kazakhstan, a dedicated union for Kazakhaltyn's employees. The trade union typically negotiates a collective agreement with Kazakhaltyn every year on behalf of Kazakhaltyn's current and former employees. The current collective agreement was entered into in August 2004 and the Group is currently finalising a new 12 month agreement. The Group does not anticipate that it will encounter any material difficulties in negotiating a new agreement.

Individual employees typically enter into employment contracts with Kazakhaltyn for terms of not less than one year. Where the employment relationship continues following the expiry of a fixed term contract, the employment relationship is deemed to be for an indefinite term. The Group believes that its relations with its employees are good and there have been no work stoppages due to labour disputes since the operations at all mines resumed in late 1999.

Kazakhaltyn's current remuneration system has been approved by the trade union committee of the Trade Union of Mining and Metallurgical Industry of Kazakhstan as part of the collective agreement. Under this system, all employees are paid according to their individual performance and qualifications. Employees are graded on a scale from one to 22 in accordance with their experience and skills and salary rates are set for each grade. The tariff for the lowest grade is the minimum wage under Kazakh law at the date of the collective agreement. Employees actual salaries are determined by multiplying the relevant tariff for the relevant grade by an industry specific factor and factors related to harmful/dangerous conditions of work. The multiplier for the mining industry is 1.5. Kazakhaltyn has also implemented a bonus system to reward its employees, with the salaries of employees involved in mining operations being determined by productivity by reference to the amount of ore mined.

Competition

Whilst the Group does not experience competition for its sales, as gold is a worldwide commodity, it does encounter competition in identifying and acquiring exploration and development rights for attractive gold properties both in Kazakhstan and elsewhere in Central Asia. As reserves are depleted over time in established gold producing countries, such as South Africa, Australia, Canada and the United States, demand for such properties in developing countries, including Kazakhstan, is increasing as major international gold mining companies seek to expand their operations.

For the Company to expand its operations either in Kazakhstan or elsewhere in Central Asia, it is likely to face competition from both domestic gold mining companies in such countries and any international gold mining companies which already have significant operations in these countries, together with potential new entrants into such markets, any of which might have greater financial, technological and other resources than the Group.

Whilst a number of international gold mining companies have mineral rights in Kazakhstan, the gold mining industry in Kazakhstan is dominated by Kazakh companies. At present, the two largest gold producers in Kazakhstan are domestic companies that derive most of their revenues from the production of zinc and copper, respectively. As none of the major international gold mining companies has yet to establish a significant presence in the Kazakh market, the Company believes it is in a strong position to exploit its knowledge of Kazakh gold industry when competing to acquire exploration and development rights for attractive gold properties.

Whilst the Company would consider seeking possible acquisitions of exploration or production rights outside of Kazakhstan, it is not actively seeking any such opportunities at present.

Kazakhaltyn's Subsurface Use Licences and Contracts

Subsurface use licences

The Group conducts its underground mining operations at Aksu, Bestobe and Zholymbet pursuant to the following licences, all of which were granted under the pre-1999 "*licence-and-contract*" regime:

- Subsurface Use Licence MG No. 723 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Bestobe Deposit in the Seletinsky District of the Akmola Region;
- Subsurface Use Licence MG No. 724 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Aksu Deposit in the Seletinsky District of the Akmola Region;
- Subsurface Use Licence MG No. 725 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Zholymbet Deposit in the Shortandy District of the Akmola Region; and
- Subsurface Use Licence MG No. 796 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Quartzite Hills Deposit in the Seletinsky District of the Akmola Region.

Each of these licences is for a term of 20 years, commencing on the date the relevant licence was registered with the Kazakh State Committee on Investments, the competent authority at that time.

For more information on subsurface use licences, see "*Regulation—Regulation of Mineral Rights—Subsurface Use Licences and Contracts.*"

Subsurface use contracts

Subsurface Use Contract No. 145

Following the grant of the licences listed above, Kazakhaltyn entered into Subsurface Use Contract No. 145 ("**Contract No. 145**") dated 8 December 1997 with the State Committee on Investments. Contract No. 145 was first amended in June 2000 to acknowledge the results of Kazakhaltyn's bankruptcy proceedings, the sale of its assets through a court supervised tender process and the subsequent creation of a new legal entity, which assumed all of Kazakhaltyn's rights and obligations under Contract No. 145. Contract No. 145 was next amended in March 2002 in response to changes in the Kazakh Tax Code. This second amendment reduced Kazakhaltyn's value added tax from 20% to 16%, but added a new 21% social tax, commercial discovery bonus payments and certain other payments to the contract and changed royalty rates. A third amendment agreement was entered into in June 2002 to reflect the reorganisation of Kazakhaltyn from a limited liability partnership into an open joint stock company, which was required to permit Kazakhaltyn to list bonds on the Kazakhstan Stock Exchange. This third amendment agreement

transferred all of the rights and obligations of Kazakhaltyn LLP under Contract No. 145 to OJSC Kazakhaltyn. A fourth amendment agreement was entered into on 16 March 2005 to reflect the change in corporate status of Kazakhaltyn from an open joint stock company to a joint stock company in response to changes in Kazakh law and in addition, this amendment agreement provided for the relinquishment of Kazakhaltyn's right to the Bailyusty deposit under Contract No. 145, which was sold to SRV Consulting LLP in 2000. For more information about this disposal, see "*Business—History—Recent acquisitions and disposals—Disposal of the Bailyusty deposit*."

Contract No. 145, as subsequently amended, sets out Kazakhaltyn's rights and obligations with respect to the Aksu, Bestobe, Quartzite Hills and Zholymbet deposits. The contract terminates on 20 March 2016, but may be extended and, upon renewal, its conditions may be changed by written agreement between the parties, so long as these changes do not contradict the terms of the applicable licences.

- Payments to the Government

  Contract No. 145 provides that Kazakhaltyn is required to make certain payments to the Kazakh government, including the payment of a subscription bonus, commercial discovery bonus, production bonus, royalties, excess profit tax and other taxes.

  Under the terms of Contract No. 145, Kazakhaltyn was required to make a single fixed payment of $75,000 to the State Committee on Investments as a subscription bonus for the right to carry out subsurface operations permitted under the contract within 30 days from its effective date.

  Kazakhaltyn is required to make a fixed payment to the Kazakh state of 0.05% of the value of newly approved extractable reserves as a commercial discovery bonus upon each commercial discovery within the area covered by the terms of the contract. The value of the reserves is determined using the market price of gold at the London Metal Exchange on the day the bonus payment is made. As Kazakhaltyn is not obliged under Kazakh law to obtain the approval of the State Reserves Committee for its reserves, to date it has not sought such approval and, as a result, it has not paid any commercial discovery bonuses to the Kazakh state.

  Contract No. 145 also provides that Kazakhaltyn is required to make a payment to the Kazakh state equal to 0.1% of the value of extracted gold and silver at the actual sale price of such gold and silver for each 3,000,000 tonnes of gold ore extracted per annum. This production bonus is payable no later than the 20th of the month following the month when the relevant production target is met.

- Royalty payments

  Contract No. 145 requires Kazakhaltyn to make royalty payments on its gold production by reference to certain specified thresholds in the gold price. Under the original terms of the contract, Kazakhaltyn was required to make a royalty payment equal to 2.1% of the value of gold extracted every month, calculated by reference to the average gold price as reported by the London Metal Exchange for such month. The maximum royalty rate on gold production, which applies whenever the price of gold exceeds $305.00 per ounce, was raised to 2.3% in 2002 under the terms of the second amendment to Contract No. 145. The contract also requires Kazakhaltyn to make royalty payments on its silver production.

  A table setting out the royalty rates payable at various gold and silver prices is set out below:

Gold/Silver	Price per ounce	Royalty rate
Gold	Less than $275.00	0.85%
	$275.00 to $294.99	1.35%
	$295.00 to $304.99	1.6%
	$305.00 or more	2.3%
Silver	Less than $4.70	0.7%
	$4.70 to $4.89	1.1%
	$4.90 to $5.09	1.3%
	$5.10 or more	1.8%

- Taxation payments

  Kazakhaltyn may in the future be liable to pay an "excess profit tax" on its profit calculated pursuant to the Tax Code to the extent that its Internal Profit Rate on net income received under Contract No. 145 exceeds certain specified thresholds as set out below:

Internal Profit Rate	Rate of Excess Profit Tax as Percentage of the Net Income in the Reporting Period
Less than or equal to 20%	0%
Greater than 20%, but less than or equal to 22%	4%
Greater than 22%, but less than or equal to 24%	8%
Greater than 24%, but less than or equal to 26%	12%
Greater than 26%, but less than or equal to 28%	18%
Greater than 28%, but less than or equal to 30%	24%
Greater than 30%	30%

  The contract also specifies the levels of corporate income tax, value added tax, excise duties, social tax, land tax, vehicle tax, property tax, fees on auction sales, fees for state registration of legal entities, fees for the right to conduct certain types of activities, customs payments and certain other mandatory payments payable by Kazakhaltyn.

  For information on certain risks relating to excess profits tax, see "*Risk Factors—Risks relating to the Group's Business—The Group could be subject to excess profits tax if its internal after tax profit rate (as defined in the Tax Code) exceeds certain thresholds specified in certain of its subsurface use contracts*".

- Taxation and general stability

  Under Contract No. 145, the Kazakh government has undertaken that the taxation rates payable by Kazakhaltyn as specified in the contract will remain fixed for the duration of the contract, save in certain specified circumstances. To the extent that the present or future Kazakh governments pass legislation that makes it impossible to maintain the rates of taxation payable by Kazakhaltyn under Contract No. 145, the regulator responsible for the execution and monitoring of compliance with subsurface use contracts and Kazakhaltyn are obliged to negotiate amendments to the contract to restore the economic interests of each party to what they used to be as of the date when the contract became effective. These taxation stability provisions are supported by a general stability undertaking, which provides that all other provisions of the contract will remain unchanged for the duration of the contract, except for such changes as may be agreed by both parties and which do not change the initially established balance of economic interests of Kazakhaltyn and the Republic of Kazakhstan.

- Social obligations

  As is common with mining agreements between mining companies and national governments, Kazakhaltyn has undertaken certain social obligations for the benefit of its employees and their dependants. These social obligations include investing at least 1% of Kazakhaltyn's net income per annum in training programmes for its Kazakh employees, providing financing in the amount of at least 1% of its total amount of investments for the development of the social infrastructure of the territory covered by the contract and transferring an amount equal to 1% of its net income per annum into a liquidation fund for environmental clean-up costs following cessation of mining operations, including the costs of removing buildings and equipment. However, in the event that this fund is not sufficient to meet the cost of the Kazakhaltyn's clean-up obligation, Kazakhaltyn is obliged to fund any such shortfall.

  In addition, Kazakhaltyn has undertaken to purchase goods and services from Kazakh businesses whenever possible provided that such goods and services are competitive with those that are available outside Kazakhstan and are of at least comparable quality.

- Environmental obligations

  Kazakhaltyn is obliged to comply with Kazakhstan's environmental and health and safety standards and requirements. Under Contract No. 145, in conducting its business, Kazakhaltyn is required to give priority to environmental considerations, including monitoring the impact of its operations on the environment, limiting desertification and soil erosion and preventing the pollution or exhaustion of subsurface water. Prior to commencing operations under the contract, Kazakhaltyn was required to

obtain the approval of the state environmental authorities. Upon the conclusion of mining operations, Kazakhaltyn is required to conduct an environmental clean-up of the contract area to ensure that damage to the environment is repaired and that the contract area is suitable for future use.

- Dispute resolution

  To the extent that there are any disputes that cannot be resolved through negotiations between Kazakhaltyn and the Kazakh government, Contract No. 145 provides that these are to be submitted to the Kazakh courts rather than to an independent international arbitration body.

- Approved mining programme

  Kazakhaltyn has undertaken to comply with a detailed mining programme, which was submitted for review and approved by a territorial department of "Centrekaznedra," a Kazakh state agency which is part of the Ministry of Energy and Mineral Resources, responsible for approving such programmes, on 8 June 2001. The programme sets out Kazakhaltyn's proposed mining operations for the period from 2000 to 2025, projections of its revenue and expenditures and estimates of taxes to be paid to the government over this period, together with information on the deposits and the technologies used in the production process. Kazakhaltyn is obliged to submit annual updates of the programme to Centrekaznedra for approval. Centrekaznedra also evaluates Kazakhaltyn's compliance with the terms of its obligations.

- Differences with the Model Contract

  Contract No. 145 is based on the Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan (the "**1997 Model Contract**") that was approved by the Kazakh government in January 1997. A new Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan (the "**2001 Model Contract**"), which replaced the 1997 Model Contract, was approved by the Kazakh government in July 2001. Some of the amendments to Contract No. 145 were made to reflect provisions in the 2001 Model Contract, including the addition of certain taxes and payments, including social tax and commercial discovery bonus. However, certain significant differences between Contract No. 145 and the Model Contract continue to exist. For instance, the general stability provisions in the 2001 Model Contract are more limited than the corresponding provisions in Contract No. 145. Contract No. 145 also obliges Kazakhaltyn to pay a production bonus, as set out in the 1997 Model Contract, but this is no longer required under the 2001 Model Contract. Kazakhaltyn is also obliged to invest at least 1% of its total investments for the development of social infrastructure of the contract area, a type of obligation that is not required in the 2001 Model Contract.

Contracts for the processing of tailings at the Aksu, Bestobe and Zholymbet mines

Whilst Contract No. 145 sets forth Kazakhaltyn's subsurface rights in respect of the Aksu, Bestobe and Zholymbet deposits, Kazakhaltyn's right to extract gold from tailings located at the Aksu, Bestobe and Zholymbet tailings dams derives from (i) the Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Bestobe Mine in the Akmola Region ("**Contract No. 761**"), (ii) the Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Aksu Mine in the Akmola Region ("**Contract No. 762**") and (iii) the Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Zholymbet Mine in the Akmola Region ("**Contract No. 917**"). Kazakhaltyn entered into these contracts with the Ministry of Energy and Mineral Resources, as the competent authority, after winning the tender in 2000 to allocate rights to extract gold from these tailings. Contract No. 761 expires on 31 December 2016, while Contract No. 762 and Contract No. 917 each expires on 31 December 2025. The term of each contract may be extended with the agreement of the competent authority.

Each of these three contracts for the processing of tailings was based on the 2001 Model Contract. The differences between these contracts and Contract No. 145 include, among other things, the amount of investments in training of Kazakhstan employees (the total amount of expenditures on training of Kazakhstan personnel was set at 0.1% of investments during the exploration stage of the contract and 0.1% of operational costs during the production stage in all three contracts for the processing of tailings, as opposed to 1% of Kazakhaltyn's net income in Contract No. 145), significantly smaller subscription bonus in the contracts for the processing of tailings ($1,500 in each of the three contracts, as opposed to $75,000 in Contract No. 145), no production bonus in any of the contracts for the processing of tailings (production bonuses are no longer included in contracts negotiated after 1 July 1998, as they are essentially no different

than royalties) and the requirement to reimburse the state for historic geological exploration costs that appears in all three contracts for the processing of tailings, but was not included in Contract No. 145.

Each of the three tailings contracts has a work programme attached to it, which sets forth the scope of the exploration work to be conducted during the exploration stage of the contract and the amount of funding allocated for such work, the description of the technological process to be used for the processing of tailings, expected amounts of tailings to be processed in each year of the programme, expected capital expenditures and direct operational costs for the term of the contract and expected net income of the contractor for the same period, as well as general information on the technogenic mineral formations located at the relevant tailings disposal area, the description of the geographical location of the mining allotment and the geological characteristics of the tailings.

The regulation of the Group can be divided into six broad areas:

- regulation of the Company;
- regulation in relation to mineral rights;
- environmental regulation;
- regulation in relation to health and safety matters;
- anti-monopoly regulation; and
- transfer pricing restrictions.

Regulation of the Company

The City Code on Takeovers and Mergers

The Panel on Takeovers and Mergers ("**Takeover Panel**") is the regulatory body which publishes and administers The City Code on Takeovers and Mergers (the "**City Code**"), which applies to all public companies resident in the UK, the Channel Islands or the Isle of Man. As a public company incorporated in Jersey, the Company is subject to the City Code.

Under Rule 9 of the City Code:

- any person who acquires shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company; and
- any person who holds (together with persons acting in concert with him) not less than 30% but not more than 50% of the voting rights of a company and such person (or any person acting in concert with him) acquires additional shares which increases his percentage of voting rights,

is, except with the consent of the Takeover Panel, required to make a general offer in cash to all shareholders of that company for the remaining issued shares not then owned by him (or persons deemed under the City Code to be acting in concert with him) at not less than the highest price paid by him for ordinary shares within the previous 12 months (the "**mandatory bid obligation**").

Where any person (taken together with shares held or acquired by persons acting on concert with him) holds more than 50% of the voting rights in a company, no obligation would normally arise to make a general offer under Rule 9 if that person or concert group increases its aggregate shareholding. However, even if the concert group together holds over 50% of the voting rights, the Takeover Panel may, *inter alia*, regard (i) any acquisition by a member of the concert group that increases his personal holding to 30% or more or (ii) any increase by a member of the concert group of his personal holding within the 30% to 50% band, as giving rise to an obligation on that individual to make an offer.

Immediately following the Global Offer, Gold Lion Limited and the Depositary will be the holder of 74.3% and 24.8%, respectively, of the existing ordinary share capital of the Company (assuming no Shares are sold pursuant to the Over-allotment Arrangements). Under the City Code if at any time Gold Lion Limited or the Depositary reduces its holding to not less than 30% but not more than 50% of the voting rights of the Company, in the case of Gold Lion Limited, or increases its holding to 30% or more of the voting rights of the Company, in the case of the Depositary, unless the Takeover Panel consents otherwise, it may be required to make a mandatory offer for the outstanding Shares in the Company not already owned by that party under Rule 9 of the City Code. The Takeover Panel has confirmed that the acquisition by the Depositary of Shares carrying 30% or more of the voting rights of the Company in its capacity as a depositary will not trigger a mandatory bid obligation under Rule 9 of the City Code.

Regulation of Mineral Rights

Subsurface use licences and contracts

"Licence-and-contract" system

Prior to August 1999, subsurface use rights in Kazakhstan were granted on a "licence-and-contract" basis. Under this system, the Kazakh government granted subsurface use licences to licensees who were then required to enter into a contract for subsurface use with a designated ministry or other government agency (and which is currently the Ministry of Energy and Mineral Resources). The contract would typically set out in detail the licensee's rights and obligations and was based on a template 1997 Model Contract. This system has subsequently been superseded.

The Subsurface Law and the 1999 Amendments

The current legal framework for the regulation of subsurface use rights in Kazakhstan was established with the adoption, on 27 January 1996, of Edict No. 2828 of the President of the Republic of Kazakhstan "Concerning Subsurface and Subsurface Use" (the "**Subsurface Law**"). Under the Subsurface Law, the subsurface and any useful minerals contained therein are owned by the Kazakh state. In August 1999, the Subsurface Law was amended by the Law No. 467-1 "Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsurface and Petroleum Operations in the Republic of Kazakhstan" (the "**1999 Amendments**"). The 1999 Amendments simplified the process of granting subsurface use rights allowing the competent authority (currently, the Ministry of Energy and Mineral Resources) to grant subsurface use rights by entering into contracts without first having issued a licence. In practice, subsurface use rights are typically granted following a tender process.

In addition to simplifying the process for granting the system subsurface use rights, the 1999 Amendments expressly provided that all valid subsurface use licences issued under the former system remained valid and the suspension, revocation, termination or invalidation of licences issued prior to August 1999 remain governed by the laws and regulations in effect prior to these 1999 Amendments.

The 2004 Amendments to the Subsurface Law

The Subsurface Law was further amended by the Law No. 2-III on "Introduction of Amendments and Additions to Certain Legal Acts on Subsurface Use and Subsurface Operations" dated 1 December 2004 (the "**2004 Amendments**"). The 2004 Amendments provide a pre-emptive right to the state in connection with any transfer of subsurface use rights and/or any transfer of the equity of any subsurface user and gives the state a right of first refusal in respect of any such transfers on terms "no worse than those offered by other prospective purchasers." This pre-emptive right applies retroactively to all existing contracts, as well as prospectively to future contracts. The 2004 Amendments do not contain detailed procedures which the state must follow in order to exercise its pre-emptive right. As a result, the process remains unclear and the state has yet to exercise its pre-emptive right pursuant to this provision to date. Recently, however, an inter-departmental commission was established by Government decree to consider the pre-emptive right of the state in situations when subsurface use rights and/or the equity of any subsurface user are offered for sale and to make recommendations to the Government. It is the Government that will then make a decision whether or not to exercise the state's pre-emptive right. Unfortunately, the decree did not establish detailed guidelines to sellers on the procedures for notifying the commission about transactions that might trigger the state's pre-emptive right or the timing for the state to exercise such right.

Other provisions in the 2004 Amendments include a requirement that subsurface users purchase goods and services from Kazakh producers, provided such goods and services comply with the applicable national and/or international standards, and prohibit subsurface users from purchasing goods and services from foreign organisations in circumstances where there are comparable Kazakh goods and services available. The 2004 Amendments also create a regulatory regime to enable subsurface users to pledge their subsurface use rights and clarifies the legal position of a transfer of pledged rights.

The 2004 Amendments specifically provided that the functions of the licensing body with respect to the licences for subsurface use that were issued prior to August 1999 and remain in force shall be performed by the competent authority (currently, the Ministry of Energy and Mineral Resources).

Legal framework for the grant of subsurface use rights by the Kazakh state

The procedure for the granting of subsurface use rights in Kazakhstan is set out in the Resolution of the Government No. 108 dated 21 January 2000 approving Regulations for Granting the Rights for Subsurface Use. Under these regulations, there are two ways in which subsurface rights may be granted by the Kazakh state (i) through a tender process or (ii) through direct negotiations.

Grant of subsurface use rights through direct negotiations

The competent authority acting on behalf of the Kazakh state has a limited ability to grant subsurface use rights directly without the need to put the rights out for tender. Direct negotiations may be used (i) if the applicant already has an exclusive right for obtaining production rights on the basis of a previously granted exploration contract, (ii) in cases where a contract is concluded for the construction and/or operation of underground facilities not connected with exploration and/or production and (iii) if the applicant is a national company (i.e. owned by the state).

Tender of subsurface use rights

In cases where a tender is required, interested parties are given the opportunity to submit their proposals for developing the relevant resources. These proposals should contain basic information about the prospective subsurface user, including information about any previous activities in Kazakhstan, its proposed sources of finances, any plans for development of the deposit in question and a forecast of expenses in connection with developing the deposit. Following the submission of proposals, the winner of the tender is determined by a tender commission on the basis of a combination of factors, including:

- the proposed date for the commencement of exploration activities and the proposed intensity of exploration;
- the proposed dates for the commencement of production and achieving maximum production levels, as well as the ability to extract the maximum amount of gold from the relevant deposit;
- the initial and subsequent amounts proposed to be paid to the Kazakh government, through subscription, production and commercial discovery bonuses, taxation, royalty payments and otherwise;
- the proposed level of investment in the deposit, the timeframe within which these amounts will be invested, and the terms of any financing required to develop the assets and capital investments into the development of the production facilities and social infrastructure of the adjacent territories;
- compliance with the requirements for the protection of the subsurface and the environment and safe performance of production operations in accordance with the Kazakh legislation;
- the proposed percentage of Kazakh employees as a percentage of the total number of employees and proposals for training and retraining programmes for Kazakh employees;
- the proposed percentage of goods and services of Kazakh origin to be purchased by the applicant as the percentage of the total value of goods and services required; and
- the proposed use and development of advanced technologies, new production equipment and the proposed construction and use of new infrastructure and other facilities.

Subsurface use contracts

The winner of a tender is required to conclude a subsurface use contract with the competent authority in order to be able to carry out the proposed operations on the deposit in question. Subsurface use rights are deemed to be granted and acquired only from the time when a contract is registered. In the event that the winner of a tender fails to submit a draft subsurface use contract to the competent authority within one year, the tender commission is required to annul its decision on the winner of the tender. Prior to execution, a contract is subject to legal, economic and tax evaluation and approval by various government ministries, including those responsible for the environment and health and safety. Whilst each ministry has a set period to review the contract, in practice negotiation of subsurface use contracts may take several months.

Term of subsurface use contracts

The terms of the subsurface use contract depend on the types of subsurface rights granted. Contracts for exploration may be valid for six years and may be extended for two additional two-year terms. Contracts for production may be granted for up to 25 years and for deposits with major and unique reserves for up to 45 years. Combined contracts for exploration and production are granted for a combined term of 31 years, which includes any exploration extension terms. A concluded contract may be extended for full development of the commercial deposit.

Terms and conditions of subsurface use contracts

Kazakhaltyn's subsurface use contracts are based on either the 1997 Model Contract or the 2001 Model Contract. The 2001 Model Contract, which replaced the 1997 Model Contract, grants a subsurface user the right to make use of any products resulting from its activity, including mineral resources specified in the contract, at its own discretion, construct structures for production and social purposes within the contract area, hire subcontractors and assign all or part of its rights to third parties or terminate its activities, if such assignment or termination is permitted under the terms of the contract and the Kazakh law. Subsurface users are obliged to operate using the most efficient methods and technologies based on international standards, use the contract area only for the purposes specified in the contract, comply with all Kazakh legislation and the terms of the works programme, give preferential treatment to Kazakh nationals in hiring new employees and Kazakh businesses in purchasing goods and services, invest a certain percentage

of its total investments in training programmes for its Kazakh employees and make timely payment of all applicable taxes and other mandatory payments to the budget.

The main types of payments that a subsurface user is obliged to make to the Kazakh state under the 2001 Model Contract are (i) various taxes and fees, including but not limited to, corporate income tax, value added tax, excise taxes, excess profit tax, social tax, land tax, vehicle tax, property tax, fees for state registration of legal entities, levy from auction sales, etc., (ii) bonuses, such subscription bonus and commercial discovery bonus (the 1997 Model Contract also required the payment of production bonus), and (iii) royalties. For information on certain risks relating to excess profits tax, see "*Risk Factors—Risks relating to the Group, Business—The Group could be subject to excess profits tax if its internal after tax profit rate (as defined in the Tax Code) exceeds certain thresholds specified in certain of its subscription contracts*".

The contractor is also obliged to comply with Kazakhstan's environmental and health and safety standards and requirements. The 2001 Model Contract requires a subsurface user to give priority to environmental considerations, including monitoring the impact of its operations on the environment, limiting desertification and soil erosion and preventing the pollution or exhaustion of subsurface water. Upon the conclusion of mining operations, the contractor is required to conduct an environmental clean-up of the contract area.

To the extent that there are any disputes that cannot be resolved through negotiations between the contractor and the Kazakh government, the Model Contract provides that such disputes are to be submitted either to the Kazakh courts or to arbitration bodies.

The Ministry of Energy and Mineral Resources and Other Regulatory Bodies

General

The Kazakh state plays three roles in the management of the subsurface. Firstly, the Kazakh government is responsible for organising and managing state-owned reserves, outlining subsurface allotments, defining the list of commonly occurring minerals, defining the procedures for the conclusion of contracts, approving model contracts and appointing the "competent authority". Secondly, the competent authority, which is currently the Ministry of Energy and Mineral Resources, has the power, *inter alia*, to execute and implement subsurface contracts. Finally, local executive bodies have responsibility for, amongst other things, granting land plots to subsurface users, supervising the protection of the land and participating in negotiations with subsurface users for environmental and social protection.

The Ministry of Energy and Mineral Resources

The Ministry of Energy and Mineral Resources is the ministry designated by the Kazakh government to enter into contracts for subsurface use with subsurface users. In addition, the Subsurface Law provides that the Ministry of Energy and Mineral Resources, as the competent authority with respect to subsurface use contracts for exploration, production and combined exploration and production of minerals and contracts for exploration, production and combined exploration and production of minerals from technogenic mineral formations, is responsible for:

- organising tenders of subsurface use rights for exploration, production or combined exploration and production of minerals;
- executing and registering subsurface use contracts;
- monitoring compliance with the terms of subsurface use contracts;
- issuing permits for the transfer of subsurface use rights and registration of transactions involving pledges of subsurface use rights; and
- suspending and terminating subsurface use contracts in accordance with the procedures set forth in the Subsurface Law.

Other Regulatory Bodies

Other government ministries and bodies which regulate aspects of gold mining operations in Kazakhstan include:

- the Ministry of Environmental Protection, which is responsible for environmental protection and preservation of mineral resources;

- the Ministry of Industry and Trade, which monitors compliance with the requirement that goods and services are procured through tender and from Kazakh business where possible if such goods and services meet Kazakh and international standards;
- the Ministry of Emergency Situations, which, among other things, supervises mining operations;
- various government bodies responsible for approval of construction projects and the use of water and land resources;
- the Sanitation and Epidemiological Service, an agency of the Public Health Ministry, which is responsible for monitoring compliance with health standards;
- the Ministry of Labour and Social Protection of the Population, which is responsible for investigating labour disputes and complaints from individual employees and which monitors compliance with the obligations of subsurface users to give preference in living to Kazakh citizens and compliance with the provisions of the subsurface use contracts on employing a certain minimum percentage of Kazakh citizens;
- the governmental agency for standardisation, metrology and certification, which is responsible for testing equipment used for weighing ore and measuring gold content;
- regional and municipal regulatory bodies, which are responsible for registering properties, pledges and mortgages; and
- national and regional tax authorities.

State pre-emption right

The Subsurface Law, as amended on 1 December 2004 and 14 October 2005, provides the Kazakh state with a pre-emptive right to acquire subsurface use rights and equity interests in entities holding subsurface use rights and in any entity which may directly and/or indirectly determine and/or exert influence on decisions made by a subsurface user, if the main activity of such entity is related to subsurface use in Kazakhstan, when such person wishes to transfer such rights or interests. This pre-emptive right permits the Kazakh state to purchase any such subsurface use rights and/or equity interests being offered for transfer on terms no less favourable than those offered by other purchasers. The relevant government authority has the right to terminate a subsurface user contract if a transaction takes place in breach of this law. These provisions apply both to Kazakh and overseas entities. The exact scope of the law is uncertain and there is no precedent to indicate how it may be applied. It is unclear whether the right of pre-emption could be exercised in respect of disposals which have occurred without notice to the relevant authority and whether, for instance, such prior transactions could be unwound. For information on certain risks in relation to transfers of shares in Kazakhaltyn, acquisitions made by Kazakhaltyn and transfers of Shares by the Selling Shareholder under the Global Offer, see "*Risk Factors—Risk Relating to the Group's Business—The Kazakh state may be entitled to exercise pre-emptive rights over assets acquired by the Group, transfers of shares in the Company's subsidiaries completed prior to the Global Offer and transfers of Shares by the Selling Shareholder under the Global Offer, including pursuant to the Over-allotment Arrangements*".

The Kazakh government is aware that the transfers of shares in Kazakhaltyn have been made in the past and that Kazakhaltyn has made a number of acquisitions since this law came into effect. The Kazakh government is also aware that Shares will be transferred by the Selling Shareholder under the Global Offer, including pursuant to the Over-allotment Arrangements.

The Company intends to remove Romanshorn LC AG from the current Group structure as described in "*Risk Factors—Risks Relating to the Group's Business—Holding company structure and restrictions on dividends*". This reorganisation is not expected to take place before the end of 2006 and is subject to there not being any legal or regulatory hindrance in Kazakhstan at such time, including the state not exercising its pre-emption right, if applicable.

So far as the Company is aware, the Kazakh state has never exercised its pre-emption rights under the Subsurface Law.

Environmental Regulation

The Group is subject to laws, regulations and other requirements relating to the protection of the environment in Kazakhstan, including the discharge of substances into the air and water, the management of disposal of waste and the clean-up of mine sites. Issues of environmental protection in Kazakhstan are regulated primarily by Law No. 160-I "On Environmental Protection" dated 15 July 1997. In addition, the Group has given undertakings to the Kazakh government to comply all with applicable Kazakh and

internationally accepted environmental and health and safety standards and requirements in its contract setting out its subsurface mineral rights in relation to the Aksu, Bestobe, Zholymbet and Quartzite Hills deposits. Environmental protection is regulated by the Ministry of Environmental Protection the Sanitation and Epidemiological Service and the Ministry of Emergency Situations.

The Ministry of Environmental Protection has authority to issue annual natural use permits in relation to the exploitation of natural resources in Kazakhstan. Kazakhaltyn was granted the latest annual permit on 15 April 2005 by the Ministry of Environmental Protection. Renewal is subject to submission of an annual environmental report. Under Kazakh law, the Group is also required to obtain a number of other certificates, permits and licences from various Kazakh government ministries, departments and agencies in relation to the use of potentially toxic chemicals, transportation of hazardous materials, import of sodium cyanide and explosive materials for blasting, as well as water usage.

Since mining operations recommenced at the Aksu, Bestobe and Zholymbet mines in 1999, the Group has not suffered any significant environmental incidents. To the extent that there have been minor breaches of environmental regulations since that time, such as the dumping of construction and other types of waste in production areas and the leakage of petroleum products onto the ground, these violations have been rectified.

Law No. 160-I "On Environmental Protection" establishes a "pay to pollute" regime administered by national and local authorities. The Ministry of Environmental Protection has established standards relating to the permissible impact on the environment and, in particular, emissions and disposals of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from environmental authorities depending on the type and scale of the environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. The local representative bodies (Maslikhats) annually establish rates of environmental fees. Fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits—the lowest fees are imposed for pollution within statutory limits, intermediate fees are imposed for pollution within the individually approved limits and the highest fees are imposed for pollution exceeding such limits. Payment of such fees does not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Natural use permits

The concept of a natural use permit (or "**NUP**") was developed as a means for the Kazakh state to regulate the payment of such fees. The NUP is a special permit that grants the subsurface user a temporary right to pollute the environment, including emissions to the atmosphere and discharge of waste substances to surface and underground waters. NUPs contain the conditions governing the use of the environment as well as payments associated with the use of the environment. The obligation to obtain a NUP arises under subsurface use contracts concluded with the competent authority. Companies using the environment (polluting, discharging waste, etc.) are required to obtain a NUP on an annual basis. Depending on the quantity of emissions into the atmosphere, a NUP is to be issued either by a regional department of environmental protection or by the Ministry of Ecology and Environmental Protection. Maslikhats together with regional departments of environmental protection establish the environmental fees and amounts payable for waste, emissions and discharges.

In 2002, 2003 and 2004, Kazakhaltyn paid approximately KZT 5.2 million, approximately KZT 4.7 million and approximately KZT 3.6 million, respectively, to the Environmental Protection Foundation for environmental pollution.

Water permits

The Water Code dated 9 July 2003 No. 481 is aimed at implementing governmental policy in relation to the utilisation and protection of water resources. The code sets out obligations for use of water and discharge into water, on the basis of Water Use Permits (or "**WUP**"). Kazakhaltyn has existing WUPs for its activities at Aksu, Bestobe and Zholymbet mines, all of which will be up for renewal in July 2006.

The Group's WUPs could be withdrawn if the terms of special water use specified in the relevant WUP are breached. Such terms include monitoring of the quality of underground water, submission of statistical reports and monitoring reports, compliance with requirements relating to water protection during mining operations and regular checking of equipment. If any of the Group's circumstances in relation to its water use change, for example, in relation to drilling of new wells, change of quality of underground waters, limits of water extraction, the Group is obliged to agree such changes with the Central Kazakhstan

Territorial Department of Geology and "Cenrekaznedra" a Kazakh state agency. The term of a WUP may be extended subject to compliance with requirements specified within the relevant WUP.

Enforcement

Article 77-1 of Law No. 160-I "On Environmental Protection" specifies which state officials are responsible for monitoring environmental compliance and implementing proceedings for breach of environmental requirements. These officials include the Chief State Inspector, the Deputy of State Inspector and senior state inspectors representing the heads and deputy heads of departments and divisions of the Ministry of Environmental Protection. In addition, regional environmental prosecutors have the authority to supervise environmental compliance and initiate judicial proceedings.

Article 77 of Law No. 160-I "On Environmental Protection" authorises the relevant state officials, in their enforcement of environmental protection measures, to:

- inspect facilities and request documents, test results and other materials required for supervisory purposes;
- review the implementation of plans and measures associated with the protection and rehabilitation of the environment, the recovery and use of natural resources, compliance with environmental requirements, the operation of purification facilities and other inactivating devices and means for their control;
- review compliance with licence conditions and performance of environmental obligations, environmental protection activities, compliance with permits for natural resource consumption and where necessary revoke any such consents or permits;
- submit proposals on performing state ecological expert evaluations and the implementation of any such evaluations. The environmental authorities have the right to require mandatory state ecological expertise in order to evaluate the status of the environmental situation (whether it poses any risks to the people, level of contamination, etc.). Based upon the results of the expert evaluations certain decisions can be taken to improve the environmental situation;
- prohibit the import into Kazakhstan of ecologically hazardous waste and raw materials;
- assess the degree of environmental damage caused as a result of violation of applicable legislation and commence proceedings where necessary; and
- require financial institutions to terminate the financing of construction and operation of facilities, or other activities which are carried out in violation of environmental rules or without consent of the regulator.

The decisions of relevant environmental protection officers are required to be implemented by all persons but may be challenged in accordance with court procedures.

Limitation for the commencement of proceedings

The time limit for bringing proceedings for breach of environmental requirements is governed by the general limitation provisions under Kazakh law set out in Article 178 of the Civil Code which provides for a three year limitation period. This limitation does not apply to criminal charges for potential breach of environmental requirements.

Environmental liability

Under Kazakh law, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the Ministry for Environmental Protection and its regional departments may suspend these operations or a court action may be brought to limit or ban these operations and require such company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. The courts may also impose clean-up obligations on violators in lieu of, or in addition to, imposing fines.

Subsurface licences and contracts granted or entered into by the Kazakh government also typically impose environmental obligations. The penalties for failing to comply with these obligations can be substantial.

Environmental protection

To monitor compliance with environmental requirements and deal with any environmental issues, the Group has established a dedicated department with responsibility for ensuring compliance with environmental requirements. This department includes an industrial hygiene specialist and an environmental engineer. In addition, the Group employs environmental specialists at each of the Aksu, Bestobe and Zholymbet mines who ensure compliance with environmental requirements and deal with environmental issues.

Kazakhaltyn continues to invest in its operations to ensure that it meets environmental standards in Kazakhstan. For instance, in the third quarter of 2005 the Group installed new equipment for the removal of solid particles from air emissions at the boiler facility at the Zholymbet mine which is expected to reduce the emission of pollutants into the atmosphere by up to 85%. In addition, the Group has recently installed new scrubbers, which assist in the removal of hazardous or harmful substances from emissions, at the Aksu mine.

The Group is evaluating the feasibility of using certain types of production waste, such as ash and slag, in construction, as well as reinforcing the walls of the tailing dams with waste rock extracted from the mines. The Group is also considering reclamation plans for its tailings disposal areas and open-pit mines.

In April 2005, Kazakhaltyn entered into a memorandum of understanding with the Minister of Environment Protection and the Governor of the Akmola region in relation to certain environmental projects in and around the city of Stepnogorsk and elsewhere in the Akmola region. The memorandum of understanding sets out measures to reduce the environmental impact of the uranium tailings disposal area located approximately 30 kilometres from Stepnogorsk. The Ministry of Environmental Protection has expressed its support for the Group's proposal that a portion of the uranium tailings could be covered using waste materials from the Group's extraction of gold from the Aksu tailings disposal area to reduce the amount of contaminated dust generated by the uranium tailings.

For more information on the Group's compliance with environmental requirements, see "*Technical Report—Environmental and Social Issues*".

Health and Safety Regulation

Due to the nature of the Group's business, much of its activity is conducted at its mining facilities by large numbers of workers, and workplace safety issues are of significant importance to the operation of these facilities. Health and safety practices in Kazakhstan are regulated by Law No. 493-I "On Labour in the Republic of Kazakhstan" dated 10 December 1999, Law No. 314-II "On Industrial Safety at Hazardous Industrial Facilities" dated 3 April 2002, Law No. 430-II "On the Public Health System" dated 4 July 2003 and Law No. 528-II "On Industrial Safety and Labour Protection" dated 28 February 2004. Various government bodies have authority in the field of health and safety matters, including the Ministry of Labour and Social Protection of the Population, the Ministry of Emergency Situations and the Sanitation and Epidemiological Service, an agency of the Public Health Ministry.

To monitor compliance with health and safety regulations and deal with any health and safety issues, the Group has established a dedicated department with responsibility for ensuring the safety of the workforce and maintenance of industrial hygiene standards and compliance with environmental requirements. This department includes an industrial hygiene specialist and an environmental engineer. The department is currently developing an occupational health and safety management system that will be expected to comply with the requirements of the international OHSAS 18101 standard.

The Group operates three occupational safety training facilities at the Aksu, Bestobe and Zholymbet mines and requires all miners, concentration and extraction plant workers and other employees to take training courses at these facilities. The Group intends to extend these courses to workers at the recently acquired Akzhal, Boldykol, Zhanan and Vasilevskyi mines.

To date there have been two fatalities as a result of industrial incidents since operations resumed at the Group's mines in late 1999.

For more information on the Group's record for serious injuries and fatalities at its operations, see "*Technical Report—Mining—Safety and Accident Prevention*".

Anti-monopoly Regulation

Under Kazakh law, the Committee for the Protection of Competition within the Ministry of Industry and Trade (the "**Competition Committee**") is responsible for the supervision of competition matters relevant to

the gold-mining industry. It regulates the competitive behaviour of entities that are not natural monopolies.

To assist itself in the performance of its duties, the Competition Committee maintains a register of entities having a dominant position in the market. Under the Law on Competition and Restriction of Monopolistic Activity dated 19 January 2001, a legal entity is deemed to occupy a dominant position if, by virtue of its position in a certain market, it has a negative impact on competition, impedes the access of other entrants to the market, or otherwise restricts freedom of economic activity. Such a position may be considered dominant only if it exceeds the market share as specified each year by the Competition Committee. Such share is typically set at least 35%.

The Competition Committee is responsible for creating and enforcing regulations on mergers, acquisitions, corporate reorganisation and liquidations. The following transactions may be carried out only after obtaining the written approval from the Competition Committee:

- creation of a new company (or a group of companies) whose market share will exceed 35% of the relevant market;
- acquisition of more than 20% of the voting shares in a company;
- acquisition or use of more than 10% of the tangible assets of a company;
- reorganisation (which includes mergers, consolidations and divisions of companies) or liquidation of a company (or a group of companies) which has a dominant position, except for liquidation pursuant to a court judgment; and
- acquisition by a person or a company of rights allowing it to direct the business activities of another company or to perform the functions of its managerial body, if the total value of the assets of the companies involved is above 100,000 times the monthly calculation index ("**MCI**") (approximately $750,000).

The vast majority of transactions requiring pre-completion approval by the Competition Committee fall within the last category (i.e. acquisition of rights allowing the acquirer to direct the business activities of the target company, if the total value of the assets of the companies involved is above 100,000 MCI). If the total asset value of the companies involved is between 50,000 MCI (approximately $375,000) and 100,000 MCI (approximately $750,000), there is no requirement to obtain pre-completion approval, however the Competition Committee must be notified about the transaction after the closing of the transaction.

Under Kazakh competition law, any transfer of shares or partnership interests in a Kazakh mining company or partnership requires the prior consent of the Competition Committee (or the Agency for Regulation of Natural Monopolies and Protection of Competition prior to November 2004). As a result, the acquisition of Kazakhaltyn by Romanshorn LC AG and the acquisitions of Visart LLP and Rudnik Vasilevskyi LLP and assets of JSC Altyn Tobe were all subject to the prior approval of the Competition Committee. Such approval was sought in each instance, but no formal reply has been given by the Competition Committee to date. If a transaction is completed without the consent of the Competition Committee, it may be invalidated by an application to the court by the Competition Committee on the grounds that such transaction creates or strengthens a dominant position of an entity or restricts competition. In addition, the Kazakh law provides for civil, administrative and criminal liability for breach of competition laws. For information of certain risks relating to the application of Kazakh competition law to the Group, see "*Risk Factors—Risks relating to the Group's Business—The Competition Committee may set aside certain of the Group's acquisitions*".

Employment and Labour

Relations between employees and employers pursuant to an employment contract in Kazakhstan are primarily governed by the "Law on Labour in the Republic of Kazakhstan" dated 10 December 1999 (the "**Labour Law**").

Employment contracts

Under Kazakh law, an individual's employment contract may be either for an indefinite term or for a fixed term of not less than a calendar year. If the employment relationship continues following the expiry of a fixed contract term, the employment relationship is deemed to be for an indefinitive term. As a general rule, Kazakhaltyn concludes employment contracts with its employees for an indefinite term.

Under Kazakh law, an employee may terminate his employment contract by giving at least one month's notice to the employer and Kazakhaltyn typically enters into employment contracts which allow either

party to terminate by giving the other one-month's notice. However, Kazakhaltyn may only terminate an employment contract on the basis of specific grounds set out in the Labour Law. In circumstances where there has been a gross violation of work duties, repeated failure to perform duties or disclosure of confidential information, Kazakhaltyn may dismiss an employee without any prior notice. Where Kazakhaltyn terminates an employment contract pursuant to another ground set out in the Labour Law, it is required to give the employee at least one month's notice.

An employee who is dismissed due to the liquidation of the enterprise or redundancy or who is conscripted into the Kazakh military is entitled to receive compensation equal to one average month's salary. Pursuant to the "Law on Employment of the Population" dated 23 January 2001, an employer who intends to dismiss any of its employees by reason of its liquidation or on the grounds of redundancy is required to submit a notice of forthcoming dismissal to the relevant district employment department not later than one month prior to the date of the dismissal.

Work time

The Labour Law establishes the normal duration of the working week at 40 hours, with overtime not exceeding four hours per week. In the case of employees engaged in heavy physical work or work under harmful or dangerous conditions, the working week is reduced to a maximum of 36 hours, with overtime not exceeding two hours per week. Under Kazakh law, employees are generally entitled to 18 days annual paid leave.

Salary

The current minimum wage in Kazakhstan, as established by the "Law on Republican Budget for 2005", is KZT 9,200 ($69) per month. Employees who work overtime or night shifts are required to be paid at least 150% of the minimum wage. Employees who work on bank holidays or at weekends are required to be paid at least 200% of the minimum wage. Employers are required to pay employees at least 50% of their average monthly salary for any downtime not caused by the employee's fault.

Kazakhaltyn's current remuneration system has been approved by the trade union committee of the Trade Union of Mining and Metallurgical Industry of Kazakhstan as part of the collective agreement. Under this system, all employees are paid according to their individual performance and qualifications. Employees are graded on a scale from one to 22 in accordance with their experience and skills and salary rates are set for each grade. The tariff for the lowest grade is the minimum wage under Kazakh law at the date of the collective agreement. Employees actual salaries are determined by multiplying the relevant tariff for the relevant grade by an industry specific factor and factors related to harmful/dangerous conditions of work. The multiplier for the mining industry is 1.5. Kazakhaltyn has also implemented a bonus system to reward its employees. Bonuses are largely based on the fulfilment of individual plans and efficiency.

Trade Unions

Although the "Law On Trade Unions" was passed by the Kazakh parliament in 1993, in general terms, trade unions in Kazakhstan are still underdeveloped and exercise limited influence over the corporate decision making process. However, Kazakhaltyn's management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of its business.

Under Kazakh law, trade unions are entitled to represent their members in dealings with employers, their associations, government bodies, the prosecutor's offices and in the courts. As part of their activities, trade unions may monitor compliance of employers with their statutory obligations towards their workers and have unrestricted access to the work places of their members and to relevant information in employers' possession. In the event of a breach of statutory obligations by an employer, a trade union may bring a claim against the employer in the courts or appeal to the prosecutor's office. Trade unions are entitled under Kazakh law to participate in gatherings, meetings, strikes and other actions aimed at improving working conditions and increasing salaries or taken for other lawful reasons. Trade unions act through a committee of representatives elected by its members.

Enterprises operating in Kazakhstan may self-liquidate or liquidate its structural subdivisions, change type of ownership (state or private), suspend production fully or in part, if it leads to redundancies or worsening of labour conditions only after giving two-months' prior notice to the trade unions and after holding follow-up negotiations to protect the rights and interests of employees.

Previously, under Kazakh law an employer was not able to rescind an employment contract with a trade union member without the prior consent of the trade union. However, recent amendments to the Labour Law allow an employer to rescind an employment contract with a trade union member "subject to the

opinion'' of such trade union. Whilst the interpretation of these words is not clear, it may mean that the employer needs only to consider the trade union's opinion before making a decision.

As at 31 December 2004, approximately 1,420 or 57.5% of the Group's employees were members of the Trade Union of Mining and Metallurgical Industry of the Republic of Kazakhstan, a dedicated union for Kazakhaltyn's employees.

Collective Agreements

Trade unions' primary purpose is to protect and further the social and economic rights and interests of their members (and those of their families). To that end, the trade unions may enter into negotiation in relation to collective agreements on behalf of the relevant employees with employers or their associations. Under the ''Law On Collective Agreements'' dated 4 July 1992, a collective agreement is an agreement that sets forth the employer's obligations in relation to social, economic and labour rights of the employees and their families, and the duties of the employees in respect of the rights and interests of the owner/employer.

The Trade Union of Mining and Metallurgical Industry of Kazakhstan typically negotiates a collective agreement with Kazakhaltyn every year on behalf of Kazakhaltyn's current and former employees. The current collective agreement was entered into in August 2004 and the Group is currently finalising a new 12 month agreement. Under the collective agreement Kazakhaltyn has agreed to numerous undertakings which exceed its statutory obligations, including providing induction training and skills improvement training for its existing employees, providing specified amounts for health and safety measures, such as health checks, uniforms and training, providing an annual budget for social events and holidays.

Foreign labour

Work permit regulations

Currently the Group has no foreign employees. If in the future Kazakhaltyn or any of its Kazakh subsidiaries wished to employ foreign employees, save as set out below, such entity would need to obtain work permits for such employees. The following categories of foreign workers do not require work permits:

- heads of branches and representative offices of foreign companies;
- persons on business trips whose duration does not exceed in aggregate 45 calendar days in one calendar year;
- chief executives and general managers of organisations which conclude an investment contract with the Kazakh government in an amount of $50 million or more;
- chief executives of legal entities which invest in priority sectors of the economy through a contract with the authorised state body on investments;
- chiefs and general managers of banking and insurance organisations and pension funds; and
- members of crew of sea and river ships, air, railway and automobile transport owned by foreign organisations.

A company applying for work permits on behalf of its foreign employees is required to pay a ''guarantee and warranty deposit'' in respect to such foreign employees to ensure that the foreign employees do not remain in Kazakhstan following the expiry of their work permits. Any such deposits are returned to the company upon the relevant employee's departure.

Work permits are issued in accordance with quotas, which the Kazakh government establishes annually and distributes among the regions and the cities of Almaty and Astana based on its assessment of the local employment markets and the availability of qualified Kazakh personnel to fill the various positions. At present, the number of work permits is limited to 0.28% of the working population.

In order to protect the local labour market, employers are required to search, in a prescribed manner, for local employees to fill vacancies before submitting an application for a work permit.

Directors

Name	Age	Position	Date appointed to Board
Dr. Kanat Assaubayev	57	Chief Executive Officer	3 October 2005
Mr. Baurzhan Assaubayev	34	First Deputy Chief Executive Officer	19 October 2005
Mr. Aidar Assaubayev	27	Deputy Chief Executive Officer—Corporate Development	26 September 2005
Mrs. Marussya Assaubayeva . . .	55	Deputy Chief Executive Officer—Health Safety, Environment and HR	19 October 2005
Lord Daresbury	52	Non-Executive Chairman	4 October 2005
Mr. Toktarkhan Kozhagapanov .	61	Non-Executive Director	19 October 2005
Mr. David Netherway	52	Non-Executive Director	19 October 2005
Mr. Stephen Oke	51	Non-Executive Director	19 October 2005

Each of the Directors can be contacted at the Company's principal place of business, 20 Richbourne Court, Harrowby Street, London W1H 5PT, England.

Kanat Shaikhanovich Assaubayev, Chief Executive Officer

Dr. Assaubayev is the Chief Executive Officer of the Company and has been a member of the Board since 3 October 2005. Dr. Assaubayev has served as the president of Kazakhaltyn from 1999 until May 2004 and from June 2004 to date. Mr. Assaubayev was also a member of the board of directors of Kazakhaltyn from 2001 until 2004 and was re-elected as a director of Kazakhaltyn in February 2005.

Between 1973 and 1994, Dr. Assaubayev worked at the Kazakh Polytechnic Institute first as an engineer and then as a senior lecturer, the head of sub-department of informatics, the dean of the department of automatics and operating systems and the first vice-president. While he was the first vice-president, Dr. Assaubayev supervised educational and research activities of the mining, iron and steel and oil and gas departments. Between 1991 and 1999, Dr. Assaubayev established and participated in the management of the operations of a number of companies in Kazakhstan that were involved in supplying services and goods to the Ministry of Energy, Oil and Gas, the Ministry of Transport and Telecommunications and national (state-owned) companies Kaztransoil and Kazakhstan Temir Zholyu; development of an oil field; sales and servicing of cars imported from Russia, Turkey, Uzbekistan and South Korea; import and sales of pharmaceutical products; production and distribution of alcoholic beverages and other activities.

Dr. Assaubayev graduated from the Kazakh Polytechnic Institute in 1970, received a candidate of science degree (similar to a PhD) from the Institute of Systemic Analysis in Moscow in 1978 and a doctor of science degree from the Institute of Steel and Alloys in Moscow in 1985. Dr. Assaubayev is one of the leading scientists in the area of application of non-linear stochastic systems to the automation of technological processes in mining, iron and steel and oil and gas industries and is the author of four books and approximately a hundred other scientific publications.

Dr. Assaubayev is married to Mrs. Marussya Assaubayeva, who is also a Director of the Company.

Baurzhan Kanatovich Assaubayev, First Deputy Chief Executive Officer

Mr. Assaubayev is the First Deputy Chief Executive Officer of the Company and has been a member of the Board since 19 October 2005. From 1999 until May 2004 and from June 2004 to date, Mr. Assaubayev has been a first vice-president of Kazakhaltyn responsible for gold mining and processing operations.

Between 1996 and 1999, Mr. Assaubayev supervised the operations of several companies in Kazakhstan that were involved in supplying services and goods to the Ministry of Energy, Oil and Gas, the Ministry of Transport and Telecommunications and national (state-owned) companies Kaztransoil and KazakhstanTemirZholyu; distribution of alcoholic beverages, sales of food products and other activities.

Mr. Assaubayev graduated from the Kazakh National Technical University in 1992, where he specialised in system software development. Mr. Assaubayev received a candidate of science degree (similar to a PhD) from the Kazakh National Technical University in 1996 in automation of technological processes and production cycles.

Mr. Assaubayev is the son of Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva, and the brother of Mr. Aidar Assaubayev, each of whom are also Directors of the Company.

Aidar Kanatovich Assaubayev, Deputy Chief Executive Officer—Corporate Development

Mr. Assaubayev is the Deputy Chief Executive Officer—Corporate Development of the Company and has been a member of the Board since 26 September 2005. From 1999 until May 2004 and from June 2004 to date, Mr. Assaubayev has been the vice-president of Kazakhaltyn. Mr. Assaubayev's responsibilities at Kazakhaltyn include supervision of the legal department, international aspects of Kazakhaltyn's activities and introduction of new mining and processing technologies.

Between 1996 and 1999, Mr. Assaubayev supervised the operations of several companies in Kazakhstan that were involved in sales and servicing of cars imported from Russia, Turkey, Uzbekistan and South Korea, production and distribution of alcoholic beverages and other activities.

Mr. Assaubayev graduated with honours from the Kazakh National Technical University in 2000, where he specialised in engineering and economics. He expects to defend his dissertation and receive a candidate of science degree (similar to a PhD) from the Institute of Systemic Analysis in Moscow in December 2005.

Mr. Assaubayev is the son of Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva, and the brother of Mr. Baurzhan Assaubayev, each of whom are also Directors of the Company.

Marussya Maralovna Assaubayeva, Deputy Chief Executive Officer—Health, Safety, Environment and HR

Mrs. Assaubayeva is the Deputy Chief Executive Officer—Health, Safety, Environment and HR of the Company and has been a member of the Board since 19 October 2005. From 2000 until 2001, Mrs. Assaubayeva was the vice-president of Kazakhaltyn. Mrs. Assaubayeva was a director and the deputy chairperson of the board of directors of Kazakhaltyn between 2001 and 2004 and was re-elected as a director and the deputy chairperson of the board of directors in February 2005.

Between 1992 and 1999, Mrs. Assaubayeva established and managed the operations of one of the first private pharmacies in Kazakhstan. During the same period, Mrs. Assaubayeva was an aide to the president of the Bobek foundation in Kazakhstan. Since 1999, Mrs. Assaubayeva has served as the chairperson of the Stepnogorsk Association of Business Women and been a member of the editorial team of the "Mirror" magazine.

Mrs. Assaubayeva graduated from the pharmaceutical department of the Almaty Medical Institute in 1972.

Mrs. Assaubayeva is married to Dr. Kanat Assaubayev, who is also a Director of the Company.

Lord Daresbury, Non-Executive Chairman

Lord Daresbury is the Chairman of the Company and has been a member of the Board since 4 October 2005. Lord Daresbury has served as the chairman of De Vere Group plc (formerly The Greenalls Group plc), a hotel and leisure company, since 2000 and as a senior adviser to Fleming Family & Partners, a private investment house, since 2005. From 2002 to 2004, Lord Daresbury served as executive chairman of Highland Gold Mining Ltd., a gold mining company. Since April 2005 Lord Daresbury has been a non-executive director of Evraz Group S.A., a steel production and coal and iron ore mining company. Lord Daresbury previously served in various positions with The Greenalls Group plc, a pub, restaurant, hotel and leisure group, including serving as its Chief Executive from 1993 to 2000. Lord Daresbury received an M.A. in History from Magdalen College, Cambridge University, and also received a Sloan fellowship from London Business School.

Toktarkhan Kozhagapanov, Non-Executive Director

Toktarkhan Kozhagapanov has been a member of the Board since 19 October 2005. Since July 2001, he has served as the chairman of the board of directors of Kazakhaltyn.

Between 1993 and 1997, Mr. Kozhagapanov served as the chairman of the management board and then as the chairman of the supervisory board of JSC Turan Bank, leaving to become a vice-governor of the Almaty region between 1997 and 2001.

Mr. Kozhagapanov is a graduate of the Kazakh Polytechnic Institute and the National Academy of Economics of the USSR Council of Ministers. He holds a candidate of science degree in economics (similar to a PhD) and is a member of the International Academy of Information. On 23 February 1989,

Mr. Kozhagapanov was awarded the title of the Honoured Economist of the Republic of Kazakhstan. In addition, on 12 December 1995, Mr. Kozhagapanov was awarded with the Kurmet Order, one of the most prestigious national awards in Kazakhstan, by a decree of the President of Kazakhstan.

David Netherway, Non-Executive Director

David Netherway has been a member of the Board since 19 October 2005.

Mr. Netherway is a mining engineer with nearly 30 years of experience in the mining industry. From April 2002 until the completion of its takeover by Eldorado Gold Corporation in 2005, Mr. Netherway served as the president and chief executive officer of Toronto listed Afcan Mining Corporation, a China focused gold mining company. Mr. Netherway is a mine developer and operator who was involved in the construction and development of the Iduapriem, Siguiri and Kiniero gold mines in West Africa and has mining experience in Australia, India, Nepal, Oman and Malaysia. Prior to joining Afcan, Mr. Netherway held senior management positions in a number of mining companies, including Golden Shamrock Mines, Ashanti Goldfields and Semafo.

Mr. Netherway has received a B.E. in Mining Engineering from the University of Melbourne in 1975 and a Certified Diploma in Accounting and Finance from the Chartered Association of Certified Accountants in the United Kingdom in 1985.

Stephen Oke, Non-Executive Director

Stephen Oke has been a member of the Board since 19 October 2005.

Mr. Oke has nearly 30 years of experience in mining operational management and natural resources investment banking. Mr. Oke was formerly the head of International Corporate Finance at Standard Bank in London, an executive director of NM Rothschild Corporate Finance Limited, a director of Merrill Lynch and head of international mining research and sales at Smith Newcourt. Throughout his career as an investment banker, Mr. Oke has specialised in providing senior level corporate finance advice to companies in the mining and metals sector. Mr. Oke has also worked with the UK National Coal Board, AngloVaal Mining (Johannesburg), BP Coal (Pty) Ltd. (Johannesburg) and Johannesburg Consolidated Investment Ltd..

Mr. Oke holds an honours degree in Geology from the University of Southampton and an MBA from the University of the Witwatersrand Graduate School of Business, Johannesburg.

Senior Management

In addition to the executive management on the Company's Board, the day-to-day management of the Group is conducted by the following senior managers, the following seniors managers are considered relevant to establishing that the Company has the appropriate expertise and experience for the management of its business:

Name	Age	Position
Altynbek Dzhailauovich Orynbasarov . . .	55	Chief Technical Officer
Maksut Kainarovich Abduazhitov	49	Head of Open Pit Operations
Adil Karimovich Bekzatov	41	Chief Financial Officer
Saken Rakhimzhanovich Usenov	49	Head of Production and Technical Management
Oleg Leonidovich Gorozhanin	68	Chief Geologist
Kyamel Shagaipovich Akbayev	63	Head of Underground Operations
Napoleon Evstafyevich Mikhailov	41	Head of Aksu
Saiken Temirbaevich Alpysbayev	47	Head of Bestobe
Victor Aleksandrovich Shevchenko	57	Head of Zholymbet

Each of the Senior Managers can be contacted at Building 6, Micro District 5, Stepnogorsk 474456, Kazakhstan.

Altynbek Dzhailauovich Orynbasarov, Chief Technical Officer

Mr. Orynbasorov joined Kazakhaltyn in 2000 as chief geologist. Since then, he has held the positions of director in the innovations and new projects department and executive director before being appointed technical director in 2005. He has 32 years' professional experience in the mining industry. Between 1988 and 1995, he was the chief geologist of JSC Achpolymetal in Kentay. He was subsequently the president of JSC JV Kumysty Gold Field before returning to JSC Achpolymetal as head of the mine in 1996. Between 1997 and 1999, Mr. Orynbasarov was the chief manager of the mining department of the Ministry of Energy and Natural Resources of the Republic of Kazakhstan. Before joining Kazakhaltyn, Mr. Orynbasarov was appointed chief manager of JSC Altynalmas Gold Mining.

Mr. Orynbasarov graduated from the Kazakh Polytechnic Institute in Almaty in 1977 with a diploma in mining engineering and geology, specialising in the exploration of deposits of natural resources.

Maksut Kainarovich Abduazhitov, Head of Open Pit Operations

Mr. Abduazhitov, a qualified mining engineer, joined Kazakhaltyn in February 2005 as managing director of Kazakhaltyn open field mining works department. Between 1985 and 1990, Mr. Abduazhitov worked for the Northern Mining Administration of the Navoisk Mining and Metals Corporation of the Republic of Uzbekistan in a number of management and engineering roles. From 1999 until 2003, he worked for JSC Mining Corporation Altyn-Tobe, first as the head of the industrial and technical department before being appointed the chief engineer and then a vice-president. Between 2003 and 2005, Mr. Abduazhitov worked as a vice-president, the first vice-president and the president at the mining corporation Altyn-Andas in Semipalatinsk before joining Kazakhaltyn.

Mr. Kainarovich graduated from Tashkent Polytechnic Institute in 1984 with a diploma in mining engineering, specialising in the complex mechanisation of open deposits of mineral resources.

Adil Karimovich Bekzatov, Chief Financial Officer

Mr. Bekzatov has been employed as the Managing Director of Kazakhaltyn's Economics and Finance department since 2004. From 1992 until its sale in 1995, Mr. Bekzatov was a director and co-owner of Stambull LLP, a company specialising in the sales of heavy trucks and production of construction materials. He joined JSC Kazkommertsbank in 1997, working as a lead specialist in the department of development of investment projects before becoming the head of the bank's market analysis department. In 2002, Mr. Bekzatov moved to Kazkommerts Securities where he was the head of the project analysis department. In 2004, he took up the position of deputy director of the investment projects department at Centras Securities.

Mr. Bekzatov graduated from the Department of Metallurgy at the Kazakh Polytechnic Institute in 1986, specialising in economics and organisation of metallurgical production. He received a candidate of science degree (similar to a PhD) from the Moscow Institute of Iron and Alloys in 1991.

Saken Rakhimzhanovich Usenov, Head of Production and Technical Department

Mr. Usenov's association with the Bestobe mine dates back to 1974 when he started work at the mine after graduating from a local school. Between 1984 and 1989, Mr. Usenov worked as a mining foreman, head of underground mining at the Shaft No. 2 and chief engineer at the Zapadnaya shaft. Mr. Usenov served in the Bestobe municipal administration in a variety of positions between 1990 and 1994. In 1994, Mr. Usenov returned to the Bestobe mine as the head of the drilling and explosives division and later became the chief engineer and then the head of the Bestobe mine. From 2000 until 2004, Mr. Usenov served as a technical director of Kazakhaltyn and in February 2005 he was appointed as the head of production and technical department.

Mr. Ussenov graduated from the Moscow Institute of Mining in 1984, where he studied to become a mining engineer.

Oleg Leonidovich Gorozhanin, Chief Geologist

Mr. Gorozhanin has been the chief geologist of Kazakhaltyn since 1989. He has worked as a geologist for 44 years, 23 of which being based in Stepnogorsk. Mr. Gorozhanin was the head of the department of geological geodesy at the Stepnogorsk geological exploration expedition at the Tselinnyi mining and chemical group of enterprises between 1981 and 1989. In 1989, he became the chief geologist of the newly

formed North Kazakhstan geological exploration expedition, which was a division of Kazzoloto, the predecessor of Kazakhaltyn.

Mr. Gorozhanin graduated from Sverdlovsk Mining Institute in Russia in 1961.

Kyamel Shagaipovich Akbayev, Head of Underground Operations

Mr. Akbayev has worked in the mining industry for almost 40 years. Between 1979 and 1984 he was the chief engineer at the Baizhansai and Glubokiy mines. For the next 14 years, he worked in various senior management positions at three Kazakh mining and metals companies (Agpolirnetal, Balkhash and Avtometal) before joining Kazakhaltyn for the first time as an executive director in 1999. In 2000, Mr Akbayev became the head of mining at a gold mining company ABS-Balkhash in 2000 and later became the general director of this company. Mr. Akbayev re-joined Kazakhaltyn in 2004 and, since 2005, he has served as the managing director responsible for underground operations.

Mr. Akbayev graduated from Northern Caucasus Mining and Metallurgical Institute in 1966.

Napoleon Evstafyevich Mikhailov, Head of Aksu

Mr. Mikhailov is currently the head of operations at Aksu. During his 19-year career in the mining industry, he worked as an engineer-geologist at the Zapadnaya shaft of the Bestobe mine, the head of mining at Kazakhaltyn and the head of the Bestobe mine. He became the head of the Aksu mine in 2003.

Mr. Mikhailov graduated from Krasnoyarsk Institute of Non-Ferrous Metals in Russia in 1986.

Saiken Temerbaevich Alpysbayev, Head of Bestobe

Mr. Alpysbayev is currently the head of operations at Bestobe. Mr. Alpysbayev has worked in the mining industry for 18 years. During those years he was a mining foreman at the Shaft No. 2 of the Bestobe mine, the head of the underground operations of the Shaft No. 2 and the head of the Zapadnaya shaft of the Bestobe mine. He became the head of the Bestobe mine in November 2003.

Mr. Alpysbayev is a graduate of Karaganda Mining Institute in Kazakhstan.

Victor Aleksandrovich Shevchenko, Head of Zholymbet

Mr. Shevchenko is currently the head of operations at Zholymbet. Between 1983 and 1984 he was the chief engineer of the Capitalnaya shaft of the Aksu mine. For the next five years, Mr. Shevchenko worked as the head of the Central shaft of the Zholyrnbet mine. In 1990, he became the chief engineer of the Zholymbet mine before becoming the head of operations at Zholymbet in 1991.

Mr. Shevchenko graduated from Krasnoyarsk Institute of Non-Ferrous Metals in Russia in 1980.

Compensation

In the year ended 31 December 2004, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to each of the Directors and senior managers by members of the Group was approximately KZT 24.6 million. The total amount set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior managers is approximately KZT 2.6 million.

Directors' and Senior Managers' Interests

The table below sets out the interests of the Directors in the Company's issued share capital as at the date of this document and as adjusted to reflect the Global Offer.

	As at the date of this document		After the Global Offer			
Name of Director	Number of Shares held	% of issued share capital	Number of Shares (assuming no Shares are acquired pursuant to the Over-allotment Arrangements)	% of issued share capital	Number of shares (assuming the maximum number of Shares are acquired pursuant to the Over-allotment Arrangements)	% of issued share capital
Dr. Kanat Assaubayev[1]	39,600,000	99.0	35,000,000	74.3	33,600,000	71.3
Mr. Baurzhan Assaubayev[1]	39,600,000	99.0	35,000,000	74.3	33,600,000	71.3
Mr. Aidar Assaubayev[1]	39,600,000	99.0	35,000,000	74.3	33,600,000	71.3
Mrs. Marussya Assaubayeva[1]	39,600,000	99.0	35,000,000	74.3	33,600,000	71.3
Lord Daresbury	400,000	1.0	561,901	1.2	561,901	1.2
Mr. Toktarkhan Kozhagapanov	0	0	0	0	0	0
Mr. David Netherway	0	0	3,333	0	3,333	0
Mr. Stephen Oke	0	0	3,333	0	3,333	0

(1) The interests shown in this table include the interest of Dr. Kanat Assaubayev, Mr. Baurzhan Assaubayev, Mr. Aidar Assaubayev, Mrs. Marussya Assaubayeva as discretionary beneficiaries under The ABM SK Trust, whose only named discretionary beneficiaries are members of the Assaubayev family. No members of the Assaubayev family have a direct interest in the Company.

Save as set out above, following the Global Offer no Director or Senior Manager will have any interest in the Company's share capital or any of its subsidiaries.

On 6 October 2005, Lord Daresbury acquired 400,000 Shares for $10,000 pursuant to an option arrangement with Gold Lion Limited. Save for these Shares, none of the Directors or Senior Managers has acquired Shares, or shares in Kazakhaltyn, on terms more favourable than the price at which Shares are being offered pursuant to the Global Offer in the form of GDRs.

As part of the Global Offer, Lord Daresbury has agreed to purchase approximately $2.4 million worth of GDRs at the Offer Price and each of Messrs. Netherway and Oke has agreed to purchase approximately $50,000 worth of GDRs at the Offer Price.

Corporate Governance

The Combined Code sets out certain corporate governance recommendations in relation to the public limited companies incorporated in England and Wales. There are no corporate governance recommendations applicable to companies incorporated in Jersey, but the Company intends so far as it is able, having regard to its size and stage of development, to comply with the recommendations of the Combined Code and, with effect from the date falling 31 days from the announcement of the Offer Price, the Model Code as if it were a public company incorporated in England and Wales.

The Board is composed of eight members, consisting of four Executive Directors and four Non-Executive Directors, four of whom are independent. The Board considers that each of the Non-Executive Directors is independent notwithstanding that Mr. Kozhagapanov has served as the Chairman of Kazakhaltyn since 2001 and received remuneration from the Group since that time for serving in this capacity, that Lord Daresbury acquired Shares from Gold Lion Limited as described above and that Messrs. Netherway and Oke have been granted share options as described in paragraphs 6.2.3 and 6.2.4 of "*General Information*". Accordingly, no individual or group of individuals dominates the Board's decision taking. The members of the Assaubayev family who are Directors are deemed by the Board not to be independent under the Combined Code due to their close family relationship and long-time employment within the Group. The Combined Code recommends that at least half the members of the board of directors (excluding the chairman) of a public limited company incorporated in England and Wales should be independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgment and the Company intend to become compliant with this recommendation of the Combined Code when it is appropriate.

The Combined Code also recommends that the Board should appoint one of the independent non-executive directors as senior independent director and Lord Daresbury has been appointed to fill this role. The senior independent director should be available to shareholders if they have concerns which contact

through the normal channels of chairman, chief executive or finance director has failed to resolve or for which contact is inappropriate.

The Board has established Remuneration and Audit Committees, with formally delegated duties and responsibilities with written terms of references. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below Board level. The Combined Code provides that the Remuneration Committee should consist of at least three members who are all independent non-executive directors.

The membership of the Company's Remuneration Committee comprises four Non Executive Directors (namely, Lord Daresbury and Messrs. Kozhagapanov, Netherway and Oke). The Chairman of the Remuneration Committee is David Netherway. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee will meet formally at least twice a year and otherwise as required.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The Combined Code recommends that the audit committee should comprise of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The membership of the Company's Audit Committee comprises four independent Non-Executive Directors (namely, Lord Daresbury and Messrs. Kozhagapanov, Netherway and Oke). Stephen Oke is considered by the Board to have recent and relevant financial experience and is the Chairman of the Audit Committee. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Audit Committee.

The Audit Committee will meet formally at least three times a year and otherwise as required.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee assists the Board in formulating the Group's health, safety and environment policies as they affect the Groups operations, including monitoring compliance with national and international standards and reviewing management's investigations of incidents or accidents that occur in order to assess whether policy improvements are required.

The Company's Health, Safety and Environment Committee is composed of four members, one of whom is an independent Non-Executive Director (namely David Netherway). The other members of the committee are Executive Directors (namely Mr. Kanat Assaubayev, Mr. Aidar Assaubayev and Mrs. Marussya Assaubayeva). The Chairman of the Health, Safety and Environment Committee is David Netherway.

The Health, Safety and Environment Committee will meet formally at least twice a year and otherwise as required.

CAPITALISATION AND INDEBTEDNESS

The following information presented in Tenge sets forth the unaudited capitalisation of Kazakhaltyn as at 30 June 2005 as derived from Kazakhaltyn's unaudited financial information. This information should be read in conjunction with Kazakhaltyn's unaudited financial information and the related notes thereto included elsewhere in this document.

	(KZT million)	(US dollars thousands)[1]
Total current debt		
—Guaranteed	—	—
—Secured	319	2,359
—Unguaranteed/unsecured	—	—
Total non-current debt (excluding current portion of long term debt)		
—Guaranteed	—	—
—Secured	2,785	20,591
—Unguaranteed/unsecured	2,543	18,801
Shareholders' equity		
—Share capital	1,539	11,376
—Legal reserves—retained earnings	(983)	(7,271)
—Other reserves—revaluation reserve	1,248	9,225
	7,450	55,081

The following information presented in Tenge sets forth the unaudited indebtedness of Kazakhaltyn as at 30 June 2005 as derived from Kazakhaltyn's unaudited financial information. This information should be read in conjunction with Kazakhaltyn's unaudited financial information and the related notes thereto included elsewhere in this document.

	(KZT million)	(US dollars thousands)[1]
Cash	19	137
Restricted cash	1	6
Cash equivalents	—	—
Trading securities	—	—
Liquidity	20	143
Current financial receivables	—	—
Current bank debt	(280)	(2,070)
Other current financial debt	(39)	(289)
Current financial debt	(319)	(2,359)
Net current financial indebtedness	(299)	(2,216)
Non current bank debt	(2,644)	(19,552)
Bonds issued	(2,543)	(18,801)
Other non current financial debt	(141)	(1,039)
Non current financial debt	(5,328)	(39,392)
Net non-current financial indebtedness	(5,328)	(39,392)
Net financial indebtedness	(5,628)	(41,608)

(1) Converted into US dollars for convenience using an exchange rate of KZT 135.26 per $1.00, being its official Tenge to US dollar exchange rate as reported by NBK as at 30 June 2005.

Save as disclosed above Kazakhaltyn did not have at the close of business on 30 June 2005 any loan capital outstanding (including loan capital created but unissued), term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal

trade bills) or acceptance credits, mortgages, charges, hire purchase commitments or obligations under finance leases.

At the close of business on 30 June 2005 Kazakhaltyn did not have any contingent or indirect liabilities.

As at 1 October 2005 the Company had no loan capital outstanding (including loan capital created but unissued), term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments or obligations under finance leases, and had no contingent or indirect liabilities.

SELECTED HISTORICAL FINANCIAL AND OPERATIONAL INFORMATION

Other than the "Other financial and operating data" set out below, which has been extracted without material adjustment from the Group's internal records, the selected information presented in Tenge set out below has been derived from and should be read in conjunction with Kazakhaltyn's historical audited balance sheets, statements of income and cash flows as at and for the years ended 31 December 2002, 2003 and 2004, respectively, and the related notes thereto, and its historical unaudited interim balance sheets, statements of income and cash flows as at and for the six months ended 30 June 2004 and 2005 included elsewhere in this document.

Kazakhaltyn's historical financial information have been prepared in accordance with IFRS. The following information should be read in conjunction with "*Operating and Financial Review and Results of Operations*", the related historical financial information and the accompanying notes thereto and the "*Technical Report*" included elsewhere in this document.

	Year ended 31 December				Six months ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited)	(audited)	($ '000, except earnings per share)	(unaudited)	(unaudited)	($ '000, except (loss) per share)
	(KZT '000, except earnings per share)				(KZT '000, except earnings/(loss) per share)		
Income statement data							
Revenue	1,545,606	1,526,355	1,141,180	8,389	603,278	290,396	2,213
Cost of sales	(1,236,530)	(1,115,945)	(937,321)	(6,890)	(427,761)	(266,548)	(2,031)
Gross profit	309,076	410,410	203,859	1,499	175,517	23,848	182
Administrative expenses	(163,085)	(172,246)	(186,191)	(1,369)	(80,722)	(317,078)	(2,417)
Sales expenses	(9,055)	(8,781)	(23,635)	(174)	(8,216)	(37,086)	(283)
Other operating income	806,973	123,015	210,477	1,547	61,972	12,656	96
Other operating expenses	(111,681)	(37,841)	(24)	—	(6,415)	(88,579)	(675)
Profit/(loss) before finance income/(expense) and tax	832,228	314,537	204,486	1,503	142,136	(406,239)	(3,097)
Finance income	—	10,529	57,926	426	28,963	14,571	111
Finance expense	(200,047)	(215,577)	(222,218)	(1,633)	(95,273)	(225,295)	(1,717)
Profit/(loss) before tax	632,181	109,509	40,194	296	75,826	(616,963)	(4,703)
Income tax	(263,381)	(70,742)	(34,808)	(256)	(29,393)	—	—
Profit/(loss) for the year/period	368,800	38,767	5,386	40	46,433	(616,963)	(4,703)
Earnings/(loss) per share	KZT 240	KZT 25	KZT 4	$0.02	KZT 30	KZT (401)	$(3)
Cash flow data							
Cash generated from/(absorbed by) operating activities	59,713	(169,058)	(477,494)	(3,510)	(108,349)	(1,274,076)	(9,710)
Cash used in investing activities	(80,187)	(76,142)	(1,191,788)	(8,761)	(303,792)	(939,514)	(7,160)
Cash generated from financing activities	12,276	243,332	1,773,483	13,036	848,952	2,126,339	16,206
Net change in cash and cash equivalents	(8,198)	(1,868)	104,201	765	436,811	(87,251)	(664)

	Year ended 31 December				Six months ended 30 June		
	2002	2003	2004	2004[3]	2004	2005	2005[4]
	(audited)	(audited)	(audited)	($' 000)	(unaudited)	(unaudited)	($' 000)
		(KZT '000)			(KZT '000)		
Balance sheet data							
Cash and cash equivalents	3,454	1,586	105,787	814	438,397	18,536	137
Non-current assets	2,601,968	2,571,972	5,318,590	40,912	2,851,301	6,291,545	46,514
Total assets	3,208,138	3,418,899	6,703,829	51,568	4,420,011	8,759,212	64,758
Borrowings (short-term and long-term)	1,247,204	1,490,536	3,267,004	25,131	2,339,389	5,647,120	41,750
Other current liabilities	590,557	525,985	542,879	4,176	625,331	835,109	6,174
Other non-current liabilities	13,923	7,157	473,981	3,646	13,637	473,981	3,504
Total equity	1,356,454	1,395,221	2,419,965	18,615	1,441,654	1,803,002	13,330

(1) Converted into US dollars for convenience using an exchange rate of KZT 136.04 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2004.

(2) Converted into US dollars for convenience using an exchange rate of KZT 131.21 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2005.

(3) Converted into US dollars for convenience using an exchange rate of KZT 130.00 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at the period end.

(4) Converted into US dollars for convenience using an exchange rate of KZT 135.26 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at the period end.

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
Other financial and operating data					
Processed ore (thousands of tonnes)	257	270	217	131	44
Recovered grade (grams per of tonnes)	5.08	5.12	4.64	4.05	5.32
Recovery rate (percentage)	81.8	81.4	81.2	81.1	91.0
Gold sales (ounces)	34,317	36,182	26,272	13,837	6,848
Gold sales (thousands of kilograms)	1,067	1,125	817	430	213
Average production cost per ounce (KZT)[1]	35,164	30,844	35,665	30,932	38,843
Average production cost per ounce (US dollars)[1][2]	229	206	262	223	296

(1) Average production cost per ounce (in Tenge per ounce) is calculated by dividing the cost of sales relating to gold sales by the number of ounces of gold sold during the corresponding year/period.

(2) Converted into US dollars for convenience using the average official Tenge to US dollar rates for the relevant period as reported by the NBK.

OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS

The following is a discussion of the results of operations and financial condition of Kazakhaltyn for the years ended 31 December 2002, 2003 and 2004 and for the six months ended 30 June 2004 and 2005. Prospective investors should read this discussion in conjunction with Kazakhaltyn's financial statements and the related notes included elsewhere in this prospectus. Kazakhaltyn has prepared its financial statements in accordance with International Financial Reporting Standards. The following analysis contains forward-looking statements about Kazakhaltyn's future revenue, operating results and expectations that involve risks and uncertainties. Kazakhaltyn's actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in the "Risk Factors" section and elsewhere in this prospectus.

Overview

Kazakhaltyn is engaged in underground and open pit gold mining, exploration and related activities and is one of the leading gold producers in Kazakhstan. Kazakhaltyn's principal assets comprise the Aksu mine, the Bestobe mine and the Zholymbet mine located in northern Kazakhstan.

In 2004, Kazakhaltyn commenced a modernisation programme for the transition from flotation and gravity processing technologies to heap leach and CIP technologies. As part of this programme, reconstruction of processing plants commenced at the Aksu and Zholymbet mines and construction of heap leach plants commenced at the Aksu and Bestobe mines. The existing processing plants at Aksu and Zholymbet had to be closed in August 2004 to allow for the installation of new CIP equipment. Consequently, the extraction and processing of ore at the Aksu and Zholymbet mines ceased until newly constructed or reconstructed processing facilities were completed and commenced operations in July and August 2005. As a result, in 2004 and the six months ended 30 June 2005, production volumes were significantly lower and capital expenditure was significantly higher than in 2003 and the six months ended 30 June 2004, respectively.

Current Trading and Prospects

On 13 July 2005, the newly constructed Aksu Heap Leach Plant commenced operations with throughput capacity of approximately 0.5 million tonnes per annum of ore. In addition, in August 2005 the Aksu Processing Plant commenced operations, with throughput capacity of approximately 1.0 million tonnes per annum of ore at the Aksu CIP Facilities and throughput capacity of approximately 0.2 million tonnes of ore per annum at the Aksu Flotation Facilities. On 2 August 2005, the newly constructed Zholymbet CIP Plant commenced operations with throughput capacity of approximately 0.5 million tonnes per annum of ore. On 15 August 2005, the newly constructed Bestobe Heap Leach Plant commenced operations with throughput capacity of approximately 1.0 million tonnes per annum of ore.

Overall, since 1 July 2005 the Group's gold production has been in line with targeted levels. For the three months ended 30 September 2005, 26,213 ounces of gold were produced at the Aksu, Bestobe and Zholymbet mines, of which 12,290 ounces were produced in September 2005. In October 2005, approximately 15,300 ounces of gold were produced at the Aksu, Bestobe and Zholymbet mines. The outlook for the Group's trading for the year ended 31 December 2005 remains in line with the Company's expectations and the Group's gold production for the year is expected to exceed levels achieved in 2002, 2003 or 2004.

Pursuant to its continuing obligations arising from having bonds listed on the Kazakhstan Stock Exchange, Kazakhstan is obliged to publish financial information on a quarterly basis. Financial information for the nine months ended 30 September 2005 is required to be published by 30 November 2005. Kazakhaltyn has agreed with the Kazakhstan Stock Exchange that this financial information may be published by 31 December 2005. Such financial information, when published, will be unaudited.

Significant Factors Affecting Results of Operations

Kazakhaltyn's results of operations have been affected by a number of factors, including gold price, price of different gold products, exchange and interest rates and production costs, as well as the commencement of the modernisation programme in 2004. Each of these factors is discussed below.

World gold price

Substantially all of Kazakhaltyn's revenues are derived from the sale of gold. Consequently, the price of gold has a significant impact on Kazakhaltyn's operating results. As discussed in "*Risk Factors—Risks Related to the Gold Mining Industry—The profitability of the Group's operations, and the cash flows generated by these operations, are significantly affected by changes in the market price for gold*", the price of gold can vary significantly and is affected by a number of factors which are outside the control of Kazakhaltyn. During the period from 1 January 2002 to 31 December 2004 the price of gold has generally continued to increase, which allowed Kazakhaltyn to achieve higher average price realised per ounce in Tenge in 2003 and 2004 despite the appreciation of the Tenge relative to the US dollar during this period.

The following table shows for the dates and periods indicated the period-end, average, high and low London fixing prices of gold expressed in US dollars per ounce.

Period	Period-end	Average	High	Low
1999	290.25[1]	278.49	325.50	252.80
2000	272.65[2]	279.10	312.70	263.80
2001	276.50[2]	271.04	293.25	255.95
2002	342.75[2]	309.68	349.30	277.85
2003	417.25[2]	363.32	416.25	319.90
2004	438.00[2]	409.17	454.20	375.00
Six months ended 30 June 2004	395.80[1]	401.04	427.25	375.00
Six months ended 30 June 2005	437.10[1]	427.37	443.70	411.10

Source: The London Bullion Market Association

(1) Afternoon fixing price.

(2) Morning fixing price as no afternoon fixing price was published on the last business day of the year.

Price of and demand for various products that contain gold

Kazakhaltyn produces a number of products that contain gold, which are sold to customers in Switzerland and Russia at a discount to the price of gold on the London bullion market. For example, flotation and gravity concentrates are typically sold at 65% to 74% of the price of gold on the London bullion market, whilst free gold and gold dore are typically sold at approximately 97% of the price of gold on the London bullion market.

For the volume of gold sold to customers in 2002, 2003 and 2004 and the six months ended 30 June 2004 and six months ended 30 June 2005 by type of product and the revenues generated from such sales, see "*—Summary of financial and operating performance*".

Certain products that have previously been or continue to be produced and sold by Kazakhaltyn are significantly less profitable than others. For instance, production of refined gold required Kazakhaltyn to pay considerable fees to smelters, which significantly affected the profitability margins and eventually caused Kazakhaltyn to stop production of refined gold after 2002. Gold contained in flotation and gravity concentrates is sold at a relatively high discount to the price of gold on the London bullion market. Transportation costs for shipping flotation and gravity concentrates are high and demand for such products is limited. The modernisation programme commenced by Kazakhaltyn in 2004 will allow it to shift the production from lower margin flotation and gravity concentrates to high margin gold doré.

Exchange rates

Kazakhaltyn earns all of its revenues in US dollars whilst the majority of its production costs are incurred in Tenge. In addition, a significant proportion of its borrowings is in US dollars. Accordingly, Kazakhaltyn may be significantly affected by fluctuations in the exchange rate between the US dollar and the Tenge. In 2003 and 2004, the Tenge appreciated against the US dollar, which has increased Kazakhaltyn's production costs in US dollar terms. In the six months ended 30 June 2005, the US dollar strengthened against the Tenge.

The following table shows for the dates and periods indicated the period-end, average, high and low official Tenge to US dollar exchange rate as reported by the NBK expressed in Tenge per $1.00.

Period	Period-end	Average	High	Low
2002	155.60	153.28	155.60	150.60
2003	144.22	149.58	155.75	143.66
2004	130.00	136.04	143.33	130.00
Six months ended 30 June 2004	136.45	138.52(1)	143.33	136.00
Six months ended 30 June 2005	135.26	131.21(1)	136.00	129.83

(1) Calculated as the average exchange rates for the three months ended 31 March and the three months ended 30 June for the relevant year.

Interest rates

The interest rates that Kazakhaltyn is able to obtain on its loans are likely to be influenced by the official refinancing interest rate set by the NBK. Hence, as Kazakhaltyn has significant borrowings in Kazakhstan, a change in the official refinancing interest rate may have a significant effect on the operating results of Kazakhaltyn.

The following table shows for the dates indicated information concerning the official refinancing interest rate as set by the NBK.

Date	Refinancing interest rate
	(%)
31 December 1999	18.0
31 December 2000	14.0
31 December 2001	9.0
31 December 2002	7.5
31 December 2003	7.0
31 December 2004	7.0
30 June 2004	7.0
30 June 2005	7.5

Source: NBK

Production costs and efficiency

In common with other gold producers, Kazakhaltyn is unable to directly influence the price of gold, and its long-term profitability, to a significant degree, is dependent upon its ability to reduce costs and maintain low-cost, efficient operations. The costs associated with the mining and processing of gold can be broadly categorised into the following costs: labour, consumables, royalties, depreciation, energy and other variable costs, which include transportation and maintenance costs. Kazakhaltyn benefits from relatively low labour, electricity and transportation costs. See "*Business—Key Strengths—The Group has a developed infrastructure network located in close proximity to its major assets*".

Production costs and costs per ounce of gold produced are significantly, but not wholly, affected by changes in production volumes, and hence production levels are a major factor in determining Kazakhaltyn's overall profitability and competitiveness. Accordingly, in 2004 and the six months ended 30 June 2005, when production was lower due to construction and reconstruction of processing facilities at the Aksu and Zholymbet mines, the gross margin achieved was significantly lower than in 2003 and the six months ended 30 June 2004, respectively.

Commencement of the modernisation programme and new borrowings

Other significant factors that impacted Kazakhaltyn's results of operations in 2004 and the six months ended 30 June 2005 was the reconstruction of the Aksu and Zholymbet processing plants and the construction of the Aksu and Bestobe heap leach plants in connection with the commencement of Kazakhaltyn's modernisation programme. No ore was processed at the Aksu and Zholymbet mines during the period from August 2004 to July 2005, which significantly reduced Kazakhaltyn's total revenue and

impacted its operating efficiency leading to a reduced gross profit margin. Kazakhaltyn incurred significant capital expenditure in 2004 and the six months ended 30 June 2005.

Prior to and during the implementation of the modernisation programme, Kazakhaltyn increased its borrowings by issuing bonds on the Kazakhstan Stock Exchange in 2004 and 2005. The interest rate on the bonds was significantly lower than the interest rates on Kazakhaltyn's bank loans. In addition, Kazakhaltyn refinanced various bank loans in 2004 and reduced interest rates on such loans to 14%. It also obtained a new $15 million credit facility from Kazkommertsbank in January 2005. The refinancing of the existing credit facilities, the new credit facility with Kazkommertsbank and the issuance of bonds on the Kazakhstan Stock Exchange provided Kazakhaltyn with the necessary resources to commence and continue the implementation of its modernisation programme. However, this increased borrowing has led to a significant increase in its net finance expense.

Summary of Financial and Operating Performance

	Year ended 31 December				Six month period ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited)	(audited)	($'000, except earnings per share)	(unaudited)	(unaudited)	($'000, except (loss) per share)
	(KZT million, except earnings per share)				(KZT million, except earnings/(loss) per share)		
Revenues	1,546	1,526	1,141	8,389	603	290	2,213
Cost of sales	(1,237)	(1,116)	(937)	(6,890)	(428)	(266)	(2,031)
Gross profit	309	410	204	1,499	175	24	182
Administrative and sales expenses	(172)	(181)	(210)	(1,543)	(89)	(354)	(2,700)
Other operating income/ (expenses)	695	86	210	1,547	56	(76)	(579)
Profit/(loss) before finance income/(expense) and tax	832	315	204	1,503	142	(406)	(3,097)
Net finance expense	(200)	(205)	(164)	(1,207)	(66)	(211)	(1,606)
Profit/(loss) before tax	632	110	40	296	76	(617)	(4,703)
Tax	(263)	(71)	(35)	(256)	(29)	—	—
Profit/(loss) for the year/ period	369	39	5	40	47	(617)	(4,703)
Earnings/(loss) per share	KZT 240	KZT 25	KZT 4	$0.02	KZT 30	KZT (401)	$(3)
Cash generated from/ (absorbed by) operating activities	60	(169)	(477)	(3,510)	(108)	(1,274)	(9,710)
Net current (liabilities)/ assets	(567)	275	643	4,946	750	1,314	9,707
Shareholders' funds	1,356	1,395	2,420	18,615	1,442	1,803	13,330

(1) Converted into US dollars for convenience using an exchange rate of KZT 136.04 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2004, except for net current (liabilities)/assets and shareholders' funds, which have been converted using an exchange rate of KZT 130.00 per $1.00, being the official Tenge to US dollar exchange rate at 31 December 2004 as reported by the NBK.

(2) Converted into US dollars for convenience using an exchange rate of KZT 131.21 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2005, except for net current (liabilities)/assets and shareholders' funds, which have been converted using an exchange rate of KZT 135.26 per $1.00, being the official Tenge to US dollar exchange rate at 30 June 2005 as reported by the NBK.

	Year ended 31 December			Six month period ended 30 June	
	2002	2003	2004	2004	2005
Total labour costs (KZT millions)	304	371	419	201	334
Average labour cost per employee[1] (KZT thousands)	106	135	170	75	120
Number of employees at the end of year/period	2,865	2,748	2,469	2,674	2,785
Processed ore (thousands of tonnes)	257	270	217	131	44
Recovered grade (grams per tonne)	5.08	5.12	4.64	4.05	5.32
Recovery rate (percentage)	81.8	81.4	81.2	81.1	91.0
Gold sales (ounces)	34,317	36,182	26,272	13,837	6,848
Gold sales (thousands of kilograms)	1,067	1,125	817	430	213
Average price realised per ounce[2] (KZT)	39,834	42,176	43,430	43,579	42,348
Average production cost per ounce[3] (KZT)	35,164	30,844	35,665	30,932	38,843
Average production cost per ounce (US dollars)[3][4]	229	206	262	223	296
Average gold price per ounce[5] (KZT)	47,468	54,345	55,663	55,552	56,075
Average KZT/$exchange rate	153.28	149.58	136.04	138.52	131.21

(1) Average labour cost per employee is calculated by dividing total labour costs by the number of employees at the end of year/period.

(2) Average price realised per ounce is calculated by dividing revenues from gold sales by the number of ounces of gold sold during the corresponding year/period.

(3) Average production cost per ounce in Tenge is calculated by dividing cost of sales from gold sales by the number of ounces of gold sold during the corresponding year/period.

(4) Converted into US dollars for convenience using the average official Tenge to US dollar rates for the relevant period as reported by the NBK and as set out in the table above.

(5) Average gold price per ounce is calculated on the basis of average annual gold price ($/ounce) on the London bullion market (London Bullion Market Association (London PM fix $)), which is converted into Tenge at average KZT/$ exchange rate for the corresponding year/period.

Segmental analysis of revenues by product

	Year ended 31 December			Six month period ended 30 June	
	2002	2003	2004	2004	2005
			(KZT million)		
Flotation concentrate	442	958	742	394	167
Gravity concentrate	—	21	26	—	—
Free gold	93	467	373	209	115
Refined gold	832	—	—	—	—
Quartzite ore	—	80	—	—	8
Exploration services	179	—	—	—	—
Total revenue	1,546	1,526	1,141	603	290

Results of Operations

Six months ended 30 June 2005 compared to six months ended 30 June 2004

Revenues

Revenues for the six months ended 30 June 2005 decreased to KZT 290 million from KZT 603 million for the six months ended June 2004. In the six months ended 30 June 2005, there was no ore extraction or processing at the Aksu and Zholymbet mines. As a result of the closure of the Aksu and Zholymbet processing plants, the volume of gold sold decreased by 51% and revenues from sales of gold fell by 52% during the six months ended 30 June 2005 as compared to the same period in 2004.

Cost of sales

Cost of sales decreased to KZT 266 million for the six months ended 30 June 2005 from KZT 428 million for the six months ended 30 June 2005, representing a 38% decrease. This decrease was a result of the closure of the Aksu and Zholymbet processing plants.

Gross profit

Gross profit for the six months ended 30 June 2005 decreased to KZT 24 million from KZT 175 million for the six months ended 30 June 2004. Gross margin declined to 8% for the six months ended 30 June 2005 from 29% for the six months ended 30 June 2004. This substantial decrease in gross profit was the result of the reduced gold production in combination with Kazakhaltyn's continuing incurrence of various fixed production costs.

Administrative and sales expenses

Administrative and sales expenses for the six months ended 30 June 2005 increased to KZT 354 million from KZT 89 million for the six months ended 30 June 2004. This significant increase was the result of increased salaries, significant travels costs, higher property taxes (following the revaluation of buildings and unfinished construction projects to their fair value in September 2004) and increased professional fees.

Other operating income/(expenses)

Net other operating expenses were KZT 76 million for the six months ended 30 June 2005, compared to net operating income of KZT 56 million for the six months ended 30 June 2004. This was primarily the result of changes in the US dollar to the Tenge exchange rate in the respective periods, which gave rise to foreign exchange losses of KZT 74 million for the six months ended 30 June 2005, compared to foreign exchange gains of KZT 57 million for the six months ended 30 June 2004.

Net finance expense

Net finance expense increased substantially from KZT 66 million for the six months ended 30 June 2004 to KZT 211 million for the six months ended 30 June 2005 as a result of the significantly increased borrowings that are being used to finance the modernisation programme. The effect of the increase in borrowings was partially offset by lower effective interest rate on Kazakhaltyn's outstanding debt.

Income tax expense

There was no income tax expense for the six months ended 30 June 2005 as a result of the losses for the period. Kazakhaltyn's income taxes for the six months ended 30 June 2004 were KZT 29 million.

Profit/(loss) for the period

Kazakhaltyn's loss for the six months ended 30 June 2005 was KZT 617 million, compared to a profit of KZT 47 million for the six month period to 30 June 2004, primarily as a result of factors discussed above.

Year ended 31 December 2004 compared to year ended 31 December 2003

Revenues

Kazakhaltyn's revenues in 2004 were KZT 1,141 million, a decrease of KZT 385 million, or approximately 25%, from KZT 1,526 million in 2003. The overall decrease in revenues was primarily attributable to the closure of the Aksu and Zholymbet processing plants for reconstruction in August 2004. As a result of the

commencement of the modernisation programme, the volume of gold sold in 2004 decreased to 26,272 ounces, or approximately 27%, from 36,182 ounces in 2003. The effect of the decrease in gold sales in 2004 was partially offset by the increase in the average price of gold per ounce realised by Kazakhaltyn, which increased to KZT 43,430 in 2004 (approximately $334 at the 31 December 2004 US dollar to the Tenge exchange rate) from KZT 42,185 (approximately $292 at the 31 December 2003 US dollar to the Tenge exchange rate) in 2003.

Cost of sales

Cost of sales in 2004 was KZT 937 million, a decrease of KZT 179 million, or approximately 16%, from KZT 1,116 million in 2003. This decrease was a result of the closure of the Aksu and Zholymbet processing plants in August 2004 for reconstruction.

Gross profit

Gross profit in 2004 was KZT 204 million, a decrease of KZT 206 million, or approximately 50%, from KZT 410 million in 2003. Gross margin declined to 18% in 2004 from 27% in 2003. Gross profits fell significantly in 2004 as a result of reduction in gold production due to the closure of the Aksu and Zholymbet processing plants for reconstruction, whilst Kazakhaltyn continued to incur various fixed production costs in respect of these properties.

Administrative and sales expenses

Administrative and sales expenses in 2004 were KZT 210 million, an increase of KZT 29 million, or approximately 16%, from KZT 181 million in 2003. This increase was primarily the result of higher bank expenses incurred by Kazakhaltyn in 2004, which increased to KZT 25 million from KZT 11 million in 2003.

Other operating income/(expenses)

Net other operating income in 2004 was KZT 210 million, an increase of KZT 124 million, or approximately 144%, from KZT 86 million in 2003. Kazakhaltyn had foreign exchange gains of KZT 133 million in 2004, compared to foreign exchange gains of KZT 103 million in 2003, as the Tenge strengthened against the US dollar by 10% in 2004 and by 7% in 2003 (based on December 31 figures for the US dollar to the Tenge exchange rate). In 2004, other operating income also included KZT 62 million resulting from the revaluation of Kazakhaltyn's investment properties (a communications centre and a warehouse), which had previously been carried at nil value, to their fair market value.

Net finance expense

Kazakhaltyn's net finance expense, in 2004 was KZT 164 million, a decrease of KZT 41 million, or approximately 20%, from KZT 205 million in 2003. This decrease is attributable primarily to lower effective interest rate on Kazakhaltyn's borrowings as the result of the refinancing of the existing credit facilities in 2004 and the issuance of bonds listed on the Kazakhstan Stock Exchange with an interest rate that is significantly lower than the interest rates on Kazakhaltyn's bank loans.

Income tax expense

Income tax expense in 2004 was KZT 35 million, a decrease of KZT 36 million, or approximately 51%, from KZT 71 million in 2003. The decrease is attributable to lower taxable income in 2004 resulting largely from the lower profits in 2004 and also from short term timing differences.

Profit/(loss) for the year

Kazakhaltyn's profit in 2004 was KZT 5 million, a decrease of KZT 34 million, or approximately 87%, from a profit of KZT 39 million in 2003, primarily as a result of factors discussed above.

Year ended 31 December 2003 compared to year ended 31 December 2002

Revenues

Kazakhaltyn's revenues in 2003 were KZT 1,526 million, a decrease of KZT 20 million, or approximately 1%, from KZT 1,546 million in 2002. Whilst Kazakhaltyn's volume of gold sold increased to 36,182 ounces in 2003, or approximately 5%, from 34,317 ounces in 2002 and the average price of gold per ounce realised

by Kazakhaltyn also increased to KZT 42,176 (approximately $292 at the 31 December 2003 US dollar to the Tenge exchange rate) in 2003 from KZT 35,164 (approximately $226 at the 31 December 2002 US dollar to the Tenge exchange rate) in 2002, total revenues in 2002 were higher than in 2003 due to the receipt of KZT 179 million for exploration services that were provided in connection with the sale of the Bailyusty deposit.

Cost of sales

Cost of sales in 2003 was KZT 1,116 million, a decrease of KZT 121 million, or approximately 10%, from KZT 1,237 million in 2002.

Gross profit

Gross profit in 2003 was KZT 410 million, an increase of KZT 101 million, or approximately 33%, from KZT 309 million in 2002. Gross margin increased to 27% in 2003 from 20% in 2002. The increase in Kazakhaltyn's gross profit was due primarily to the increased price of gold.

Administrative and sales expenses

Administrative and sales expenses in 2003 were KZT 181 million, an increase of KZT 9 million, or approximately 5%, from KZT 172 million in 2002. This increase was due to increased professional costs incurred in 2003.

Other operating income/(expenses)

Net other operating income in 2003 was KZT 86 million, a decrease of KZT 609 million, or approximately 88%, from KZT 695 million in 2002. In 2002, other operating income included the write-off of liabilities totalling KZT 729 million in respect of claims barred under the statute of limitations. The two most significant items within this balance were KZT 401 million in unpaid salaries for the pre-1999 period, and KZT 277 million due to Kazatomprom NAK. Kazakhaltyn had foreign exchange gains of KZT 103 million in 2003 due to a 7% appreciation of the Tenge against the US dollar in 2003 (based on December 31 figures for the US dollar to the Tenge exchange rate), compared to foreign exchange losses of KZT 48 million due to a 4% appreciation of the US dollar against the Tenge in 2002 (based on December 31 figures for the US dollar to the Tenge exchange rate).

Net finance expense

Kazakhaltyn's finance expense, net, in 2003 was KZT 205 million, an increase of KZT 5 million, or approximately 3%, from KZT 200 million in 2002. This increase was due to the increase in the outstanding principal amount of the borrowings.

Income tax expense

Income tax expense in 2003 was KZT 71 million, a decrease of KZT 192 million, or approximately 73%, from KZT 263 million in 2002. The decrease is attributable to lower taxable income in 2003. In 2002, Kazakhaltyn utilised brought forward losses to reduce its current tax charge by KZT 220 million and, accordingly, the deferred tax asset relating to these losses was released in that period.

Profit/(loss) for the year

Kazakhaltyn's profit in 2003 was KZT 39 million, a decrease of KZT 330 million, or approximately 89%, from a profit of KZT 369 million in 2002, primarily as a result of factors discussed above.

Liquidity and Capital Resources

Kazakhaltyn's primary cash requirements include funding construction in connection with its modernisation programme, upgrade and maintenance projects, servicing indebtedness and general working capital needs. Kazakhaltyn's primary sources of liquidity are available cash reserves, internal cash generation and long-term debt.

As of 31 December 2004, Kazakhaltyn had cash and cash equivalents of KZT 106 million and approximately $650,000 available under its unutilised credit facilities. As of 30 June 2005, Kazakhaltyn had cash and cash equivalents of KZT 19 million and approximately $6.2 million available under its unutilised credit facilities.

Cash flow

	Year ended 31 December				Six months ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited) (KZT million)	(audited)	($ thousands)	(unaudited) (KZT million)	(unaudited)	($ thousands)
Net cash generated from/(absorbed by) operating activities	60	(169)	(477)	(3,510)	(109)	(1,274)	(9,710)
Net cash used in investing activities .	(80)	(76)	(1,192)	(8,761)	(304)	(939)	(7,160)
Net cash generated from financing activities	12	243	1,773	13,036	849	2,126	16,206
Net change in cash and cash equivalents	(8)	(2)	104	765	436	(87)	(664)
Cash and cash equivalents at beginning of the period	12	4	2	12	2	106	777
Cash and cash equivalents at end of the period	4	2	106	777	438	19	113

(1) Converted into US dollars for convenience using an exchange rate of KZT 136.04 per $1.00, being the average official Tenge to US dollars exchange rate as reported by the NBK for 2004. This information has not been subject to any audit of review.

(2) Converted into US dollars for convenience using an exchange rate of KZT 131.21 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2005. This information has not been subject to any audited as review.

Net cash flow from operating activities

The operating activities of Kazakhaltyn resulted in a net cash outflow of KZT 1,274 million for the six months to 30 June 2005 compared with a net cash outflow of KZT 109 million for the six months to 30 June 2004. This was as a result of the loss of KZT 617 million incurred in the six months to 30 June 2005 compared to the profit of KZT 47 million in the six months to 30 June 2004, together with the larger (by KZT 636 million) increase in working capital (primarily of prepaid expenses and inventories but also partially offset by a rise in trade payables) in the six months to 30 June 2005 compared to the six months to 30 June 2004.

The operating activities of Kazakhaltyn in 2004 resulted in a net cash outflow of KZT 477 million compared with a net cash outflow of KZT 169 million in 2003. This was as a result of lower profits, increased non-cash income (such as the revaluation of investment properties) and a larger increase in working capital in 2004.

The operating activities of Kazakhaltyn in 2003 resulted in a net cash outflow of KZT 169 million compared with a net cash inflow of KZT 60 million in 2002. This was as a result of a larger (by KZT 466 million) increase in working capital in 2003 compared to 2002, which was partially offset by the higher gold price achieved in 2003 (resulting in higher gross profits) and foreign exchange gains.

Net cash flow used in investing activities

Kazakhaltyn used KZT 939 million in cash in investing activities for the six months ended 30 June 2005 compared with KZT 304 million for the six months ended 30 June 2004. The 209% increase in the Kazakhaltyn's cash flow used in investing activities was due primarily to the construction of the Aksu CIP Facilities, the Zholymbet CIP Plant, the Aksu Heap Leach Plant and the Bestobe Heap Leach Plant.

Kazakhaltyn used KZT 1,192 million in cash in investing activities in 2004 compared with KZT 76 million in 2003. The 1,468% increase in Kazakhaltyn's cash flow used in investing activities in 2004 compared with 2003 was due primarily to the commencement of Kazakhaltyn's modernisation programme in the second

half of 2004, the first stage of which involved the complete reconstruction of the two existing processing plants at Aksu and Zholymbet and the construction of two heap leach plants at Aksu and Bestobe.

Kazakhaltyn used KZT 76 million of cash in investing activities in 2003 compared with KZT 80 million in 2002.

Net cash flows from financing activities

Kazakhaltyn generated KZT 2,126 million in cash from financing activities for the six months ended 30 June 2005 compared with KZT 849 million for the six months ended 30 June 2004. This 150% increase in cash flow provided by financing activities was due primarily to borrowings under the new secured credit facility, which Kazakhaltyn arranged with Kazkommertsbank, and the issuance of bonds of 855,756,265 KZT1 (resulting in net proceeds of KZT 814,589,000) listed on the Kazakhstan Stock Exchange.

Kazakhaltyn generated KZT 1,773 million in cash from financing activities in 2004 compared with KZT 243 million in 2003. This 630% increase in cash flow provided by financing activities from 2003 to 2004 was primarily the result of the issuance of 1,750,177,562 bonds of KZT1 each listed on the Kazakhstan Stock Exchange which raised KZT 1,720 million. In addition, in 2004, Kazakhaltyn took out new loans of KZT 1,238 million (mainly under new facilities with JSC Nurbank) and repaid loans of KZT 1,185 million.

Kazakhaltyn generated KZT 243 million in cash from financing activities in 2003 compared with KZT 12 million in 2002. In 2003, Kazakhaltyn took out new loans of KZT 1,513 million (utilising a new facility with Kazkommetsbank) and repaid loans of KZT 1,270 million.

Capital resources

Kazakhaltyn's policy is to finance its operations through a combination of cash flow generated from operations, equity funding, bank debt, issuance of bonds and leasing.

The following table sets forth Kazakhaltyn's long-term and short-term borrowings, cash and cash equivalents and equity as at the dates specified:

	Year ended 31 December				Six months period ended 30 June		
	2002	2003	2004	2004[1]	2004	2005	2005[2]
	(audited)	(audited)	(audited)		(unaudited)	(unaudited)	
		(KZT million)		($ thousands)	(KZT million)		($ thousands)
Long-term borrowings:							
Bank loans > 1 year	664	1,444	1,344	10,340	1,410	2,644	19,552
Bonds	—	—	1,723	13,256	736	2,543	18,801
Finance leases > 1 year	—	—	—	—	—	141	1,039
Short-term borrowings:							
Bank loans < 1 year	583	46	199	1,533	194	280	2,070
Finance leases < 1 year	—	—	—	—	—	39	289
Cash and cash equivalents and equity:							
Cash and cash equivalents	3	2	106	814	438	20	143
Equity	1,356	1,395	2,420	18,615	1,442	1,803	13,330

(1) Converted into US dollars for convenience using an exchange rate of KZT 130.00 per $1.00, being the official Tenge to US dollar exchange rate as reported by the NBK as at 31 December 2004.

(2) Coverted into US dollars for convenience using an exchange rate of KZT 135.26 per $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at 30 June 2005.

Description of indebtedness

The following table sets forth certain information about Kazakhaltyn's bank debt and bonds as at 30 June 2005:

	Currency	Total	Due in less than 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due in more than 5 years	Interest Rate
					(KZT million)				
Kazkommertsbank	KZT	149	16	31	31	32	27	12	13%
Kazkommertsbank	US$	1,652	100	414	414	414	310	—	13%
JSC Nurbank	KZT	319	37	82	104	74	22	—	14-15%[1][2]
JSC Nurbank	US$	805	127	216	245	170	47	—	14-15%[1][2]
Bonds	KZT	2,543	—	—	—	2,543	—	—	Floating[3]
Finance leases	KZT	179	39	42	50	48	—	—	17%
Total		5,647	319	785	844	3,281	406	12	

(1) Under additional agreements with JSC Nurbank, a correction coefficient is applied to Tenge denominated loans. This correction coefficient is equivalent to the change in the exchange rate since the date of each drawdown under the loan and only applies if the US dollar appreciates against the Tenge. It is applied when the loan is due for repayment (or repaid, if earlier). This effectively means that Kazakhaltyn remains exposed to any appreciation in the value of the US dollar.

(2) Advances under Nurbank Credit Agreement No. 1 bear interest at a rate of 14% per annum, except in respect of amounts drawn from 5 May 2005 to 5 November 2005, which bear interest at a rate of 15% per annum.

(3) The bonds bear interest at the rate equivalent to 9% per annum of the indexed par value for the first six months, and thereafter bear interest at a floating rate that depends on the consumer price index in Kazakhstan with the highest interest rate not to exceed 13%.

For a more detailed discussion of Kazakhaltyn's principal credit facilities and bonds, see "*Certain Indebtedness—Credit Facilities" and "—Bond issue*".

Contractual obligations

In addition to the obligations described in "*—Liquidity and Capital Resources—Capital resources—Description of indebtedness*" above, Kazakhaltyn has obligations under its subsurface use contracts to invest in training the local Kazakh workforce. Under the terms of Contract No. 145, these training obligations require Kazakhaltyn to invest at least 1% of its net income per annum in such training programmes. The amount of expenditure on training Kazakh employees in each of the three contracts for the processing of tailings was set at 0.1% of investments during the exploration stage of the contract and 0.1% of operational costs during the production stage of the relevant contract.

Kazakhaltyn also has obligations to invest in the development of social infrastructure of the territory covered by its subsurface use contracts. Under the terms of Contract No. 145, these obligations require Kazakhaltyn to provide financing for social infrastructure development in the amount of at least 1% of its total amount of investments.

As a condition of its subsurface use contracts, Kazakhaltyn must provide an annual amount toward the cost of closure and rehabilitation for the mines and tailing dams. Under the terms of Contract No. 145, Kazakhaltyn is obligated to transfer an amount equal to 1% of its net income per annum into a liquidation fund for environmental clean-up costs following cessation of mining operations. Transfers of funds by Kazakhaltyn into liquidation funds are also contemplated under the terms of the three contracts for the processing of tailings. The funds transferred into liquidation fund are held in a restricted account.

Capital Expenditure

In 2002 and 2003, Kazakhaltyn's capital expenditure was KZT 80 million and KZT 81 million, respectively. With the commencement of the modernisation programme in 2004, Kazakhaltyn's capital expenditure increased to KZT 1,293 million in 2004. For the six months ended 30 June 2005, Kazakhaltyn's capital expenditure was KZT 928 million.

The following table sets forth Kazakhaltyn's capital expenditure for the construction of the four processing facilities in 2004, for the six months ended 30 June 2004 and for the six months ended 30 June 2005, as well

as other and total capital expenditure in 2002, 2003, 2004 and for the six months ended 30 June 2004 and for the six months ended 30 June 2005:

	Year ended 31 December			Six months period ended 30 June	
	2002	2003	2004	2004	2005
	(KZT million)				
Aksu CIP plant construction	—	—	279	68	214
Zholymbet CIP plant construction	—	—	340	78	230
Aksu heap leach plant construction	—	—	391	88	258
Bestobe heap leach plant construction	—	—	263	66	211
Other capital expenditure	80	81	20	4	15
Total capital expenditure in the year/period	80	81	1,293	304	928

Kazakhaltyn's budgeted capital expenditure, including exploration expenditure, for the six months ended 31 December 2005 and for 2006 is approximately $2.5 million and approximately $45.7 million, respectively. These funds are expected to come from a combination of proceeds from the Global Offer and operating cash flows, and are expected to be used primarily for the construction of the Bestobe CIP Plant and the Zholymbet Heap Leach Plant.

Disclosures about Market Risk

Kazakhaltyn's primary risk exposures are commodity price risk and foreign currency risk.

Commodity price risk

Kazakhaltyn is exposed to the effect of fluctuations in commodity prices. The principal exposure is to the price of gold, which is the only product produced by Kazakhaltyn and which is quoted in US dollars on international markets. Changes in the market price for gold have historically influenced the results of operations of Kazakhaltyn and are expected to continue to do so in the future. See "*Risk Factors—Risks Related to the Gold Mining Industry—The profitability of the Group's operations, and the cash flows generated by these operations, are significantly affected by changes in the market price for gold*" and "*—Significant Factors Affecting Results of Operations—World gold price*" above.

Kazakhaltyn does not currently hedge its exposure to the risk of fluctuations in the price of gold. Kazakhaltyn will continue to review its hedging strategy at regular intervals in order to moderate the effects of the volatility of gold prices. See "*Business—Products and Sales—Sales—Hedging*".

Foreign currency risk

Kazakhaltyn earns all of its revenues in US dollars. However, Kazakhaltyn incurs most of its costs in Tenge. Kazakhaltyn also typically borrows in US dollars and Tenge. Because most of Kazakhaltyn's expenses are incurred in Tenge, Kazakhaltyn's expenses may from time-to-time increase or decrease relative to its revenues as a result of the fluctuations of the US dollar to the Tenge exchange rate. This could affect the results of operations of Kazakhaltyn in future periods. See "*—Significant Factors Affecting Results of Operations—Exchange rates*" above. Kazakhaltyn does not currently hedge its exposure to foreign currency risk.

Critical Accounting Policies

Basis of accounting

The financial information has been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations, adopted by the International Accounting Standards Board.

Foreign currency translation

Foreign currency transactions are translated into Tenge using the exchange rate if effect at the date of the transaction. Monetary balance sheet items stated in foreign currency are translated at the exchange rates in effect at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities

denominated in foreign currencies are included in the income statement for the year. Exchange differences arising on the translation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost.

Buildings and constructions are stated at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. Any decrease arising on the revaluation of such buildings and constructions is debited to the revaluation reserve to the extent that it reverses a previous revaluation increase for the same asset recognised within the revaluation reserve.

All other items of property, plant and equipment are stated at their cost less accumulated depreciation and impairment losses. Where the carrying amount of such an asset is greater than its expected fair value, the carrying value is written down to the fair value, and the decrease recognised as an expense.

Property, plant and equipment are depreciated on a straight-line basis from the date they are ready to be brought into use over the estimated useful life of the item. Land is not depreciated.

Buildings and property	11 to 50 years
Machinery and equipment	2 to 35 years
Vehicles	4 to 10 years
Other	1.5 to 17 years

Expenses for maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishment and improvements are capitalised.

Capitalised mine development and mining costs

Costs of acquisition, exploration and development of mining properties are capitalised as incurred using the full cost method. Whenever the carrying amount of an asset exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value in use, an impairment loss is recognised in the income statement. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset.

All geological and geophysical studies have been capitalised as part of the mining properties. Kazakhaltyn's mining properties primarily relate to the value of capitalised mine development costs.

Depreciation, depletion and amortisation of producing mine properties is calculated using the "units-of-production method" based on estimated recoverable reserves, and are charged to the cost of finished goods.

Construction in progress

Assets under constructions are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs and interest capitalised in accordance with Kazakhaltyn's accounting policy. When the assets are ready for their intended use, their cost is transferred to the relevant class of property, plant and equipment.

Inventories

Raw materials which consist of equipment for development activities, spare parts, diesel fuel, and various materials for use in mining operations are valued at the lower of cost and net realisable value.

Finished goods (comprising gold and silver flotation concentrates, gravitational concentrates, quartzite ore and free gold) are stated at the lower of cost and net realisable value. Costs comprise direct materials, direct labour costs and production overheads (which includes the depreciation of relevant property, plant and equipment, and the amortisation of capitalised mine development and mining costs). Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in selling and distribution.

CERTAIN INDEBTEDNESS

The following is a description of certain material indebtedness of the Group. The descriptions set out below do not purport to be complete and are subject in their entirety by reference to the actual provisions of each respective agreement or instrument described.

Credit Facilities

As at the date of this document, the Group has the following principal credit facilities:

Nurbank Credit Agreement No. 1

On 5 May 2004, Kazakhaltyn as the borrower entered into a $6,000,000 credit agreement with JSC Nurbank as the lender (the "**Nurbank Credit Agreement No. 1**"), of which approximately $5.9 million was drawn at 30 June 2005. The final maturity date of the Nurbank Credit Agreement No. 1 is 5 May 2009 and all outstanding amounts are due on that date. Advances under the Nurbank Credit Agreement No. 1 bear interest at a rate of 14% per annum (save in respect of amounts drawn from 5 May 2005 to 5 November 2005 which bears interest at a rate of 15% per annum). The obligations of Kazakhaltyn under the Nurbank Credit Agreement No. 1 are secured on 660,106 shares in Kazakhaltyn held by Romanshorn LC AG, a pledge of receivables, and a pledge of Kazakhaltyn's subsurface rights under Contract No. 761, Contract No. 762 and Contract No. 917 in respect of the Bestobe, Aksu and Zholymbet deposits. The Nurbank Credit Agreement No. 1 includes covenants from Kazakhaltyn that not less than 75% of its total turnover will be paid into accounts maintained with JSC Nurbank and limiting its ability to incur indebtedness to third parties in excess of approximately $7.7 million.

Nurbank Credit Agreement No. 2

On 23 December 2002, Kazakhaltyn as the borrower entered into a $2,000,000 credit agreement with JSC Bank CenterCredit as the lender which was subsequently assigned to JSC Nurbank and increased to a $2,500,000 credit agreement (the "**Nurbank Credit Agreement No. 2**"), all of which was drawn at 30 June 2005. The final maturity date of the Nurbank Credit Agreement No. 2 is 30 April 2009 and all outstanding amounts are due on that date. Advances under the Nurbank Credit Agreement No. 2 bear interest at a rate of 14% per annum. The obligations of Kazakhaltyn under the Nurbank Credit Agreement No. 2 are secured on 660,106 shares in Kazakhaltyn held by Romanshorn LC AG and a pledge of receivables. The Nurbank Credit Agreement No. 2 includes a covenant from Kazakhaltyn limiting its ability to incur indebtedness to third parties in excess of approximately $6.5 million.

Kazkommertsbank Credit Agreement No. 1

On 20 January 2005, Kazakhaltyn as the borrower entered into a $15,000,000 credit agreement with JSC Kazkommertsbank as the lender (the "**Kazkommertsbank Credit Agreement No. 1**"), of which approximately $12.2 million was drawn at 30 June 2005. Amounts may be drawn under the Kazkommertsbank Credit Agreement No.1 until 20 January 2006, which is the final maturity date and all outstanding amounts are due on that date. Advances under the Kazkommertsbank Credit Agreement No.1 bear interest at a rate of 13% per annum. The obligations of Kazakhaltyn under the Kazkommertsbank Credit Agreement No. 1 are secured by a pledge of Kazakhaltyn's subsurface rights under Contract No. 145, a pledge by AskamInvestCo Ltd of 50% interest in Kazakh-Pacific Precious Metals Ltd, a mortgage of certain residential properties in Almaty and Astana, a mortgage of land in Astana and a pledge of the Aksu, Bestobe and Zholymbet concentration and extraction plants and of certain other equipment.

Kazkommertsbank Credit Agreement No. 2

On 24 June 2005, in connection with the acquisitions of Rudnik Vasilevskyi LLP and Visart LLP, Kazakhaltyn as the borrower entered into a $4,500,000 credit agreement with JSC Kazkommertsbank as the lender (the "**Kazkommertsbank Credit Agreement No. 2**"), of which approximately $1.1 million was drawn at 30 June 2005. The final maturity date of the $4,000,000 term facility is 24 June 2010 and all outstanding amounts under the term facility are due on that date. The final maturity of the $500,000 revolving facility is 24 June 2008 and all outstanding amounts under the term facility are due on that date. Advances under the Kazkommertsbank Credit Agreement No. 2 bear interest at a rate of 13% per annum. The obligations of Kazakhaltyn under the Kazkommertsbank Credit Agreement No. 2 are secured on the

assets and mineral rights of Rudnik Vasilevskyi LLP and Visart LLP which Kazakhaltyn acquired in July 2005.

Covenants

The above mentioned credit facilities contain certain affirmative covenants, including, without limitation, certain financial ratio covenants to be observed, and, in some cases, restrictions on dividend payments. In addition, these credit facilities contain certain other customary covenants relating to limitations on, *inter alia*:

- sale of assets;
- mergers;
- indebtedness;
- disposals;
- acquisitions;
- material changes in the business;
- reductions of the issued share capital; and
- liens.

Events of default

The above mentioned credit facilities contain certain customary events of default, including, *inter alia*:

- failure to make payments under the credit facilities;
- breach of covenants, including financial covenants in relation to Kazakhaltyn;
- breach of representations;
- change of control;
- cross defaults;
- material litigation;
- insolvency, bankruptcy or similar events;
- failure of security or the guarantees; and
- material adverse change.

Bond Issue

In April 2004, Kazakhaltyn was authorised to issue 2,800,000,000 bonds of KZT 1 each, of which 2,605,933,827 were outstanding as at 30 June 2005. The final maturity date of the bonds is 2 June 2009. Interest on the bonds is payable semi-annually with the first coupon bearing interest at a rate of 9.0% per annum of the indexed par value; beginning from the seventh month of the circulation the interest rate will be floating depending on the inflation rate with the highest interest rate being fixed at 13%. The bonds are listed on the official list of the Kazakhstan Stock Exchange.

PRINCIPAL SUBSIDIARIES

The Company is the holding company for the Group and has the principal direct and indirect subsidiary undertakings set out below. For more information on the Group's structure, see "*Business—Corporate Structure—Current group structure*".

Name	Registered office	Activity	Proportion of capital held	Amount of issued capital (as at 31 December 2004)
Romanshorn LC AG	c/o Greenebaum Doll & McDonald LLC 300 W. Vine Street Suite 1100 Lexington Kentucky 4057 United States	Holding company	100%	$500
JSC Kazakhaltyn Mining—Metallurgical Concern	Building 6 Micro District 6 Stepnogorsk Kazakhstan	Gold exploration, mining and processing	100%	KZT 1,538,711 thousand
Visart LLP	42/44 Abay prospect Office 305 Almaty Kazakhstan 050022	Gold exploration, mining and processing	100%	KZT 1,000,000
Rudnik Vasilevskyi LLP	7 Mustafa Oztyurk Street Almaty Kazakhstan 050057	Gold exploration, mining and processing	100%	KZT 8,619,596

The Group's principal subsidiary is Kazakhaltyn which is held indirectly through the Company's direct subsidiary Romanshorn LC AG. The value which the Company will ascribe to its holding in Kazakhaltyn will be assessed in due course as part of the process of preparing the consolidated audited financial statements of the Company for the year ended 31 December 2005. Financial information on Kazakhaltyn for the year ended 31 December 2004, including its share capital, reserves and profit arising from ordinary activities after tax, is included elsewhere in this document. All of Kazakhaltyn's issued shares are fully paid. The Company has to date received no dividends from Kazakhaltyn and there are no debts owed or owing between them.

PRINCIPAL SHAREHOLDERS

The following table sets out details, in so far as it is known to the Company the interests in Shares by persons who are directly or indirectly interested in three per cent. or more of its issued share capital as at the date of this document and as adjusted to reflect the issue of New Shares and sale of Existing Shares, in each case in the form of GDRs pursuant to the Global Offer.

	As at the date of this document		After the Global Offer			
Name	Number of Shares	% of issued share capital	Number of Shares (assuming no Shares are acquired pursuant to the Over-allotment Arrangements)	% of issued share capital	Number of Shares (assuming the maximum number of Shares are acquired pursuant to the Over-allotment Arrangements)	% of issued share capital
Gold Lion Limited[1] . .	39,600,000	99.0	35,000,000	74.3	33,600,000	71.3

(1) Gold Lion Limited is wholly owned by Abacus (C.I.) Limited as trustee of The ABM SK Trust, a Jersey discretionary trust whose only named discretionary beneficiaries are Dr. Kanat Assaubayev, Mrs. Marussya Assaubayeva, Mr. Baurzhan Assaubayev, Mr. Aidar Assaubayev and Mr. Sanzhar Assaubayev. Dr. Kanat Assaubayev, Mrs. Marussya Assaubayeva, Mr Baurzhan Assaubayev and Mr. Aidar Assaubayev are Directors of the Company.

General

The Articles of Association adopted pursuant to a written resolution of the shareholders of the Company dated 11 November 2005 contain provisions as summarised below.

Voting Rights

Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any shares on a show of hands every member present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote and on a poll every member shall have one vote for each share of which he is the holder.

In the case of joint holders unless such joint holders shall have chosen one of their number to represent them and so notified the Company in writing the vote of the most senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company of which he is holder or one of the joint holders have been paid.

On a poll votes may be given either personally or by proxy.

Dividends

The Company in general meeting may by ordinary resolution declare dividends but no dividend shall exceed the amount recommended by the Directors in accordance with the respective rights of the members and the declaration of the Directors as to the amount of the profits shall be conclusive.

The Directors may from time to time pay to the members such interim dividends as appear to the Directors to be justified by the profits of the Company.

If the share capital is divided into different classes the Directors may pay interim dividends on shares which confer deferred or non-preferential rights with regard to dividends as well as on shares which confer preferential rights with regard to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

Directors may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

Provided the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

The Directors may before recommending any dividend set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall at their discretion be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may at the like discretion either be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

The Directors may deduct from any dividend payable to any member all such sums of money (if any) as may be due and payable by him to the Company on account of calls or otherwise.

No dividend shall bear interest against the Company.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. No unclaimed dividend shall bear interest against the Company. The payment by the Directors of any unclaimed dividend or other monies payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof and any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

Capitalisation of Reserves

Subject to any necessary sanction or authority being obtained the Company in general meeting may at any time and from time to time pass a resolution that any sum not required for the payment or provision of a fixed dividend with or without further participation in profits and (a) for the time being standing to the credit of any reserve fund of the Company including premiums received on the issue of any shares or debentures of the Company (b) being undivided profits in the hands of the Company be capitalised and that such sum be appropriated as capital to and amongst the members in the shares and proportions in which they would have been entitled thereto if the same had been distributed by way of dividend and in such manner as the resolution may direct and the Directors shall in accordance with such resolution apply such sum in paying up in full or in part (where permitted by the Companies (Jersey) Law 1991) any unissued shares or debentures of the Company on behalf of such members and appropriate such shares or debentures to and distribute the same credited as fully paid up or partly paid up (where permitted by the Companies (Jersey) Law 1991) amongst them in the proportions aforesaid in satisfaction of their shares and interest in the said capitalised sum or shall apply such sum or any part thereof on behalf of such members in paying up the whole or part of any uncalled balance which shall for the time being be unpaid in respect of any issued shares or debentures held by them.

Share Capital

Without prejudice to any special rights for the time being conferred on the holders of any shares or class of shares (which special rights should not be varied or abrogated except with such consent or sanction as contained in the Articles) any share or class of shares in the share capital of the Company may be authorised for issue with such preferred, deferred or other special rights or such restrictions whether in regard to dividend return of capital voting or otherwise as the Company may from time to time by special resolution determine.

The Company may by special resolution alter its share capital as stated in its memorandum in any of the ways permitted or provided for under the Companies (Jersey) Law 1991.

Subject to any confirmation by the court and the provisions of the Companies (Jersey) Law 1991 the Company may by special resolution reduce its share capital in any way.

The Company may from time to time subject to the provisions of the Companies (Jersey) Law 1991 issue or convert existing non-redeemable shares whether issued or not into shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder thereof.

The Company may from time to time subject to the provisions of the Companies (Jersey) Law 1991 purchase its own shares (including any redeemable shares) in any manner authorised by the Companies (Jersey) Law 1991 provided that in the event that the Company shall purchase any shares which are admitted to listing or trading on any investment exchange such purchases shall be made in accordance with any relevant restrictions imposed by any such listing authority or exchange.

The Company may from time to time subject to the provisions of the Companies (Jersey) Law 1991 purchase its own shares (including any redeemable shares) in any manner authorised by the Companies (Jersey) Law 1991 provided that in the event that the Company shall purchase any shares which are admitted to listing or trading on any investment exchange such purchases shall be made in accordance with any relevant restrictions imposed by any such listing authority or exchange.

Modification of Rights

Subject to the Companies (Jersey) Law 1991 whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated at any time with the consent in writing of the holders of two thirds of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall *mutatis mutandis* apply except that the necessary quorum shall be persons holding or representing by proxy at least one third in nominal amount of the issued shares of the class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present one person present holding shares of that class or his proxy shall be a quorum) and that the holders of shares of that class or their duly appointed proxies shall on a poll have one vote in respect of every share of that class held by them respectively.

The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other special rights shall (unless otherwise expressly provided by the conditions of the issue of such shares) be deemed not to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Shares

The shares in the Company shall be at the disposal of the Directors who may subject to the provisions of the Companies (Jersey) Law 1991 and to any restrictions the Company in general meeting by ordinary resolution may from time to time impose, allot grant options over or otherwise deal with or dispose of them to such persons at such times and generally on such terms and conditions as they think proper. Save as provided in the Companies (Jersey) Law 1991 each share in the Company shall be distinguished by its appropriate number. The Company may pay a commission to a person in consideration of his subscribing or agreeing to subscribe for shares in the Company or procuring or agreeing to procure subscriptions for shares in the Company as provided in the Companies (Jersey) Law 1991.

Interests in Shares

The Directors shall have power by notice in writing to require any member to disclose to the Company the identity of any person other than the member (an "interested party") who has any interest in the shares held by the member and the nature of such interest.

Any such notice shall require any information in response to such notice to be given in writing within such reasonable time as the Directors shall determine.

The Company shall maintain a register of interested parties to which the provisions of Article 41 of the Companies (Jersey) Law 1991 shall apply *mutatis mutandis* and whenever in pursuance of a requirement imposed on a member as aforesaid the Company is informed of an interested party the identity of the interested party and the nature of the interest shall be promptly inscribed therein together with the date of the request.

The Directors may be required to exercise their powers under article 7(1) of the Articles on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up share capital of the Company as carries at that date the right of voting at general meetings of the Company.

The requisition must:

- state that the requisitionists are requiring the Company to exercise its powers under article 7(1) of the Articles;
- specify the manner in which they require those powers to be exercised; and
- give reasonable grounds for requiring the Company to exercise those powers in the manner specified,

and must be signed by the requisitionists and deposited at the office.

The requisition may consist of several documents in like form each signed by one or more requisitionists. On the deposit of a requisition complying with this section it is the Directors' duty to exercise their powers under article 7(1) of the Articles in the manner specified in the requisition.

If any member has been duly served with a notice given by the Directors in accordance with article 7(1) of the Articles and is in default for the prescribed period in supplying to the Company the information thereby required, then the Directors may in their absolute discretion at any time thereafter serve a notice (a "direction notice") upon such member as follows:

- a direction notice may direct that, in respect of:
  - the shares recorded in the Register of the member which comprise or include the shares in relation to which the default has occurred (all or the relevant number as appropriate of such shares being the "default shares"); and
  - any other shares held by the member;

  the member shall not be entitled to vote at a general meeting or meeting of the holders of any class of shares of the Company either personally or by a duly authorised representative (if a corporation) or by

proxy or to exercise any other right conferred by membership in relation to meetings of the Company or of the holders of any class of shares of the Company; and

- where the default shares represent at least 0.25 per cent in nominal value of the issued shares of the class of shares concerned, then the direction notice may additionally direct that:
  - in respect of the default shares, any dividend or part thereof or other money which would otherwise be payable on such shares shall be retained by the Company without any liability to pay interest thereon when such money is finally paid to the member;
  - no transfer other than an approved transfer as set out in article 7(7)(c) of the Articles of any of the shares held by such member shall be registered unless:
    - the member is not himself in default as regards supplying the information requested; and
    - the transfer is of part only of the member's holding and when presented for registration is accompanied by a certificate by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.

The Company shall send to each other person appearing to be interested in the shares the subject of any direction notice a copy of the notice, but the failure or omission by the Company to do so shall not invalidate such notice.

If shares are issued to a member as a result of that member holding other shares in the Company and if the shares in respect of which the new shares are issued are default shares in respect of which the member is for the time being subject to particular restrictions, the new shares shall on issue become subject to the same restrictions whilst held by that member as such default shares. For this purpose, shares which the Company procures to be offered to members pro rata (or pro rata ignoring fractional entitlements and shares not offered to certain members by reason of legal or practical problems associated with offering shares outside the United Kingdom or Jersey) shall be treated as shares issued as a result of a member holding other shares in the Company.

Any direction notice shall have effect in accordance with its terms for as long as the default, in respect of which the direction notice was issued, continues but shall cease to have effect in relation to any shares which are transferred by such member by means of an approved transfer as set out in article 7(7)(c) of the Articles. As soon as practical after the direction notice has ceased to have effect (and in any event within seven days thereafter) the Directors shall procure that the restrictions imposed by articles 7(4) and 7(5) of the Articles shall be removed and that dividends and other moneys withheld pursuant to article 7(4)(b)(i) of the Articles are paid to the relevant member.

Transfer of Shares

The Company may permit the holding in uncertificated form of one or more classes of shares determined by the Directors for this purpose in order that the transfer of title to any such shares may be effected by means of a computer system in accordance with the Jersey Regulations provided that the register of members shall be held in Jersey pursuant to the Companies (Jersey) Law 1991.

Unless and until the Directors determine that one or more classes of share may be held in uncertificated form, the shares shall be issued in certificated form.

The Directors shall have power to implement such arrangements as they may in their absolute discretion think fit in order for any class of shares to be a participating security (subject always to the Regulations and the facilities and requirements of the relevant system concerned). Where they do so:

- the Articles shall be construed accordingly and shall be deemed to be modified, amended or extended to the extent necessary to ensure that the same are consistent with the provisions of the Regulations and to permit the holding of shares of the relevant classes in uncertificated form and the transfer of title to shares of the relevant classes by means of a computer system; and
  - the provisions of the Articles shall commence to have effect immediately prior to the time at which the operator of the relevant system concerned permits the class of shares concerned to be a participating security.

In relation to any class of shares which is, for the time being, a participating security, and for so long as such class remains a participating security, no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

- the holding of shares of that class in uncertificated form;
- the transfer of title of shares of that class by means of a relevant system; or
- the Regulations.

Without prejudice to the generality of and notwithstanding anything contained in the Articles, where any class of shares is, for the time being, a participating security (such class being referred to hereinafter as the "Relevant Class"):

- shares of the Relevant Class may be issued in uncertificated form in accordance with the Regulations;
- unless the Directors otherwise determine, shares of the Relevant Class held by the same holder or joint holder in certificated form and uncertificated form shall be treated as separate holdings;
- shares of the Relevant Class may be changed from uncertificated to certificated form and from certificated to uncertificated form, in accordance with the Regulations;
- title of shares of the Relevant Class which are recorded on the register as being held in uncertificated form may be transferred by means of the relevant system concerned and accordingly (and in particular but without limitation) the Articles shall not apply in respect of such shares to the extent that any article requires or contemplates the effecting of a transfer by an instrument in writing and the production of a certificate for the share to be transferred;
- the Company shall comply with the provisions of the Regulations in relation to the Relevant Class; and
- the provisions of the Articles with respect to meetings of or including holders of the Relevant Class, including notices of such meetings, shall have effect subject to the Regulations.

Where relevant any article that requires the Company to issue a certificate to any person holding shares of the Relevant Class in uncertificated form shall not apply.

Any instrument of transfer of shares shall be in writing in any form which the Directors may approve (which shall specify the full name and address of the transferee) and shall be signed by or on behalf of the transferor (and, in the case of any partly paid share, the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Directors may decline to register any transfer of shares prohibited by the Articles and may decline to register any transfer of shares unless the instrument of transfer is deposited at the office or such other place as the Directors may reasonably require, accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. If the Directors decline to register a transfer of any share, they shall, within 2 months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods as the Directors may determine.

The Company shall be entitled to retain any instrument of transfer of any share which is registered, but any instrument of transfer of any share which the Directors refuse to register shall be returned to the person lodging it when notice of the refusal is given.

Lien

The Company shall have a lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of that share and the Company shall also have a lien on all shares (other than fully paid shares) standing registered in the name of a single person for all monies presently payable by him or his estate to the Company but the Directors may at any time declare any shares to be wholly or in part exempt from the provisions of the relevant article. The Company's lien (if any) on the shares shall extend to all dividends payable thereon.

General Meetings

The Company shall hold a general meeting as its Annual General Meeting once in every calendar year at each time and at such place as may be determined by the Directors.

The Directors may whenever they think fit convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on a requisition made in accordance with the Companies (Jersey) Law 1991 in writing and signed by members holding in the aggregate not less than one tenth in nominal value of the shares carrying the right to vote at the meeting.

Appointment of Directors

The number of Directors shall be not fewer than four. A Director need not be a member of the Company. The Directors shall have power at any time and from time to time to appoint, subject to the provisions of the Companies (Jersey) Law 1991, any person to be a Director either to fill a casual vacancy or as an additional Director. The Company may by Ordinary Resolution appoint any person to office as a Director.

Election, Re-election and Retirement of Directors

Subject to the provisions of the Articles all Directors shall submit themselves for election by shareholders at the first opportunity after their appointment, and shall not remain in office for longer than three years since their last election or re-election without submitting themselves for re-election. At each Annual General Meeting, the Directors subject to retirement in accordance with the Articles shall retire from office. A Director retiring at such meeting shall retain office until the dissolution of such meeting and accordingly on retiring a Director who is re-elected or deemed to have been re-elected pursuant to the Articles will continue in office without a break.

The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and any Director who has been, or who by the time of the next Annual General Meeting will have been, in office for three years.

Powers of Directors

The business of the Company shall be managed by the Directors who may pay all expenses incurred in setting up and registering the Company and who may exercise all such powers of the Company as are not provided for by the Companies (Jersey) Law 1991, the memorandum of association of the Company, the Articles, or any directions given by special resolution required to be exercised by the Company in general meeting. No alteration of the memorandum of association of the Company or the Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if the alteration had not been made or the direction had not been given. The powers given by the relevant Article shall not be limited by any special power given to the Directors by the Articles. A meeting of the Directors at which a quorum is present may exercise all powers and discretions exercisable by the Directors.

Proceedings of Directors

The Directors may meet together for the despatch of business adjourn and otherwise regulate their meetings and proceedings as they think fit and may determine the quorum necessary for the transaction of business which in default of such determination shall be four.

Any Director may participate in a meeting of the Directors or in a committee thereof by means of a conference telephone or similar communications equipment whereby all of the Directors participating in the meeting can hear each other and the Directors participating this manner shall be deemed to be present in person at such meeting for all the purposes of the Articles.

The Directors may elect a chairman of their meetings and determine the period for which he is to hold office but if no such chairman is elected or if at any meeting the chairman is not present a the time appointed for holding the same the Directors present shall choose one of their number to be chairman of such meeting.

Directors' Interests

A Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a member or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him

as a director or officer of or from his interests in such other company unless the Company otherwise directs.

A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by a subsidiary of the Company which to a material extent conflicts with the interests of the Company and of which he has actual knowledge shall disclose to the Company (by notice to the Directors) the nature and extent of his interest. Subject thereto any such Director shall not be liable to account to the Company for any profit or gain realised by him on such transactions.

A notice in writing given to the Company by a Director that he is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his interest in any such transaction entered into after the notice is given. Subject to the Articles, a Director may vote in respect of any such transaction and if he does so vote his vote shall be counted and he shall be capable of being counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration.

Subject to the provisions of the Companies (Jersey) Law 1991 a Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate amount at any one time owing by the Group in respect of moneys borrowed, exclusive of moneys borrowed by the Company or any of its subsidiary undertakings from any other of such companies, shall not at any time, without the previous sanction of the Company in general meeting, exceed a sum equal to the greater of:

- £500,000,000; or
- the aggregate of the nominal capital of the Company for the time being issued and paid-up or credited as paid up and the amounts standing to the credit of the consolidated reserves of the Company and its subsidiary undertakings whether distributable or undistributable and including (without limitation) share premium account, capital redemption reserve and profit and loss account,

all as shown in a consolidation of the then latest audited balance sheets of the Company and each of its subsidiary undertakings but after:

- making such adjustments as may be appropriate in respect of any variation in the issued and paid up share capital, share premium account and capital redemption reserve of the Company since the date of its latest audited balance sheet;
- excluding therefrom (so far as not already excluded) (i) any sums set aside for future taxation; (ii) amounts attributable to outside members in subsidiary undertakings; and
- deducting therefrom (i) an amount equal to any distribution by the Company out of profits earned prior to the date of its latest audited balance sheet and which have been declared, recommended or made since that date except so far as provided for in such balance sheet; and (ii) any debit balances on profit and loss account.

A report by the auditors of the Company as to the aggregate amount which may at any one time in accordance with the provisions of the Articles be owing by the Company and its subsidiaries without such sanction as aforesaid shall be conclusive in favour of the Company and all persons dealing with the Company. In addition, the Directors may act in reliance on a bona fide estimate as to the aggregate amount which may at any one time be owing by the Company and its subsidiaries without such sanction as aforesaid and, if in consequence the borrowing limit imposed by the Articles is inadvertently exceeded, the amount of moneys borrowed equal to the excess may be disregarded until the expiration of 28 days after

the day on which (by reason of the determination of the auditors of the Company or otherwise) the Directors became aware that such a situation has or may have arisen.

When the aggregate amount of borrowings required to be taken into account for the purposes of the Articles on any particular day is being ascertained, any of such moneys denominated or repayable in a currency other than sterling shall be converted for the purpose of calculating the sterling equivalent either:

- at the rate of exchange prevailing on that day in London provided that all but not some only of such moneys shall be converted at the rate of exchange prevailing in London six months before such day if thereby such aggregate amount would be less (and so that for this purpose the rate of exchange shall be taken as the middle market rate as at the close of business); or
- where the repayment of such moneys is expressly covered by a forward purchase contract currency option, back to back loan, swap or other arrangements taken out or entered into to reduce the risk associated with fluctuations in exchange rates, at the rate of exchange specified therein.

No debt incurred or security given in respect of moneys borrowed or to be taken into account as moneys borrowed in excess of the limit hereby imposed shall be invalid or ineffectual except in the case of express notice to the lender or recipient of the security at the time when the debt was incurred or security given that the limit hereby imposed had been or would thereby be exceeded. No lender or person dealing with the Company shall be concerned to see or enquire whether such limit is observed.

Subject to restrictions in the Articles, the Directors may exercise all the powers of the Company to borrow or raise money upon or by the issue or sale of any bonds, debentures or securities, and upon such terms as to time of repayment, rate of interest, price of issue or sale, payment of premium or bonus upon redemption or repayment or otherwise as they may think proper, including a right for the holders of bonds, debentures or securities to exchange the same for shares in the Company of any class authorised to be issued.

Winding Up

Subject to the claims of any secured creditors and to the provisions of any enactment as to preferential payments the Company's property shall on winding up be realised and applied in satisfaction of the Company's liabilities *pari passu* and subject thereto any surplus shall then be distributed amongst the members according to their rights and interests in the Company. Subject to the rights of the holders of shares issued upon special conditions if the assets available for distribution to members shall be insufficient to pay the whole of the paid up capital such assets shall be shared on a pro rata basis amongst members by reference to the number of fully paid up shares held by each member respectively at the commencement of the winding up.

If the Company shall be wound up the liquidator, or where there is no liquidator the Directors, may with the sanction of a special resolution divide amongst the members in specie any part of the assets of the Company or vest the same in trustees upon such trusts for the benefit of the members as the liquidator or the Directors (as the case may be) with the like sanction shall think fit.

TERMS AND CONDITIONS OF THE GDRs

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("**GDRs**") represented by this certificate are each issued in respect of one ordinary share of par value GBP 0.0001 each (the "**Shares**") in KazakhGold Group Limited (the "**Company**") pursuant to and subject to an agreement dated 30 November 2005, and made between the Company and The Bank of New York in its capacity as depositary (the "**Depositary**") for the "Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the "**Custodian**") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in Jersey as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Master GDR, evidencing GDRs, (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs while in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Jersey of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depository to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over-allotments) in respect of surrendered GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Jersey of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of Schedule 3, Part A of the Deposit Agreement *(which is described in the following paragraph)* by or on behalf of any investor who is to become the beneficial owner of the GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under "Subscription and Sale—Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR (by increasing the total number of GDRs evidenced by the relevant Master GDR by the number of such further GDRs).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depository determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of GDRs or Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system. Further, the Depositary may suspend

the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonable believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in GBP or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary

to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in GBP or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Jersey counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible

to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except

where the Company is the continuing corporation), the Depository shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Jersey and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Jersey in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Jersey law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Jersey law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a

particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depository, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Jersey law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Jersey law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Jersey law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion subject to all applicable laws and regulations), for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the

Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Jersey or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may (acting reasonably) object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Jersey law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) a fee of U.S.$0.02 or less per GDR for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (vii) below; and

(vii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge form one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours so far as is within its powers to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the Financial Services Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List of the Financial Services Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Jersey, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Jersey, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may

temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so

surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List of the Financial Services Authority and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the

Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:

(i) in respect of the financial year ending on 31 December 2004 and in respect of each financial year thereafter, the consolidated audited report and accounts of the Company, prepared in conformity with generally accepted accounting principles in Jersey or other internationally accepted reporting standards and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than two months after the end of the period to which they relate.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedule 3 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Jersey law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed

in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed DWS ASP Limited of 1 Fleet Place, London, EC4M 7WS, England as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed CT Corporation System of 111 8th Avenue, New York, NY 10011, United States as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "**Dispute**") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

The GDRs will initially be evidenced by a single Regulation S Master GDR (the "**Master GDR**") in registered form. The Master GDR will be deposited with The Bank of New York as common depositary for the respective accounts of Euroclear and Clearstream on the date the GDRs are issued. The Master GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions in the Deposit Agreement. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein and the numbering of the Conditions shall refer to the numbering as set out in the Deposit Agreement.

The Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (a), (b) or (c) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for the Master GDR to the Holders within 60 days in the event that:

(a) Euroclear or Clearstream advises the Company in writing that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(b) either Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business and no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(c) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs, which would not be required were the GDRs represented by certificates in definitive registered form.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream.

Upon any exchange of a Master GDR for certificates in definitive registered form evidencing GDRs or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the Register **provided always** that if the number of GDRs represented by the Master GDR is reduced to zero the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payment, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master GDR be made by the Depositary through Euroclear and Clearstream on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders may result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master GDR.

Payments of dividends and other cash Distributions payable in respect of the GDRs represented by the Master GDR will be made by the Depositary in US dollars.

Holders of GDRs will have voting rights in respect of Deposited Shares as set out in Condition 12. Subject as provided in Condition 12, voting rights will be exercised by the Depositary only upon receipt of written instructions in accordance with the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of GDRs to the Depositary shall be satisfied by the production by Euroclear or Clearstream on behalf of a person entitled to an interest in such GDRs of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream or if relevant an alternative clearing system. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent, and the Custodian of the title of such person to receive (or to issue instructions

for the receipt of) all money or other property payable or distributable, and to issue voting instructions, in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master GDR is registered in the name of a common nominee on behalf of Euroclear and Clearstream, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear or Clearstream for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23 except that so long as the GDRs are listed on the Official List and admitted to trading on the London Stock Exchange, and the Financial Services Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be the *Financial Times*).

The Master GDR shall be governed by and construed in accordance with English law.

THE REPUBLIC OF KAZAKHSTAN

Background

The information contained in this section has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Company only accepts responsibility for accurately reproducing such extracts as they appear in this section. It accepts no further or other responsibility in respect of such information.

Introduction

Kazakhstan is a sovereign democratic republic and, after Russia, is the largest in terms of landmass of the nations formed upon the dissolution of the Soviet Union in 1991. The country is rich in natural resources, including oil, gas and minerals.

The Government of Kazakhstan began implementing market-based economic reforms in 1991. Reforms included the implementation of a significant privatisation programme, the promotion of foreign direct investment, particularly in the oil and gas sector, and the introduction of an extensive legal framework. In recent years, Kazakhstan has experienced strong economic growth, with GDP increasing by 9.8% in 2002, by 9.3% in 2003 and by 9.4% in 2004. Kazakhstan has been recognised by both the European Union and the United States as having a market economy. In September 2002, Kazakhstan became one of the first countries in the former Soviet Union to receive an investment-grade credit rating from a major international credit rating agency, when Moody's rated Kazakhstan's foreign currency bonds and notes at Baa3.

Area and Population

Kazakhstan is the ninth largest country in the world. It is located in Central Asia and is bordered by Russia to the north and west, China to the east, the Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea to the West. The capital, Astana, is located in central Kazakhstan but Almaty, in the south east of the country is the principal financial centre in the country and is its largest city.

The country covers an area of approximately 2.7 million square kilometres, approximately the same size as Western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east.

As at 31 December 2004, the population of Kazakhstan was more than 15 million making it a relatively sparsely populated country, with an average population density of less than 6 people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's many different ethnic groups, accounting for more than half of the population. More than a quarter of the population are Russians. Other ethnic groups include Ukrainians, Germans, Uzbeks, Uigurs and others.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by more than half of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government. Approximately 98% of the population is literate.

Constitution, Government and Political Parties

Executive branch

Kazakhstan is a constitutional republic with a presidential form of governance. Under the Constitution, the President is the head of State and its highest official with primary responsibility for domestic and foreign policy and the function of representing Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss

the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of Kazakhstan's central bank, the NBK, whose appointment is subject to the approval of Parliament.

The Constitution provides that the President be elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment.

The Government comprises the Prime Minister, as its executive head, deputy prime ministers and ministers as members of the cabinet. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the incoming President. Neither the Prime Minister nor the members of the cabinet are members of Parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy and carrying out social policy.

Mr. Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President upon the formation of the newly independent State in December 1991, and has held the position of head of State since that time. President Nazarbayev was re-elected in elections held in January 1999 and his current term of office expires in 2006. The next presidential election is due to be held in December 2005.

Whilst the Kazakh constitution provides for separation of powers, the President wields considerable control over all three branches of government and determines national policy priorities.

Legislative branch

Kazakhstan has had four different parliamentary structures since the end of the Soviet era. The current structure has a bicameral Parliament, with the Mazhilis (the lower house) comprised of 77 members elected on a regional constituency basis and the Senate comprised of 32 members indirectly elected by the regions and 7 members appointed by the President. Elections to the Mazhilis in September 2004 yielded a body dominated by the pro-government Otan party, which supports President Nazarbayev's political goals. Two other parties considered sympathetic to the President, including the agrarian-industrial bloc AIST and the Asar party, founded by President Nazarbayev's daughter, won most of the remaining seats. Opposition parties, which were officially registered and competed in the elections, won only a single seat at the last election. The Organisation for Security and Cooperation in Europe has criticised both of Kazakhstan's past two elections as falling below international standards.

Reforms aimed at moving Kazakhstan further toward a full market economy continue. Kazakhstan has undertaken one of the more successful pension reform programmes amongst its peer "transition economies". The Financial Services Administration, which regulates the Kazakh financial markets, is preparing to implement EU-harmonised regulations. Privatisation, liberalisation of capital controls and tax reforms have also made headway.

International Organisations and International Relations

Kazakhstan's position in the international community

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (the "**IMF**"), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the EBRD, the ADB, the International Development Association, the Multilateral Investment Guarantee Agency, the IFC, the International Organisation of Securities Commissions and the Islamic Development Bank. Currently, Kazakhstan has observer status with the World Trade Organisation and the Government is actively pursuing full membership.

In the past, Kazakhstan followed an economic stabilisation programme agreed with the IMF and was granted both standby and extended fund facilities in connection with such programme.

Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union ("**EU**"), which came into force in 1999 and co-operates with the EU in various scientific and environmental programmes. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme under which various exercises have taken place involving troops from the United States, Russia, Kazakhstan, Uzbekistan, the Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia.

As of 31 December 2003, Kazakhstan had signed double taxation treaties with 36 countries, of which 35 are currently in effect, including treaties with the United States, Russia, The Netherlands and the United Kingdom.

Kazakhstan and CIS cooperation

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including, oil, steel, copper and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, Kyrgyzstan and Belarus, joint by Tajikistan in 1999, signed a customs union which, amongst other things, provides for the removal of trade tariffs between these nations, and Kazakhstan has taken other steps to promote regional economic integration. Government policy advocates further economic integration within the CIS, one of the aims of which is to ensure continued access to export routes. However, should access to these routes be materially impaired, this could adversely impact the economy of Kazakhstan.

In September 2003, Kazakhstan, Ukraine, Russia and Belarus signed an agreement for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The member states also intend to co-ordinate their fisal, credit and currency policies.

Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan agreed with Russia that in return for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, Kazakhstan waived all claims on former Soviet Union assets located outside its own territory. Kazakhstan and Russia have also reached agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations.

The Kazakhstan Economy

Overview

For each of the past five years, GDP growth in Kazakhstan has been over 9%, fuelled by increased world demand for oil and high oil prices. Over this period, the general economic situation in Kazakhstan has improved, leading to a strong growth in imports into Kazakhstan. High oil prices have boosted the current account and balance of payments which moved into surplus and increased foreign exchange reserves.

The following table sets out certain information on Kazakhstan's main economic and financial indicators for the years from 2000 to 2004:

	Average unless otherwise specified				
	2000	**2001**	**2002**	**2003**	**2004**
Population (millions end of year)[1]	14.9	14.9	14.9	15.0	15.0
GDP (KZT billion)	2,600	3,251	3,776	4,612	5,543
GDP ($ billions)	18.3	22.1	24.7	30.7	40.8
GDP per capita ($)	1,228	1,483	1,658	2,689	2,720
GDP (per cent. change from the previous year)	9.8	13.5	9.8	9.3	9.4
Volume of Industrial Production (per cent. Change from the previous year)	15.5	13.8	10.5	9.1	10.1
Consumer Price Index (per cent. change from the previous year)[2]	9.8	6.4	6.6	6.8	6.7
Trade balance ($ millions) (NBK's estimate)	2,440	1,320	2,301	3,679	6,786
Trade balance (per cent. of GDP)	13.3	6.0	9.3	12.0	16.6
Gross Foreign Debt ($ millions)[4]	12,685	15,157	18,197	22,884	32,017
Gross Foreign Debt (per cent. of GDP)	69.3	68.6	73.7	74.5	78.5
Total gross direct investment from abroad ($ millions)	2,781	4,556	4,106	4,624	8,293
Total gross direct investment from abroad (per cent. of GDP)	15.2	20.6	16.6	15.1	20.3
Gross direct investment from abroad—Mining and Quarrying ($ millions)	2,035.5	3,088.9	2,123.4	2,188.3	5,268.4
Budget Deficit (–)/Surplus (per cent. of GDP)	(0.1)	(0.4)	(0.03)	(1.0)	(0.3)
Unemployed (thousands)[2]	231	216	194	143	118
Registered unemployment rate (percentage of economically active population)[3]	3.7	2.9	2.6	1.8	1.5
Money incomes of the population (average, per capita) (KZT)	47,795	87,779	100,065	115,041	152,932
Money incomes of the population (average, per capita) (per cent. change from the previous year)	16.9	19.9	13.7	14.9	21.0
Average monthly nominal wage (KZT)[3]	13,761	21,183	24,388	28,192	32,652
Average monthly nominal wage (per cent. change from previous year)[3]	119.2	117	117.1	115.6	126.5

Source: The NBK, save for population figures, GDP per capita ($) and numbers which have been derived from figures provided by the NBK.

(1) Economist Intelligence Unit

(2) End of period

(3) For the last month of the period

(4) NBK's estimate

Principal sectors of the economy

Historically, metallurgy (including mining and mineral processing) was the main industrial activity in Kazakhstan, although oil and gas related industries are now the most important component of the country's industrial base. The mineral products sector is Kazakhstan's largest employer. Agriculture has traditionally been the second largest sector in the economy, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years due to reduced trade with the countries of the former Soviet Union.

Environment

Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north-east Kazakhstan, has a military facility which until 1990 was used for nuclear testing and many locations in the vicinity are contaminated by radioactive waste. Stepnogorsk was formerly a centre of

research and production of biological weapons. Other locations in Kazakhstan in the Aral Sea area were used by the Soviet Union for the testing of biological weapons and as a result are contaminated with various pathogens.

Natural Resources

Introduction

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and the extraction and processing of minerals are significant industries in the Kazakhstan economy. According to the Agency of Statistics of the Republic of Kazakhstan, exports of hydrocarbons and minerals accounted for 68% of total exports in 2004, compared with 65% in 2003, 61% in 2002 and 58% in 2001.

Mineral resources

Although much of Kazakhstan's mineral extraction has historically been exported in unprocessed form, with a view to retaining part of the value added by processing such minerals domestically Kazakhstan has recently started exporting a progressively greater proportion of semi-processed minerals.

Kazakhstan produces a significant amount of precious metals. According to GFMS Limited, Kazakhstan produced 13.7 tonnes of gold in 2004, 13.0 tonnes in 2003 and 14.0 tonnes in 2002.

Kazakhstan has substantial reserves of non-ferrous minerals, including chrome, iron ore, alumina, lead, zinc, copper and manganese. In 2004, Kazakhstan produced approximately 316,000 tonnes of zinc (compared with approximately 295,000 tonnes in 2003 and 286,000 tonnes in 2002), and approximately 445,000 tonnes of refined copper (compared with approximately 432,000 tonnes in 2003 and approximately 453,000 tonnes in 2002).

Taxation

The principal taxes in Kazakhstan are corporate income tax ("**CIT**") (at a rate of 30% subject to certain exceptions) social tax paid on a regressive scale, personal income tax (at rates ranging from 5% to 20%), a value added tax on goods and services ("**VAT**") (at a rate of 15%), property tax of legal entities (at a rate of 1% of the annual average value of taxable items) and individual property tax (at rates varying from 0.1% to 1% of the value of the property). In addition, fees payable to the Kazakh government relating to the extraction of oil, gas and other natural resources are established through bilateral agreements with the government or its agencies.

Dividends payable on shares are subject to a 15% withholding of CIT, subject to any reduction under an applicable double taxation treaty (for example, under the Kazkhstan/UK Double Taxation Treaty, the withholding tax rate on dividends which are beneficially owned by a UK resident company which controls at least 10% of the voting powers of a Kazakh company is reduced to 5%).

The generally applicable corporate tax regime applies to entities involved in the exploration and production of mineral resources. In addition different taxation levels relating to signature bonuses (initial payments made for the right to carry out activities under a subsurface contract), commercial discovery bonuses, excess profits tax, rent on exported mineral resources and royalties exist for taxpayers in the gold mining industry. Subsurface use contracts in Kazakhstan take the form of tax/royalty contracts. Many of the terms and conditions to the levies, bonuses and royalties are subject to negotiation under the specific subsurface contracts. For information on the taxes and royalties payable by the Group under Contract No. 145, see "*Business—Kazakhaltyn's Subsurface Use Licences and Contracts—Subsurface Use Contracts—Subsurface use contract No. 145*".

Currency and Foreign Exchange Regulations

Currency

The Tenge is considered a relatively stable currency. It is fully convertible for current account transactions and, since 1999, it floats freely. Sustained foreign-currency inflows (due primarily to increased oil revenues) and the general weakening of the US dollar have caused modest appreciations in the Tenge on world markets in recent years. Between 1993 and 2005, Kazakhstan has attracted more than $34 billion in foreign direct investment, the highest per capita rate of all of the republics of the former Soviet Union.

Foreign Exchange Regulations

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain outflowing capital account operations need to be licensed by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

New licensing rules were adopted at the beginning of 2002 for the treatment of the outflow of capital. The NBK intends to liberalise licensing rules in the next few years. In May 2003, a new law was passed which provides for step-by-step liberalisation resulting, among other things, in full internal convertibility of the Tenge by 2007, permission for banks to invest abroad and the removal of restrictions on investments in foreign investment grade securities and the openings of accounts in OECD banks.

TAXATION

The following summary of material Jersey and United Kingdom tax consequences of ownership of Shares and GDRs is of a general nature and based upon laws, regulations, decrees, rulings, double taxation conventions, agreements and arrangements, administrative practice and judicial decisions in effect as at the date of this document. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth in this document. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares and holders of the GDRs.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder of Shares or GDRs. It is not intended to address all tax aspects that may be relevant to a holder of Shares or GDRs. Accordingly, potential investors should satisfy themselves as to the overall tax consequences in their own particular circumstances of the acquisition, ownership and disposal of the Shares and GDRs, including any pending or proposed changes in relevant tax laws as at the date of this document and any actual changes in relevant tax laws after such date, by consulting their own tax advisers in all relevant jurisdictions.

Jersey

The statements set out below are intended only as a general guide to the tax position of shareholders of the Company based on current Jersey tax legislation and practice. The statements do not cover all aspects of Jersey taxation that may be relevant to the acquisition, ownership or disposition of the Shares by particular investors. Prospective purchasers of the Shares are advised to consult their own tax advisers concerning the consequences under any tax laws of the acquisition, ownership and disposition of the Shares.

The Company is an exempt company under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 (as amended). As an exempt company, the Company is treated as not resident in Jersey and will not be liable to Jersey income tax other than on Jersey source income (except, by concession, bank deposit interest on Jersey bank accounts). Exemption is granted upon the payment of an exempt company charge which is currently £600 per annum provided that the Comptroller of Income Tax in Jersey is satisfied that the Company complied with and continues to comply with the provisions of the Article 123A. Under existing Jersey law, provided that the Shares are not held by, or for the account of, persons resident in Jersey for income tax purposes, payments in respect of Shares will not be subject to any taxation in Jersey and no withholding in respect of taxation will be required on such payments to any holder of such Shares. Withholding tax at the standard rate of 20% will be deducted from the dividends paid to shareholders resident for tax purposes in Jersey, unless the beneficial owner of such Shares is not so resident.

As a condition of continued exempt company status, the Company must make an annual declaration that no Jersey resident has a beneficial interest. Therefore, the Company must disclose to the Jersey Financial Services Commission the identity of its beneficial owners and any changes therein. If disclosure is not made to the satisfaction of the Jersey Financial Services Commission, exempt company status may be withdrawn by the Comptroller of Income Tax. It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it retains exempt status.

No death or estate duties, capital gains, gift, inheritance or capital transfer taxes are levied in Jersey in connection with the acquisition, holding or disposal of the Shares. No stamp duty is levied in Jersey on the issue or transfer of Shares. However, Jersey Probate or Letters of Administration may be required to deal with the Shares of a deceased individual sole shareholder and stamp duty at the rate of up to 0.75% may be payable upon the obtaining of such Probate or Letters of Administration, except where the deceased died domiciled outside Jersey and the value of the total assets situated in Jersey held by the deceased does not exceed £10,000.

United Kingdom

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice at the date of this document, both of which are subject to change possibly with retroactive effect. The summary assumes that the Company is and shall remain resident in the UK for taxation purposes. The summary only discusses certain UK tax consequences of holding the Shares or the GDRs and receiving dividends for the absolute beneficial owners of the Shares or the GDRs who are resident and, in the case of individuals only, ordinarily resident and domiciled in the UK, for tax purposes ("**UK holders**"). In addition, the summary (1) only addresses the tax consequences for UK

holders who hold the Shares and the GDRs as capital assets or investments and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example dealers; (2) assumes that each UK holder does not either directly or indirectly control 10% or more of the voting power of the Company or any other member of the Group and is not otherwise connected with the Company or any other member of the Group; and (3) assumes that a holder of the GDRs is beneficially entitled to the underlying Shares and to the dividends on the Shares.

Withholding tax

The Dividend payments in respect of the Shares and the GDRs will not be subject to UK withholding tax.

Taxation of dividends

A UK holder that receives a dividend on the Shares or the GDRs may be subject to UK income tax or corporation tax, as the case may be, on that dividend.

A tax credit in respect of UK tax paid by the Company will be available to individual UK holders in respect of dividends on the Shares or the GDRs. This tax credit is equal to one-ninth of the dividend paid. This tax credit can be used to reduce the amount of income tax that is payable by the UK holder. An individual UK holder will be taxable on the total of any dividend received plus the tax credit (the "**gross dividend**"), which will be regarded as the top slice of the individual's income. Individuals who are not liable to tax at the higher rate will be required to pay income tax on the gross dividend at a rate of 10 per cent. This will match the tax credit. Individuals who do pay tax at the higher rate will be required to pay income tax on the gross dividend at a rate of 32.5 per cent. This means, taking into account the benefit of the tax credit, that higher rate tax payers will generally pay additional income tax of 22.5 per cent of the gross dividend (or 25 per cent of the dividend actually received).

Generally, a UK holder that is a company will not be chargeable to tax on dividends on the Shares or the GDRs.

A UK holder that does not pay any UK tax, for example a pension fund, is not entitled to reclaim any tax credit or other amount in respect of UK tax paid by the Company.

Taxation of disposals

The disposal by a UK holder of interests in the Shares or the GDRs may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

An individual holder of the Shares or GDRs who ceases to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years and who disposes of such Shares or GDRs during that period may also be liable on returning to the UK for UK capital gains tax despite the fact that the individual may not be resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

A corporate UK holder will generally be subject to UK corporation tax on any chargeable gain arising from the disposal of GDRs.

Stamp duty and stamp duty reserve tax

Subject to the reservations set out below and provided that the Shares are not registered in a register kept in the UK by or on behalf of the Company nor paired with shares issued by a body corporate incorporated in the UK, no *ad valorem* UK stamp duty nor stamp duty reserve tax ("**SDRT**") should be payable in respect of the Global Offer, the conversion of interests in the Master GDR into GDR certificates in definitive registered form (the "**definitive GDRs**") or Shares, or the transfer of interests in the Master GDR, definitive GDRs or Shares.

Those reservations are:

- *ad valorem* UK stamp duty would be payable in respect of a written document effecting the transfer of interests in the Master GDR, definitive GDRs or Shares where such instrument is executed in the UK or relates to any property situate or to any matter or thing done or to be done in the UK (it is not envisaged that under English law any written document will be required to effect the transfer of interests in the Master GDR);

- there are certain technical risks that *ad valorem* UK stamp duty may be payable in respect of written agreements for or a memorandum or receipt of the transfer of interests in the Master GDR;
- H.M. Revenue & Customs might seek to argue that *ad valorem* UK stamp duty is payable on a document that effects the conversion of an interest in the Master GDR into definitive GDRs on the basis that by giving up its rights in the Master GDR the holder is providing consideration in the form of a marketable security; and
- H.M. Revenue & Customs might seek to argue that *ad valorem* UK stamp duty is payable on any stock transfer form effecting the delivery of Deposited Shares (as defined in the terms and conditions of the GDRs) to a holder on the basis that by giving up its rights in the Master GDR or the definitive GDRs the holder is providing consideration in the form of a marketable security. The charge would be equal to 0.5% of the market value of the Deposited Shares so delivered. Investors who are considering the withdrawal of Deposited Shares from the GDR arrangements should consult their professional advisers in this regard.

Even if *ad valorem* UK stamp duty is payable, in practice it might not be necessary to pay it unless the instrument is required for any purpose in the UK. However, if it is necessary to pay *ad valorem* UK stamp duty at some future date, it may also be necessary to pay interest and penalties.

SUBSCRIPTION AND SALE

Underwriting Arrangements

Under the terms and subject to the conditions contained in the Underwriting Agreement, the Company has agreed to issue 7,100,000 New Shares and make available 7,100,000 GDRs at the Offer Price, the Selling Shareholder has agreed to sell 4,600,000 Existing Shares (exclusive of any Existing Shares subject to the Over-allotment Arrangements) and make available 4,600,000 GDRs at the Offer Price and each of the Managers has agreed severally (and not jointly nor jointly and severally) to procure acquirers for, of failing which to acquire itself, at the Offer Price, the number of GDRs set forth opposite its name below pursuant to the Global Offer.

Managers	Number of GDRs
ING	11,647,200
Troika Dialog	52,800
Total	11,700,000

Allocations of GDRs under the Global Offer will be determined at the discretion of the Lead Manager (following consultation with the Company).

The Underwriting Agreement contains, amongst others, the following further provisions:

- The Selling Shareholder has agreed with the Stabilising Manager that the Stabilising Manager may acquire or procure acquirers for up to 1,400,000 Over-allotment GDRs at the Offer Price (representing 1,400,000 Existing Shares) for the purpose of allowing the Stabilising Manager or any of its agents to meet over-allotments, if any, in connection with the Global Offer and/or to cover short positions resulting from stabilising transactions. Following the Closing Date, the number of Over-allotment GDRs which are the subject of the Over-allotment Arrangements may vary but will be determined not later than 30 days after the announcement of the Offer Price. Settlement of any acquisition of Over-allotment GDRs will take place shortly after such determination (or if acquired on the Closing Date, at Admission). If any of the Over-allotment GDRs are acquired pursuant to the Over-allotment Arrangements, the Stabilising Manager will be committed to pay the Selling Shareholder, or procure that payment is made to it of, an amount equal to the Offer Price multiplied by the number of Over-allotment GDRs made available by it, less commissions and sale expenses. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Within one week following the end of the stabilisation period, the following information will be published through a Regulatory Information Service:

  (i) whether or not stabilisation was undertaken; and

  (ii) for each stabilisation transaction that was carried out (a) the date at which stabilisation started, (b) the date on which stabilisation last occurred and (c) the price range within which stabilisation was carried out.

- Save as specified above, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over allotments and/or stabilisation transactions under the Global Offer.

- The Company has agreed to pay to the Lead Manager, for and on behalf of the Managers, a commission of 6 per cent. of the amount equal to the Offer Price multiplied by the number of GDRs representing New Shares which the Managers have agreed to procure purchasers for, or failing which to purchase themselves. In addition the Selling Shareholder has agreed to pay to the Lead Manager, for and on behalf of the Managers, a commission of 6 per cent. of the amount equal to the Offer Price multiplied by the number of GDRs representing Existing Shares which the Managers have agreed to procure acquirers, or failing which to acquire themselves (excluding any Over-allotment GDRs) and a commission of 6 per cent. of the amount equal to the Offer Price multiplied by the number of Over-allotment GDRs (if any) for which the Managers procure acquirers or acquire themselves pursuant to the Over-allotment Arrangements.

- The Company's obligations, together with those of the other parties to the Underwriting Agreement, are subject to certain conditions which are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the applications for Admission having been approved on or prior to the Closing Date.

The Lead Manager may terminate the Underwriting Agreement in certain circumstances that are typical for an agreement of this nature. These circumstances include the occurrence of certain material changes in the condition (financial or otherwise), business prospects, business affairs or earnings of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to the Closing Date, then the Global Offer will lapse.

- The Company and the Selling Shareholder have severally agreed to pay (in the portions as set out in the Underwriting Agreement) by way of reimbursement to the Managers or as otherwise set out in the Underwriting Agreement, any stamp duty or stamp duty reserve tax arising on the issue or initial sale (as applicable) of GDRs under the Global Offer (including in the case of the Selling Shareholder pursuant to the Over-allotment Arrangements).
- Each of the Company and the Selling Shareholder has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to, amongst others, the Global Offer, Admission or the other arrangements contemplated by the Underwriting Agreement.
- The Company has given customary representations, warranties, undertakings and indemnities to the Managers, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the New Shares and the GDRs and in relation to the contents of this document. The Selling Shareholder has given certain warranties to the Managers, including in relation to its capacity, its good title to the Existing Shares and its conduct.

If the Lead Manager terminates the Underwriting Agreement prior to the Closing Date or if for any other reason the Global Offer does not proceed, Admission will not take place and any monies received in respect of the Global Offer will be returned to applicants without interest.

Lock-up Arrangements

The Company, the Existing Shareholders and The ABM SK Trust have entered into certain lock-up arrangements. The Company and has agreed, subject to certain exceptions, that it will not, and that none of its subsidiaries nor any person acting on its or their behalf will, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or any securities convertible into or exercisable or exchangeable for Shares or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except, in the case of the Selling Shareholder only, pursuant to the Global Offer as described in this document.

Each of the Existing Shareholders has agreed, subject to certain exceptions, that it will not, and that no person acting on its behalf will issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Shares or GDRs or any securities convertible into or exercisable or exchangeable for Shares or GDRs or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Shares or GDRs, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date except pursuant to the Global Offer as described in this document. In respect of Lord Daresbury, these provisions will not apply in respect of GDRs he acquires pursuant to the Global Offer (or any Shares represented by such GDRs).

The ABM SK Trust has agreed that it will not, and that no person acting on its behalf will, issue, offer pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any shares in the Selling Shareholder or any securities convertible into or exercisable or exchangeable for shares in the Selling Shareholder or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of

the ownership of shares in the Selling Shareholder, without the prior written consent of the Lead Manager for a period of 360 days after the Closing Date.

Dealing Arrangements

All GDRs made available pursuant to the Global Offer will be sold at the Offer Price. It is expected that Admission will take place and unconditional dealings in the GDRs will commence on the London Stock Exchange at 8.00 a.m. (London time) on 1 December 2005. Prior to that time, it is expected that dealings in the GDRs will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on 25 November 2005. The earliest date for settlement of such dealings will be 1 December 2005. All dealings in the GDRs prior to the commencement of unconditional dealings will be on a "conditional basis", will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. These dates and times may be changed. If the Global Offer does not become unconditional or does not otherwise proceed, all such dealings will be of no effect and any such dealings will be at the risk of the parties concerned.

Over-allotment and Stabilisation

In connection with the Global Offer, the Stabilising Manager, or any of its agents may, to the extent permitted by applicable law, at its discretion over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be undertaken during the 30 day period from the announcement of the Offer Price.

In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Within one week following the end of the stabilisation period, the following information will be published through a Regulatory Information Service:

- whether or not stabilisation was undertaken; and
- for each stabilisation transaction that was carried out (a) the date at which stabilisation started, (b) the date on which stabilisation last occurred and (c) the price range within which stabilisation was carried out.

Save as specified above, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

In connection with the Global Offer, the Selling Shareholder has agreed with the Stabilising Manager that the Stabilising Manager may, acting as principal, acquire or procure acquirers for up to the maximum number of Over-allotment GDRs at the Offer Price for the purpose of allowing the Stabilising Manager or any of its agents, to the extent permitted by applicable law, to cover over-allotments, if any, in connection with the Global Offer and/or to cover short positions resulting from stabilisation transactions. Any decision to acquire or procure acquirers for any Over-allotment GDRs will be taken no later than 30 days after the announcement of the Offer Price. Any Existing Shares represented by Over-allotment GDRs made available pursuant to the Over-allotment Arrangements will rank *pari passu* with the Shares, including for all dividends and other distributions declared, made or paid on the Shares and will form a single class for all purposes with the other Shares.

In connection with the Over-allotment Arrangements, the Stabilising Manager acting as principal, has entered into a stock lending agreement with the Selling Shareholder pursuant to which the Stabilising Manager may borrow Existing Shares representing up to 12% of the total number of Shares to be made available in the Global Offer in the form of GDRs (excluding Shares represented by the Over-allotment GDRs) for the purposes, amongst other things, of allowing the Stabilising Manager to settle over-allotments, if any, made in connection with the Global Offer. If the Stabilising Manager borrows any Existing Shares pursuant to the stock lending agreement it will be required to return equivalent securities to the Selling Shareholder in accordance with the terms of the stock lending agreement within a limited period.

Selling Restrictions

The distribution of this document and the offer of GDRs in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction, other than the United Kingdom, that would permit a public offering of the GDRs, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, director or indirectly, and neither this document nor any other offering material or advertisement in connection with the GDRs may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of GDRs, including those in paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the GDRs offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

United States

The GDRs have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The GDRs are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of this offering, an offer or sale of GDRs within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act.

United Kingdom

Each of the Managers has represented and agreed that (a) (i) it has not made and will not make an offer of the GDRs to the public in the United Kingdom prior to the publication of a prospectus in relation to the GDRs and the Global Offer that has been approved by the FSA, except that it may make an offer of the GDRs to persons who fall within the definition of "qualified investor" as that term is defined in section 86(1) of FSMA or otherwise in circumstances which do not require the publication by the Company of a prospectus pursuant to section 85(1) of FSMA; (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances where section 21(1) of the FSMA does not apply to the Company; and (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

Each of the Managers has represented and agreed that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), an offer to the public of any GDRs which are the subject of the Global Offer contemplated by this document may not be made to the public in that Relevant Member State except that an offer of GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive subject to obtaining the prior consent of the Lead Manager for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the GDRs shall result in a requirement for the publication by the Company or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of any GDRs to the public" in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Kazakhstan

Each of the Managers has represented and agreed that it will not, directly or indirectly, offer for subscription or sale, or purchase or issue invitations to subscribe for or buy or sell GDRs or distribute any draft or definitive documentation in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

Jersey

Each of the Managers has represented and agreed that it will not, directly or indirectly, offer for subscription or sale, or purchase or issue invitations to subscribe for or buy or sell GDRs or distribute any draft or definitive documentation in relation to any such offer, invitation or sale to persons resident for income tax purposes in Jersey other than financial institutions in the normal course of business.

Russian Federation

Each of the Managers has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of its initial distribution or at any time thereafter any GDRs to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except to the extent permitted under Russian law.

Transfer Restrictions

Due to the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the GDRs or the Shares represented thereby.

The GDRs may not be offered or sold directly or indirectly in Kazakhstan, or to, or for the account or benefit of any Kazakhstan person.

Each purchaser of GDRs in the Global Offer, by its acceptance thereof, will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Regualtion S are used herein as defined therein):

- The purchaser (i) is, and the person, if any, for whose account it is acquiring the GDRs is, purchasing the GDRs outside the United States in an offshore transaction in compliance with Regulation S and (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate.
- The purchaser is aware that the GDRs and the Shares represented thereby have not been and will not be registered under the US Securities Act and are being offered outside the United Sates in reliance on Regulation S.
- The purchaser will not offer, resell, pledge or otherwise transfer such GDRs, except PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND IN COMPLIANCE WITH ANY

APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such GDRs or the Shares represented thereby, such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law.

  THIS GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF KAZAKHGOLD GROUP LIMITED REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF A RESTRICTED PERIOD (DEFINED AS THE PERIOD ENDING 40 DAYS AFTER THE LATEST OF THE COMMENCEMENT OF THE GDR OFFERING, THE ORIGINAL ISSUE DATE OF THE GDRs AND THE LATEST ISSUE DATE WITH RESPECT TO THE ADDITIONAL GDRs, IF ANY, ISSUED TO COVER OVER-ALLOTMENTS) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.

  UPON THE EXPIRATION OF THE RESTRICTED PERIOD REFERRED TO ABOVE, THIS GLOBAL DEPOSITARY RECEIPT AND THE SHARES REPRESENTED HEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

SETTLEMENT AND DELIVERY

Clearance and Settlement of the GDRs

The Clearing System

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions including underwriters, securities brokers and dealers, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an account holder of either system.

No beneficial owner of an interest in a GDR will be able to transfer that interest except in accordance with applicable procedures, in addition to those provided for under the Deposit Agreement.

The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the GDRs.

Global Clearance and Settlement Procedure

Initial Settlement

The GDRs will be delivered at initial settlement to a common depositary for Euroclear and Clearstream, Luxembourg. Customary settlement procedures will be followed for participants of each system at initial settlement. Investors are required to pay for the GDRs in US dollars. GDRs will be credited to investors' securities accounts on the settlement date against payment in same day funds.

Secondary trading—trading between Euroclear and/or Clearstream, Luxembourg account holders

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to depositary receipts.

General

Under general principles of Belgian banking secrecy, Euroclear and Clearstream, Luxembourg may not disclose any information about a participant's account or positions in such accounts without having first obtained such participants prior written authorisation.

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Existing Shareholders, any transfer agent, the registrar, the Depositary, the Custodian nor any affiliate of them or their respective agents, will have any responsibility for the performance of Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

GENERAL INFORMATION

1. Responsibility

1.1 The Company accepts responsibility for the information contained in this document. To the best of the knowledge of the Company (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

1.2 BDO Stoy Hayward LLP, whose registered address is at 8 Baker Street, London W1U 3LL, England, accepts responsibility for its accountants' reports on the Company and Kazakhaltyn set out on pages F-2 and F-5 of this document. To the best of the knowledge of BDO Stoy Hayward LLP (which has taken all reasonable care to ensure that such is the case) the information contained therein is in accordance with the facts and contains no omissions likely to affect its import.

1.3 Wardell Armstrong, whose registered address is at Lancaster Building, High Street, Newcastle-under-Lyme, ST5 1PQ, accepts responsibility for its Technical Report and its letter set out in "*Technical Report*". To the best of the knowledge of Wardell Armstrong (which has taken all reasonable care to ensure that such is the case) the information contained therein is in accordance with the facts and contains no omissions likely to affect its import.

2. Corporate Information

2.1 The Company was incorporated in Jersey on 26 September 2005 with registered number 91264 under the Companies (Jersey) Law 1991, as amended, as a public company limited by shares with the name KazakhGold Group Limited.

2.2 The principal legislation under which the Company operates is the Companies (Jersey) Law 1991, as amended, and the regulations and orders made thereunder.

2.3 The registered office of the Company is at La Motte Chambers, St Helier, Jersey JE1 1BJ, Channel Islands (which is where the register of members may be inspected). The head office and the principal place of business of the Company is at 20 Richbourne Court, Harrowby Street, London W1H 5PT, England (Tel. No. +44 (0) 20 7535 8511).

2.4 The Company's founding shareholder was Abacus (C.I.) Limited whose registered office is at La Motte Chambers, St. Helier, Jersey JE1 1BJ, Channel Islands.

2.5 The company secretary of the Company is Abacus Secretaries (Jersey) Limited whose registered office is at La Motte Chambers, St. Helier, Jersey JE1 1BJ, Channel Islands.

3. Share Capital

3.1 The authorised, issued and fully paid share capital of the Company on its incorporation was as follows:

Authorised			Issued and fully paid	
Number	**Amount (£)**	**Nominal Value**	**Number**	**Amount (£)**
100,000,000	10,000	£0.0001 each	100,000	10

3.2 The authorised, issued and fully paid share capital of the Company immediately following the Global Offer is expected to be as follows:

Authorised			Issued and fully paid	
Number	**Amount (£)**	**Nominal Value**	**Number**	**Amount (£)**
100,000,000	10,000	£0.0001 each	47,100,000	4,710

3.3 On incorporation the authorised share capital of the Company was £10,000 divided into 100,000,000 Shares of £0.0001 each, of which 100,000 were issued for cash at par to Abacus (C.I.) Limited as the subscriber to the Memorandum of Association as nominee for Gold Lion Limited. On 27 September 2005, the Shares were transferred to Gold Lion Limited.

3.4 On 30 September 2005 39,900,000 Shares of £0.0001 each were issued for cash at par to Gold Lion Limited. Since incorporation there have been no other changes in the authorised and issued share capital of the Company.

3.5 The shareholders of the Company resolved by written resolution dated 11 November, that:

3.5.1 the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot Shares in connection with the Global Offer and, in addition, Shares up to an aggregate nominal amount of £1,667, such authority to expire on 10 November 2010 (but the Company may make an offer or agreement which would or might require relevant Shares to be allotted after the expiry of this authority and the Directors may allot Shares pursuant to that offer or agreement as if this authority has not expired); and

3.5.2 the Directors be generally empowered to allot Shares for cash, pursuant to the authority referred to in paragraph 3.5.1 above (but the Company may make an offer or agreement which would or might require Shares to be allotted after the expiry of this power and the Directors may allot Shares pursuant to such offer or agreement as if this power had not expired), provided that such authority be limited to:

(a) the allotment of Shares to be issued by the Company in connection with the Global Offer;

(b) the allotment of Shares in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders but subject to such exclusions as may be necessary to deal with fractional entitlements or legal or practical problems under any laws or requirements of any regulatory body in any jurisdiction; and

(c) the allotment (other than pursuant to (a) and (b) above) of Shares for cash up to an aggregate nominal amount equal to 5 per cent. of the issued and unconditionally allotted share capital of the Company following the allotment of Shares in connection with the Global Offer.

3.6 Each of the Shares:

3.6.1 has been issued pursuant to the Companies (Jersey) Law 1991, as amended;

3.6.2 is in registered and certificated form; and

3.6.3 is denominated in pounds sterling.

3.7 The Company remains subject to the continuing obligations of the Listing Rules published by the FSA and the Companies (Jersey) Law 1991, as amended, in connection with the allotment and issue of Shares (and GDRs representing such Shares).

4. Memorandum and Articles of Association

4.1 In accordance with the provisions of Jersey company law, the Company's Memorandum of Association does not contain an objects clause.

4.2 The Articles of Association adopted pursuant to a written resolution dated 11 November 2005 contain provisions as summarised in "*Description of the Shares and Applicable Jersey Legislation*".

5. Other Directorships

5.1 In addition to their directorships of the Company (in the case of the Directors), the Director and the Senior Managers hold or have held the following directorships, other (in the case of the Directors) than of subsidiaries of the Company, and are or were members of the following partnerships, within the past five years.

Directors *Name*	*Current directorships/ Partnerships*	*Previous directorships/ Partnerships*
Dr. Kanat Assaubayev	—	—
Mrs. Marussya Assaubayeva . .	—	—
Mr. Baurzhan Assaubayev . . .	—	—
Mr. Aidar Assaubayev	—	—
Lord Daresbury	Aintree Racecourse Company Limited Daresbury Dairy Farm Limited Daresbury Properties Limited Delamere Forest Properties Limited De Vere Group Plc Evraz Group SA Grand National Steeplechase Limited Jupiter Offshore Portfolio Fund Limited Land Farm Associates (Ternovskoe) Ltd. Randalls Property Limited Roedale Limited	E.M. Resources Limited Highland African Mining Limited Highland Star Investments Limited Overseas Mining Investments Limited Highland Gold Mining Limited
Mr. Toktarkhan Kozhagapanov	—	—
Mr. David Netherway	Orezone Resources Inc. Tokolosh Investment Corporation Tokolosh Barbados Limited	Afcan Mining Corporation Semafo Inc Prospex Mining Inc.
Mr. Stephen Oke	International Ferro-Metals Limited	NM Rothschild Corporate Finance Limited

Senior Managers *Name*	*Current directorships/ Partnerships*	*Previous directorships/ Partnerships*
Mr. Maksut Abduazhitov	—	JSC Altyn Tobe
Mr. Adil Bekzatov	—	—
Mr. Altynbek Orynbasanov . .	—	—
Mr. Saken Usenov	—	—
Mr. Oleg Gorozhanin	—	—
Mr. Kyamel Akbayev	—	ABC Balkash
Mr. Napoleon Mikhailov	—	—
Mr. Saiken Alpysbayev	—	—
Mr. Victor Schevchenko	—	—

5.2 Save as described in paragraph 5.3 below, within the period of five years preceding the date of this document none of the Directors or Senior Managers:

5.2.1 has any convictions in relation to fraudulent offences;

5.2.2 has been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or

5.2.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court

from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

5.3 Mr. Abduazhitov was a director of JSC Altyn Tobe from January 2004 to February 2005. In July 2005 the assets of JSC Altyn Tobe were acquired by the Group following its insolvency from JSC Kazkommertzbank which, having enforced its security over the assets of JSC Altyn Tobe, conducted a tender process to sell them. For more information on the insolvency of JSC Altyn Tobe, see paragraph 10.4 below.

5.4 None of the Directors or Senior Managers has any potential conflicts of interests between their duties to the Company and their private interests or other duties.

6. Directors' Service Agreements and Letters of Appointment

6.1 Each Executive Director has entered into service agreements with the Company and Kazakhaltyn as follows:

6.1.1 Dr. Kanat Assaubayev entered into service agreements with:

(a) the Company dated 25 November 2005 which provides for Dr. Assaubayev to act as the Chief Executive Officer of the Company for an annual salary of $79,500. The Company may also award Dr. Assaubayev a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may in its absolute discretion determine. In addition to termination for cause, either party may terminate Dr. Assaubayev's employment by giving the other not less than six months' written notice. Dr. Assaubayev is entitled to 30 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality and non-competition covenants; and

(b) Kazakhaltyn dated 25 November 2005 which provides for Dr. Assaubayev to act as the President of Kazakhaltyn for an annual salary of the Tenge equivalent of $450,500. Kazakhaltyn may also award Dr. Assaubayev a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may, in its absolute discretion determine. In addition to termination for cause, either party may terminate Dr. Assaubayev's employment by giving the other not less than six months' written notice. Dr. Assaubayev is entitled to 30 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality and non-competition covenants.

The total remuneration of the service agreements referred to in paragraphs 6.1.1 (a) and (b) is the amount of $530,000.

6.1.2 Mr. Baurzhan Assaubayev entered into service agreements with:

(a) the Company dated 25 November 2005 which provides for Mr. Assaubayev to act as the First Deputy Chief Executive Officer of the Company for an annual salary of $60,000. The Company may also award Mr. Assaubayev a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may in its absolute discretion decide. In addition to termination for cause, either party may terminate Mr. Assaubayev's employment by giving the other not less than six months' written notice. Mr. Assaubayev is entitled to 30 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality; and

(b) Kazakhaltyn dated 25 November 2005 which provides for Mr. Assaubayev to act as a Vice President of Kazakhaltyn for an annual salary of the Tenge equivalent of $340,000. Kazakhaltyn may also award Mr. Assaubayev a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may, in its absolute discretion decide. In addition to termination for cause, either party may terminate Mr. Assaubayev's employment by giving the other not less than six months' written notice. Mr. Assaubayev is entitled to 30 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality and non-competition covenants.

The total remuneration of the service agreements referred to in paragraphs 6.1.2 (a) and (b) is the amount of $400,000.

6.1.3 Mr. Aidar Assaubayev entered into service agreements with:

(a) the Company dated 25 November 2005 under which provides for Mr. Assaubayev to act as the Deputy Chief Executive Officer—Corporate Development of the Company for an annual salary of $60,000. The Company may also award Mr. Assaubayev a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may in its absolute discretion decide. In addition to termination for cause, either party may terminate Mr. Assaubayev's employment by giving the other not less than six months' written notice. Mr. Assaubayev is entitled to 30 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality; and

(b) Kazakhaltyn dated 25 November 2005 which provides for Mr. Assaubayev to act as a Vice President of Kazakhaltyn for an annual salary of the Tenge equivalent of $340,000. Kazakhaltyn may also award Mr. Assaubayev a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may, in its absolute discretion determine. In addition to termination for cause, either party may terminate Mr. Assaubayev's employment by giving the other not less than six months' written notice. Mr. Assaubayev is entitled to 30 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality and non-competition covenants.

The total remuneration of the service agreements referred to in paragraphs 6.1.3 (a) and (b) is the amount of $400,000.

6.1.4 Mrs. Marussya Assaubayeva entered into service agreements with:

(a) the Company dated 25 November 2005 which provides for Mrs. Assaubayeva to act as the Deputy Chief Executive Officer—Health, Safety Environment and HR of the Company for an annual salary of $55,500. The Company may also award Mrs. Assaubayeva a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may in its absolute discretion decide. In addition to termination for cause, either party may terminate Mr. Assaubayeva's employment by giving the other not less than six months' written notice. Mrs. Assaubayeva is entitled to 30 working days paid holiday per calendar year. She is subject to restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality; and

(b) Kazakhaltyn dated 25 November 2005 which provides for Mrs. Assaubayeva to act as a Vice President of Kazakhaltyn for an annual salary of the Tenge equivalent of $314,500. Kazakhaltyn may also award Mrs. Assaubayeva a bonus of such amount, at such times and subject to such conditions as the Remuneration Committee may, in its absolute discretion determine. In addition to termination for cause, either party may terminate Mrs. Assaubayeva's employment by giving the other not less than six months' written notice. Mrs. Assaubayeva is entitled to 30 working days paid holiday per calendar year. She is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality and non-competition covenants.

The total remuneration of the service agreements referred to in paragraphs 6.1.4 (a) and (b) is the amount of $370,000.

6.2 Each Non-Executive Director has entered into letters of appointment with the Company as follows:

6.2.1 Lord Daresbury entered into a letter of appointment with the Company dated 4 October 2005 which provides for him to as Chairman of Board of the Company for an annual fee of $90,000. Upon Admission, Lord Daresbury will receive an annual fee of $150,000 for the year ending 31 August 2006, $200,000 for the year ending 31 August 2007 and $225,000 for each subsequent year. The appointment may be terminated, other than for cause, by either

party giving the other party not less than 12 months' notice in writing. Lord Daresbury is required to devote 48 days annually to the performance of his duties. The Company will reimburse to Lord Daresbury his expenses reasonably incurred in promoting the Company's business as well as out-of pocket expenses. Lord Daresbury is entitled to a contribution from the Company of $25,000 towards the costs of office facilities in the first year of his appointment and $35,000 per annum thereafter. Lord Daresbury is entitled to reimbursement by the Company of the costs of any independent advice he may seek in performance of his duties. Lord Daresbury is subject to restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality. The letter of appointment has effect as if it were entered into on 1 September 2005.

6.2.2 Toktarkhan Kozhagapanov entered into a letter of appointment with the Company dated 17 November 2005 which provides for him to act as a Non-Executive Director of the Company for an annual fee of $80,000. Upon Admission, Mr. Kozhagapanov will receive an annual fee of $100,000. In addition to termination for cause, either party may terminate Mr. Kozhagapanov's appointment by giving the other not less than six months' written notice. Mr. Kozhagapanov is envisaged to devote 30 days per annum to the performance of his duties. Mr. Kozhagapanov is entitled to reimbursement by the Company of his reasonable out-of pocket expenses and the costs of independent advice that might be required in furtherance of his duties. Mr. Kozhagapanov is subject to restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality.

6.2.3 David Netherway entered into a letter of appointment with the Company on 11 November 2005 which provides for him to act as a Non-Executive Director of the Company for an annual fee of $80,000. Upon Admission, Mr. Netherway will receive an annual fee of $100,000 per annum and will be granted an option to subscribe for $400,000 worth of Shares represented by GDRs at the Offer Price per GDR. Such option will vest on third anniversary of the grant and is exercisable for three years thereafter. In addition to termination for cause, either party may terminate Mr. Netherway's appointment by giving the other party not less than six months' notice in writing. It is envisaged that Mr. Netherway will devote 25 days per annum to the performance of his duties. Mr. Netherway is entitled to reimbursement by the Company of his reasonable out-of pocket expenses and the costs of independent advice that might be required in furtherance of his duties. Mr. Netherway is subject restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality.

6.2.4 Stephen Oke entered into a letter of appointment with the Company on 11 November 2005 under which provides for him to act as a Non-Executive Director of the Company for an annual fee of $80,000. Upon Admission, Mr. Oke will receive an annual fee of $100,000 per annum and will be granted an option to subscribe for $400,000 worth of Shares represented by GDRs at the Offer Price per GDR. Such option will vest on third anniversary of the grant and is exercisable for three years thereafter. In addition to termination for cause, either party may terminate Mr. Oke's appointment by giving the other party not less than six months' notice in writing. It is envisaged that Mr. Oke will devote 25 days per annum to the performance of his duties. Mr. Oke's is entitled to reimbursement by the Company of his reasonable out-of pocket expenses and the costs of independent advice that might be required in furtherance of his duties. Mr. Oke is subject to restrictions concerning the ownership of intellectual property rights and subject to a duty of confidentiality. The letter of appointment has effect as if it were entered into on 1 September 2005.

6.3 Save as set out in this "*General Information*", there are no existing or proposed service agreements between any Director and any member of the Group providing for benefits upon termination of employment.

7. Property

7.1 The material properties owned or leased by the Group are as follows:

Description	Location	Tenure	Building/site use area (square metres)
Administrative and residential complex	Zholymbet mine Zholymbet Akmola region Kazakhstan	49 year lease from 11 July 2002	2,665.6
Novaya mine cage building	Bestobe mine Bestobe Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	581.5
Zholymbet concentration plant	Zholymbet mine Zholymbet Akmola region Kazakhstan	49 year lease from July 2002	7,964
Novaya mine air venting and heating building	Bestobe mine Bestobe Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	511.8
Bestobe concentration plant	Bestobe mine Bestobe Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	4,319.3
Aksu concentration plant	Aksu mine Aksu Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	8,300.8
Zholymbet CIP Plant	Zholymbet mine Zholymbet Stepnogorsk Akmola region Kazakhstan	49 year lease from July 2002	93.1
Cargo transport garage	Bestobe mine Bestobe Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	1,778.4
Ventylyasyonnaya mine cage building	Bestobe mine Bestobe Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	796.2
Central base warehouse/logistical supply	Aksu mine Aksu Stepnogorsk Akmola region Kazakhstan	49 year lease from August 2001	1,666

7.2 All of the properties listed in paragraph 7.1 above have been pledged as security for Kazakhaltyn's obligations under Kazkommertsbank Credit Agreement No. 1. For more information on the Kazkommertsbank Credit Agreement No. 1, see "*Certain Indebtedness—Kazkommertsbank Credit Agreement No. 1*".

7.3 The Group intends to expand, modernise and improve its existing tangible fixed assets, and contract new fixed assets, as described in "*Business—Production and processing*".

7.4 The Group's use of its material properties referred to in paragraph 7.1 above is subject to restrictions and limits under Kazakh law. Restrictions on pollutants are prescribed in a NUP granted under the Law No. 160-I "On Environmental Protection", on water use are prescribed in permits granted under the Water Code dated 9 July 2003 No. 481, on the acquisition, storage, transportation and use of dangerous substances are set out in a licence issued on 8 June 2005 by the Ministry of Energy and Mineral Resources No. Ya 05004. The Group is required by the Law on Environmental Protection to produce an annual environmental report to the Regional Department of Environment Protection and is currently preparing the report for 2005. For more information, see "*Regulation—Environmental Regulation*".

8. Significant Change

Save as disclosed in "*Operating and Financial Review and Results of Operations—Current Trading and Prospects*" on page 69 and "*Business—History—Recent acquisitions and disposals*" on pages 28 and 29, there has been no significant change in the financial or trading position of the Group since 30 June 2005, the date of publication of the Company's latest interim accounts.

9. Litigation

Neither the Company nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this document which may have, or have had a significant effect on the financial position or profitability of the Group.

10. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this document:

10.1 ***Underwriting Agreement***

The Underwriting Agreement dated 25 November 2005 between the Company, the Selling Shareholder and the Managers providing for, *inter alia*, the underwriting of the Global Offer, and described in "*Subscription and Sale—Underwriting Arrangements*".

10.2 ***Deposit Agreement***

The Deposit Agreement to be dated on or about 30 November 2005 between the Company and the Depositary as described in "*Terms and Conditions of the Global Depositary Receipts*".

10.3 ***Deed Poll***

The Deed Poll to be dated on or about 30 November 2005 to be executed by the Company in favour of the holders of the GDRs which provides, *inter alia*, that if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any holder of the GDRs may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of deposited Shares to which the GDRs of which it is the holder relate.

10.4 ***JSC Altyn Tobe acquisition agreement***

Pursuant to a tender process, in July 2005 the Group acquired certain assets from JSC Kazkommertsbank for approximately KZT 280 million, including assets located at the Boldykol and Zhanan mines and in the cities of Semipalatinsk and Ust-Kamenogorsk and mineral rights with respect to Boldykol and Zhanan deposits. These assets, previously owned by JSC Altyn Tobe, had been pledged to JSC Kazkommertzbank as security for JSC Altyn Tobe's indebtedness. Following a

default by JSC Altyn Tobe on its obligations in respect of this indebtedness, JSC Kazkommertzbank enforced its security and conducted a tender to sell the assets. As the assets were acquired from JSC Kazkommertsbank as a pledgeholder, the Group did not succeed to any liability of JSC Altyn Tobe other than its obligations under certain related subsurface use contracts, nor did it undertake to provide any additional consideration other than approximately KZT 280 million paid as consideration.

10.5 ***Boldykol and Zhanan subsurface use contracts***

10.5.1 Underground mining operations at Zhanan are conducted pursuant to:

(a) Subsurface Use Licence MG No. 55 dated 30 December 1994, which was granted under the pre-1999 "licence-and-contract" regime. The licence is for a term of 20 years, commencing on the date the relevant licence was registered, including a 6 year exploration period; and

(b) Subsurface Use Contract No. 78 dated 5 December 1996 with the State Committee on Investments. The Zhanan contract has a term of 20 years starting from the date when the licence was issued and expires on 30 December 2014. The exploration period was extended twice and ended on 30 December 2004.

10.5.2 Underground mining operations at Boldykol are conducted pursuant to Subsurface Use Contract No. 1135 dated 19 March 2003 with the Ministry of Energy and Mineral Resources. The Boldykol contract was entered after August 1999 when the process of granting subsurface use rights was simplified by allowing the competent authority to grant rights by entering into contracts without first having issued a licence. As a result, no prior licence was granted in respect of this deposit. Contract No. 1135 is due to terminate on 19 March 2030 but may be extended with the agreement of the competent authority. Two years of the contract term are for exploration and the remaining 25 years are for production. On 3 March 2005, the Expert Commission of the Ministry of Energy and Mineral Resources resolved to extend the exploration period until 19 March 2007. The amended agreement reflecting this extension has not been signed yet. The mining programme under Contract No. 1135 requires the subsurface user to invest $1,415,000 in the first year of exploration and $3,460,000 in the second year.

10.5.3 Both contracts contain a local content requirement for supply of equipment, services and goods, and the subsurface user is required to commit 1% of annual revenues under Contract No. 78 and 1% of the total amount of investment under the Contract No. 1135, respectively to train the local personnel. Under Contract No. 1135, the subsurface user is required to pay $16,000 per annum for the support of the local social infrastructure and $70,000 per annum in social tax.

10.5.4 JSC Altyn Tobe has paid subscription bonuses and was due to pay commercial discovery bonuses at rates of 0.05% and 0.1% of the costs of approved recoverable reserves for each commercial discovery on the Zhanan and Boldykol mines, respectively. The Boldykol contract also provides for reimbursement of $148,100 of historical costs to the state. The provisions of both contracts relating to excess profit taxes have been amended in order to bring them into line with the sliding rates of taxation payable under the existing Kazakh Tax Code. For more information on these rates, see "*Business—Kazakhaltyn's Subsurface Use Licences and Contracts—Subsurface Use Contracts—Subsurface Use Contract No. 145—Taxation payments*".

10.5.5 Production has commenced pursuant to the Zhanan contract and the subsurface user is required to make royalty payments on its gold production. A table setting out the royalty rates payable at various gold prices is set out below:

Price per ounce	Royalty rate
Less than $290	0.42%
$290 to $319.99	0.7%
$320 to $349.99	1.2%
$350 to $379.99	1.8%
$380 or more	2.4%

10.5.6 The royalty rate during the exploration period at the Boldykol mine was fixed at 0.5% of the volume of the produced gold, if any. Different royalty rates are to be agreed once the subsurface user decides to commence production.

10.5.7 Both contracts contain taxation stabilisation provisions. Changes can be made to the rate of taxation payable by the subsurface user if agreed by both parties and if they do not affect the initial balance of economic interests fixed at the date of the contract. The Zhanan contract has a specific provision that allows a foreign investor participating in the project to use the substantial guarantees and privileges granted under the Foreign Investment Law dated 27 December 1994 provided the interest of such investor in the charter capital of the subsurface user is more than 35% and not less than $1,000,000. Most of these guarantees were abolished in 2003 and no longer available under the new contracts.

10.6 ***Rudnik Vasilevskyi LLP acquisition agreement and Contract No. 916***

10.6.1 On 10 June 2005, Kazakhaltyn entered into an acquisition agreement with "Three A Ltd" LLP and "Magnetic" LLP for the purchase of all of the issued partnership interests in Rudnik Vasilevskyi LLP for approximately KZT 53 million. Rudnik Vasilevskyi LLP's principal assets are its rights under Subsurface Use Contract No. 916 ("**Contract No. 916**") dated 17 April 2002. The contract was entered into by and between Almatytechnikasnab OJSC and the Ministry of Energy and Mineral Resources, the competent authority at that time. Contract No. 916 is due to terminate on 16 April 2027 but it may be extended with the agreement of the competent authority. The rights and obligations of Almatytechnikasnab OJSC were transferred to its subsidiary Rudnik Vasilevskyi LLP pursuant to Amendment Agreement No. 1 to Contract No. 916 dated 28 July 2004.

10.6.2 Prior to the commencement of production, the subsurface user was to required to perform additional exploration in 2002, perform a revaluation of reserves and submit them for re-approval by the State Commission on Reserves. Under the contract, production is divided between open pit mining, from 2003 to 2013, and underground mining, from 2013 onwards. The approved mining programme requires Rudnik Vasilevskyi LLP to expend approximately KZT 348 million on production between 2002 and 2012. Prior to its purchase by Kazakhaltyn, no operations had been conducted at the deposit.

10.6.3 Contract No. 916 is based on the 2001 Model Contract and contains requirements to give preferential treatment for local procurement, tax stabilisation and training provisions. The contract provides that Rudnik Vasilevskyi LLP is required to make certain payments to the Kazakh government, including the payment of a subscription bonus, commercial discovery bonus, royalties, excess profit tax and other taxes. Rudnik Vasilevskyi LLP is required to make a fixed payment of 0.1% of the value of proven extractable resources added to the state as a commercial discovery bonus upon discovery of commercially viable reserves within the area covered by the terms of the contract. Whilst there is no requirement under Contract No. 916 to pay a production bonus, Rudnik Vasilevskyi LLP is required to reimburse the Kazakh state $127,130 for its historic geological exploration costs in relation to the Vasilevskyi deposit. Rudnik Vasilevskyi LLP is liable to pay excess profit tax on its net profits, calculated pursuant to the Kazakh Tax Code to the extent that it generates profits in excess of certain specified thresholds. Under the contract, Rudnik Vasilevskyi LLP has undertaken to invest at least 0.1% of annual operating costs in training programmes for its employees. In addition, Rudnik Vasilevskyi LLP is obliged to invest $50,000 per annum for the duration of the contract in developing the social infrastructure for the benefit of its employees and at least 0.1% of its annual operating costs into a liquidation fund for environmental clean-up costs following cessation of mining operations.

Rudnik Vasilevskyi LLP has agreed to make royalty payments to the Kazakh government of 1.5% the value of gold extracted from the reserves approved prior to the execution of the contract, with royalty rates for gold extracted from newly approved reserves to be agreed upon in the future.

10.7 ***Visart LLP acquisition agreement and Contract No. 77***

10.7.1 On 8 June 2005, Kazakhaltyn entered into an acquisition agreement with various individuals to purchase all of the issued partnership interests in Visart LLP for approximately KZT 95 million, the final instalment of which is due on 1 December 2005. Visart LLP's principal assets are its rights under in respect of the Akzhal deposit under Subsurface Use

Licence MG No. 489 for the Geological Exploration and Production of Gold Ores of the Akzhal Deposit in the Zharminsky District of the Semipalatinsk Region ("**Licence No. 489**") dated 7 June 1995 and Subsurface Use Contract No. 77 for the Geological Exploration and Development of Explored Reserves of Gold at the Akzhal Deposit in the Semipalatinsk Region ("**Contract No. 77**") dated 29 November 1996 with the Ministry of Industry and Trade. Each of Licence No. 489 and Contract No. 77 is due to terminate on 7 June 2020 and has a five year exploration term and a 20 year production term. Both the licence and the contract term may be extended with the agreement of the competent authority.

10.7.2 Contract No. 77 provides that Visart LLP is required to make certain payments to the Kazakh government, including the payment of a subscription bonus, commercial discovery bonus, royalties, excess profit tax and other taxes. Prior to the acquisition by Kazakhaltyn, Visart LLP made a single fixed payment of $5,000 as a subscription bonus for the right to carry out subsurface operations permitted under the contract. Visart LLP is required to make a fixed payment of 1% of the value of proven extractable resources added to the state as a commercial discovery bonus upon discovery of reserves which, in Visart LLP's opinion, are commercially viable within the area covered by the terms of the contract. Under the terms of the contract, Visart LLP is required to make a royalty payment of 2.8% of its gold production at the average gold price for the reporting period. Whilst there is no requirement to pay a production bonus, Visart LLP is required to reimburse the Kazakh state for its historic geological exploration costs of $229,350. Any amounts reimbursed pursuant to this provision may be offset against the amount of royalty due. A penalty equal to 10% of the amount of any shortfall is payable in the event of non-payment of delay in payment of these historical geological exploration costs.

10.7.3 The approved mining programme requires Visart LLP to invest approximately $400,000 in the operations between 2005 and 2009.

10.7.4 The taxation provision of the contract were brought into line with those specified in the Kazakh Tax Code pursuant to an amendment to the contract dated 24 December 2002, decreasing the rate of VAT from 20% to 16%, setting the rate of social tax at 21% of the salary fund for local employees and 11% for foreign administrative, engineering and technical staff, and fixing contributions to the liquidation fund at 1% of operational costs and making them deductible from taxable income.

10.8 ***Nurbank Credit Agreement No. 1 and relevant pledges***

The Nurbank Credit Agreement No. 1 dated 5 May 2004 between Kazakhaltyn and JSC Nurbank, and the security related thereto, as described in "*Certain Indebtedness*".

10.9 ***Nurbank Credit Agreement No. 2 and relevant pledges***

The Nurbank Credit Agreement No.2 dated 23 December 2002 between Kazakhaltyn and JSC Nurbank, and the security related thereto, as described in "*Certain Indebtedness*".

10.10 ***Kazkommertsbank Credit Agreement No. 1***

The Kazkommertsbank Credit Agreement No. 1 dated 20 January 2005 between Kazakhaltyn and JSC Kazkommertsbank, and the security related thereto, as described in "*Certain Indebtedness*".

10.11 ***Kazkommersbank Credit Agreement No. 2***

The Kazkommertsbank Credit Agreement No. 2 dated 24 June 2005 between Kazakhaltyn and JSC Kazkommertsbank, and the security related thereto, as described in "*Certain Indebtedness*".

10.12 ***Contract No. 145***

Contract No. 145 dated 8 December 1997 between Kazakhaltyn and the State Committee on Investments in relation to the Group's mineral rights to the Aksu, Bestobe, Quartzite Hills and Zholymbet deposits and as described in "*Business—Kazakhaltyn's Subsurface Use Licences and Contracts—Subsurface Use Contracts—Subsurface Use Contract No. 145*".

10.13 ***Contract No. 761, Contract No. 762 and Contract No. 917***

Contract No. 761 dated 11 October 2001 between Kazakhaltyn and the Ministry of Energy and Mineral Resources in relation to Kazakhaltyn's right to extract gold from tailings located at

Bestobe, Contract No. 762 dated 11 October 2001 between Kazakhaltyn and the Ministry of Energy and Mineral Resources in relation to Kazakhaltyn's right to extract gold from tailings located at Aksu and Contract No. 917 dated 18 April 2002 between Kazakhaltyn and the Ministry of Energy and Mineral Resources in relation to Kazakhaltyn's right to extract gold from tailings located Zholymbet, and each as described in "*Business—Kazakhaltyn's Subsurface Use Licences and Contracts—Subsurface Use Contracts—Contracts for the Processing of Tailings at the Aksu, Bestobe and Zholymbet Mines*".

10.14 ***Joint venture with Barrick Gold Corporation***

10.14.1 On 23 September 2005, the Group entered into a framework agreement with Barrick Gold Netherlands B.V.. The framework agreement provides the basis for future cooperation in relation to the exploration of new properties in Kazakhstan and elsewhere in Central Asia. Under the terms of the arrangements, certain agreed upon exploration properties, including six of the tenders to acquire mineral rights from the Kazakh government described in "*Business—History—Recent acquisitions and disposals—Participation in Tenders Conducted by the Kazakh Government*", would be acquired by a joint venture company in which the Group and Barrick would each have a 50% interest. Other acquisitions may be acquired by mutual consent. The parties have agreed to contribute equally to the costs of acquisition of new exploration properties, with Barrick agreeing to provide a loan to the Group to fund the Group's share of each such acquisition. The agreement provides that the Group may repay such loans through the issue of Shares to Barrick. As security for such loans, the Group will provide security over its interest in the relevant acquired property or joint venture company so established. Prior to the incorporation of the joint venture company, the Group will acquire the mineral rights to certain exploration properties and assign them to the joint venture company. If the parties agree that any rights so acquired are commercially attractive and suitable for further development, the joint venture company will transfer such rights to a second joint venture company in which the Group and Barrick will also each have a 50% interest to commence commercial development.

10.14.2 The parties have undertaken to complete negotiations regarding the final terms and conditions under which such exploration properties are to be acquired, financed and possibly developed and to sign final documentation by the end of 2005.

10.15 ***Memorandum of Understanding with China National Gold Corporation***

10.15.1 On 18 April 2005, the Group entered into a memorandum of understanding with China National Gold Corporation pursuant to which a joint venture company will be incorporated in relation to the further development of underground mining at the Bestobe mine. In return for contributing the machinery and equipment required for enhancing production, and providing operational management, China National Gold Corporation will receive a controlling interest in the joint venture company. It is proposed that the Group will contribute the capital assets at the Bestobe mine to the joint venture company for a ten year period and that the joint venture company will apply for a new subsurface use contract. Any revenue generated by the joint venture company will be applied first to repay any monies invested by China National Gold Corporation and then to pay a concession fee to the Group.

10.15.2 The apportionment of equity in the joint venture company and the scope of the plan for enhancing production have yet to be determined and are subject to further negotiation.

11. Related Party Transactions

11.1 On 12 October 2005, Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva transferred, via nominees, their entire interest in Romanshorn LC AG (the holding company of Kazakhaltyn) being the entire issued units in Romanshorn LC AG, to the Company for nil consideration.

11.2 Promplastmassa LLP was a related party of Kazakhaltyn for the three years ended 31 December 2004 by reason of members of the Assaubayev family (who are Directors of the Company) having an interest in Promplastmassa LLP during these periods until they disposed of their interest in April 2004. During this period Kazakhaltyn recharged certain costs to Promplastmassa LLP of which approximately KZT 32 million remained outstanding as at 31 December 2004. In the three year period to 31 December 2004, the aggregate costs recharged were approximately KZT 35 million.

11.3 In May 2004, Baurzhan Assaubayev, a Director of the Company, was advanced a loan of approximately KZT 10 million by Kazakhaltyn, the entire balance of which was outstanding as at 30 June 2005.

12. Selling Shareholder

12.1 The following table sets out details relating to the Selling Shareholder:

Name	Business Address	Number of Shares to be sold pursuant to the Global Offer (assuming the maximum number of Shares are sold pursuant to the Over-allotment Arrangements
Gold Lion Limited	La Motte Chambers St. Helier Jersey JE1 1BJ Channel Islands	6,000,000

12.2 The Selling Shareholder has the same voting rights as all other shareholders.

13. Consents

13.1 BDO Stoy Hayward LLP whose registered office is at 8 Baker Street, London W1U 3LL is a member of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of its accountants' reports on the Company and Kazakhaltyn set out on pages F-2 and F-5 of this document and references to it and its name in the form and context in which they are included and has authorised the contents of its reports for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.

13.2 ING Bank N.V., London Branch has given and has not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which it appears.

13.3 Wardell Armstrong whose registered office is at Lancaster Building, High Street, Newcastle-under-Lyme ST5 1PQ has given and has not withdrawn its written consent to the inclusion of its report set out in "*Technical Report*" and the references to its report and its name in the form and context in which they are respectively included and has authorised the contents of its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.

14. Depositary

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, NY 10286, United States of America. The principal administration offices of the Depositary are located at 101 Barclay Street, 22nd floor, New York, NY 10286, United States of America.

15. General

15.1 The financial information concerning the Group contained in this document will not constitute the accounts of the Company maintained in accordance with Part XVI of the Companies (Jersey) Law 1991, as amended.

15.2 The Offer Price per GDR which is to be paid in cash represents a premium of £8.7137 over the nominal value of £0.0001 per Share using an exchange rate of $1.7214 per £1.00 being the noon buying rate on 23 November 2005 in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York and expressed in US dollars per £1.00.

15.3 The Global Offer is being underwritten in full by the Managers pursuant to the Underwriting Agreement, as described in "*Subscription and Sale—Underwriting Arrangements*".

15.4 The total costs, charges and expenses payable by the Company in connection with the Global Offer are estimated to be approximately $13.7 million (exclusive of VAT).

15.5 The GDRs will be admitted with the ISIN US48667H1059.

16. Documents For Inspection

16.1 Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of Denton Wilde Sapte at One Fleet Place, London EC4M 7WS, England from the date of publication of this document for either a period of 14 days or until Admission, whichever is the longer period:

16.1.1 the Memorandum and Articles of Association of the Company;

16.1.2 the accountants' reports on the Company and Kazakhaltyn by BDO Stoy Hayward LLP set out on pages F-2 and F-5 in this document;

16.1.3 the report by WAI set out in "*Technical Report*";

16.1.4 the audited consolidated accounts of Kazakhaltyn for the three financial years ended 31 December 2002, 2003 and 2004;

16.1.5 the audited financial statements of the Company as at 1 October 2005;

16.1.6 the unaudited interim accounts of Kazakhaltyn for the six months ended 30 June 2004 and 2005; and

16.1.7 this document.

The following definitions apply throughout this document unless the context requires otherwise:

"ABM SK Trust"	The ABM SK Trust, a Jersey discretionary trust
"Act"	the Companies Act 1985 of England and Wales (as amended)
"Additional GDR Rights"	additional rights which are not attributable to the Deposited Shares represented by a Holder's GDRs
"Additional GDR Rights Requests"	any Holder's instructions to subscribe for Additional GDR Rights
"Agents"	the agents appointed by the Depositary for the purpose, *inter alia*, of making distributions to the Holders
"Admission"	Admission to Listing and Admission to Trading and a reference to Admission becoming "effective" is to be construed in accordance with the Listing Rules or the Standards (as applicable)
"Admission to Listing"	the admission to listing on the Official List of the GDRs
"Admission to Trading"	the admission to trading on the London Stock Exchange's market for listed securities of the GDRs
"Aksu CIP Facilities"	the recently modernised hybrid carbon CIP and carbon-in-leach plant facilities of Aksu
"Aksu Flotation Facilities"	the recently modernised gravity and flotation facilities at the Aksu mine
"Aksu Heap Leach Plant"	the newly constructed heap leach plant at the Aksu mine
"Aksu Processing Plant"	the Aksu Flotation Facilities and the Aksu CIP Facilities
"Articles of Association" or **"Articles"**	the articles of association of the Company
"Bestobe CIP Plant"	a new CIP plant at the Bestobe mine
"Bestobe Flotation Plant"	a flotation plant at the Bestobe mine
"Bestobe Heap Leach Plant"	a newly constructed heap leach plant at the Bestobe mine
"Board"	the board of directors of the Company
"City Code"	The City Code on Takeovers and Mergers
"Closing Date"	on or around 30 November 2005
"Combined Code"	the principles of good governance and code of best practice appended to the Listing Rules
"Company"	KazakhGold Group Limited
"Competition Committee"	the Committee for the Protection of Competition with the Ministry of Industry and Trade
"Conditions"	the Terms and Conditions of the GDRs
"Contract No. 77"	Subsurface Use Contract No. 77 for the Geological Exploration and Development of Explored Reserves of Gold at the Akzhal Deposit in the Semipalatinsk Region dated 29 November 1996
"Contract No. 145"	Subsurface Use Contract No. 145 dated 8 December 1997 with the State Committee on Investments
"Contract No. 761"	Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Bestobe Mine in the Akmola Region

"Contract No. 762"	Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Aksu Mine in the Akmola Region
"Contract No. 917"	Contract for Exploration and Production of Gold from the Technogenic Mineral Formations at the Zholymbet Mine in the Akmola Region
"Custodian"	BNY (Nominees) Limited
"Directors"	directors of the Company
"Deed Poll"	the deed poll described in paragraph 10.3 of "*General Information*"
"definitive GDRs"	GDR certificates in definitive registered forms
"Deposit Agreement"	the deposit agreement described in paragraph 10.2 of "*General Information*"
"Depositary"	The Bank of New York
"Deposited Property"	the Deposited Shares and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares
"Deposited Shares"	Shares deposited in the Depositary
"Directors"	the Executive and the Non-Executive Directors
"Dispute"	any disputes arising in connection with the GDRs
"EU"	the European Union
"Exchange Act"	the United States Securities Exchange Act of 1934 (as amended)
"Executive Directors"	Dr. Kanat Assaubayev, Mrs. Marussya Assaubayeva, Mr. Baurzhan Assaubayev and Mr. Aidar Assaubayev
"Existing Shares"	the Shares that will be in issue immediately prior to the Closing Date
"Existing Shareholders"	the shareholders of the Company as at the date of this document
"FSA"	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of FSMA
"FSMA"	Financial Services and Markets Act 2000, as amended
"FSU Classification"	the former Soviet Union system of classification of geological reserves and resources
"GDRs"	global depositary receipts
"Global Offer"	the offer of GDRs to institutional and certain other investors described in "Subscription and Sale"
"Group"	the Company and its subsidiaries and subsidiary undertakings, from time to time
"gross dividends"	the total of any dividend received plus tax credit
"Holder"	under the Conditions the person or persons registered on the books of the Depositary maintained for that purpose
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards
"IMF"	the International Monetary Fund
"Instruction Date"	the date and time specified by the Depositary for the conclusion of the Primary GDR Offering

"Jersey Prospectus Order"	the Companies (General Provisions) (Jersey) Order 2002
"JORC Code"	the method of classification with the 1999 Australasian Code of Reporting of Mineral Resources and Reserves
"JSC"	Joint Stock Company
"Kazakhaltyn"	JSC Kazakhaltyn Mining—Metallurgical Concern
"Kazakhaltyn LLP"	Kazakhaltyn Mining and Processing Company Limited Liability Partnership, the limited liability partnership which was transformed into OJSC Kazakhaltyn Mining and Metallurgical Concern in July 2001. The latter was renamed JSC Kazakhaltyn Mining Metallurgical Concern in May 2003
"Kazakhstan"	the Republic of Kazakhstan
"KEGOC"	the state-owned Kazakhstan Electricity Grid Operating Company
"Kazkommertsbank Credit Agreement No. 1"	the $15,000,000 credit agreement between Kazakhaltyn as borrower and JSC Kazkommertsbank as lender dated 20 January 2005
"Kazkommertsbank Credit Agreement No. 2"	the $4,500,000 credit agreement between Kazakhaltyn as borrower and JSC Kazkommertsbank as lender dated 24 June 2005
"KZT"	the lawful currency of Kazakhstan
"Labour Law"	the "Law on Labour in the Republic of Kazakhstan" dated 10 December 1999
"Lead Manager"	ING Bank N.V., London branch
"Licence No. 489"	Subsurface Use Licence ME No. 489 for the Geological Exploration and Production of Gold Ores of the Akzhal Deposit in the Zharminsky District of the Semipalatinsk Region dated 7 June 1995
"Listing Rules"	the rules and regulations made by the FSA under Part VI of FSMA
"London Stock Exchange"	London Stock Exchange plc
"Managers"	ING Bank N.V., London Branch and Troika Dialog (Bermuda) Ltd
"mandatory bid obligation"	the obligation stated in Rule 9 of the City Code published by the Takeover Panel
"Master GDR"	the GDR evidenced by a single Regulation S Master GDR in registered form
"Maximum Additional Subscription"	the maximum number of Additional GDR Rights that such Holder is prepared to accept
"MCI"	monthly calculation index
"Memorandum of Association"	the memorandum of association of the Company
"Model Code"	the Model Code or directors' dealings in securities as set out in LR 9 Ann 1 of the Listing Rules
"NBK"	the National Bank of Kazakhstan
"New Shares"	new Shares to be issued on the Closing Date in connection with the Global Offer
"Non-Executive Directors"	Lord Daresbury, Mr. Toktarkhan Kozhagapanov, Mr. David Netherway and Mr. Stephen Oke

"NUP"	Natural Use Permit
"Nurbank Credit Agreement No. 1"	the $6,000,000 credit agreement between Kazakhaltyn as the borrower and JSC Nurbank as the lender dated 5 May 2004
"Nurbank Credit Agreement No. 2"	the $2,000,000 credit agreement between Kazakhaltyn as the borrower and JSC Bank CenterCredit as the lender dated 23 December 2002
"Offer Price"	the price per GDR at which GDRs are to be made available under the Global Offer
"Official List"	the Official List of the FSA
"OJSC"	Open Joint Stock Company
"Over-allotment Arrangements"	the arrangements pursuant to which the Stabilising Manager may, acting as principal, acquire or procure acquirers for such number of additional GDRs, representing additional Existing Shares made available by the Selling Shareholder, as represents up to 12% of the total number of GDRs to be made available under the Global Offer (excluding any Over-allotment GDRs) at the Offer Price to cover over-allotments and/or cover short positions resulting from stabilisation transactions
"Over-allotment GDRs"	GDRs representing up to 12% of the total number of GDRs to be made available in the Global Offer (excluding any GDRs made available pursuant to the Over-allotment Arrangements)
"pounds sterling"	the lawful currency of the United Kingdom and "£," "pence" or "p" shall be construed accordingly
"Pre-Release"	the execution or delivery of GDRs or the issue of interests in a Master GDR prior to the receipt of the Shares
"Pre-Releasee"	the person to whom GDRs or Deposited Property are to be delivered in the event of a Pre-Release
"Primary GDR Rights Offering"	the offering of rights pursuant to Condition 7(i) of the Conditions
"Proceedings"	any legal action or proceedings arising out of or in connection with the GDRs
"Prospectus Directive"	Directive 2003/7/EC
"Prospectus Rules"	rules published by the FSA under section 73A FSMA
"Register"	the books of the Depositary registering the Holders of the GDRs
"Regulation S"	Regulation S under the Securities Act
"Relevent Implementation Date"	the date upon which the Prospectus Directive 2003/71/EC is implemented in that Relevant Member State
"Relevant Member State"	the relevant member State of the European Economic Area which has implemented the Prospectus Directive 2003/71/EC
"Responsible Persons"	the Company and, to the extent set out in paragraph 1.2 and 1.3 of "General Information" only, BDO Stoy Hayward LLP and Wardell Armstrong
"SDRT"	stamp duty reserve tax
"Selling Shareholder"	Gold Lion Limited

"Senior Managers"	Mr. Maksut Abduazhitov, Mr. Kyamel Akbayev, Mr. Saiken Alpysbayev, Mr. Adil Bekzatov, Mr. Napoleon Mikhailov, Mr. Altynbek Orynbasanov, Mr. Victor Shevchenko and Mr. Saken Usenov
"Shares"	ordinary shares of £0.0001 each in the capital of the Company
"Stabilising Manager"	ING Bank N.V., London branch
"Standards"	the "Admission and Disclosure Standards" of the London Stock Exchange
"Subsurface Law"	Edict No. 2828 of the President of the Republic of Kazakhstan "Concerning Subsurface and Subsurface Use" adopted on 27 January 1996
"Takeover Panel"	The Panel of Takeovers and Mergers
"Tax Code"	Tax Code No. 209 dated 12 June 2001 (as amended)
"Tenge"	the lawful currency of Kazakhstan
"Transfer Pricing Law"	the "Law on State Control when Transfer Prices are Applied" of 5 January 2001
"Troika Dialog"	Troika Dialog (Bermuda) Ltd.
"UK" or **"United Kingdom"**	the United Kingdom of Great Britain and Northern Ireland
"UK holders"	holders of the Shares or the GDRs and absolute beneficial owners of the Shares or the GDRs who are resident and, in the case of individuals only, ordinarily resident and domiciled in the UK for tax purposes
"Underwriting Agreement"	the underwriting agreement described in "*Subscription and Sale—Underwriting Agreement*"
"Unsubscribed Rights"	the rights offered in the Primary GDR Rights Offering which have not been subscribed by the Holders initially entitled thereto
"US dollars"	the lawful currency of the United States
"US Securities Act"	the United States Securities Act of 1933 (as amended)
"WAI"	Wardell Armstrong International Limited
"WUP"	Water Use Permits
"Zholymbet CIP Plant"	a newly constructed CIP Plant at the Zholymbet mine
"Zholymbet Heap Leach Plant"	a new heap leach plant at the Zholymbet mine
"1997 Model Contract"	the Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan
"1999 Amendments"	Law No. 467-1 "Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsurface and Petroleum Operations in the Republic of Kazakhstan
"2001 Model Contract"	the Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan
"2004 Amendments"	Law No. 2-III on "Introduction of Amendments and Additions to Certain Legal Acts on Subsurface Use and Subsurface Operations" dated 1 December 2004

In this document, words denoting any gender include all genders (unless the context otherwise requires).

"°C"	degrees Celsius
"acid"	an igneous or volcanic rock containing more than about 60% silica (SiO_2) by weight, most of the silica being in the form of silicate minerals, but with the excess of about 10% being free quartz
"adit"	a horizontal or sub-horizontal underground development providing access to underground workings from surface
"aero-magnetic"	a geophysical prospecting (by air) method that maps variations in the magnetic field of the Earth that are attributable to changes of structure or magnetic susceptibility in certain near-surface rocks
"alteration"	changes in the chemical or mineralogical composition of a rock, generally produced by weathering or hydrothermal solutions
"amphibolites"	a metamorphic rock composed mainly of amphibole (a silicate mineral)
"andesite"	a fine-grained igneous rock with no quartz or orthoclase, composted of about 75% plagioclase feldspars, balance ferromagnesian silicates
"apophyses"	a term applied to a body of igneous rock
"arsenopyrite"	the mineral FeAsS
"auriferous"	pertaining to gold
"basalt"	a fine-grained igneous rock dominated by dark-coloured minerals, consisting of plagioclase feldspars (over 50%) and ferromagnesian silicates
"basement"	oldest rocks exposed in an area
"borehole intersection"	that part of a drilled hole that contains the economic mineralised section
"breccia"	clastic rock made up of angular fragments of such size that an appreciable percentage of rock volume consists of particles of granule size or larger
"Caledonian"	major mountain building episode which took place during the lower Palaeozoic Era
"Cambrian"	a period of geologic time from about 505 to 590 million years
"carbonate"	refers to a carbonate mineral such as calcite $CaCO_3$
"Category B"	Soviet "ore reserves" where blocks are delineated by mine workings on three or more sides (approximately equivalent to *Measured Mineral Resources* under the JORC Code)
"Category C_1"	Soviet "ore reserves" whose blocks are delineated by mine workings above and below (approximately equivalent to *Indicated Mineral Resources* under the JORC Code)
"Categorv C_2"	Soviet "ore reserves extrapolated from Category C_1 but with more complex geology or limited mine workings (approximately equivalent to *Inferred Mineral Resources* under the JORC Code)
"Category P"	Soviet "prognostic" ore reserves extrapolated beyond more definable reserves and resources. The category is subdivided into three sub-categories P_1 to P_3, with the level of confidence decreasing progressively from sub category 1 to 3

"chalcopyrite"	the mineral sulphide of iron and copper, CuFeS
"chalcostibnite"	a subsidiary sulphide ore mineral of copper and antimony
"channel samples"	continuous rock-samples, where an even channel is cut into the rock to obtain the sample. If competently sampled, the quality of such sampling is comparable to drill-hole assays
"chloritisation"	alteration of rocks to chlorite as a result of low-grade metamorphism
"CIM"	Canadian Institute of Mining, Metallurgy and Petroleum
"CIP"	an established method of gold recovery using cyanide and activated carbon
"clast"	a particle of broken-down rock. These fragments may vary in size from boulders to silt-sized grains
"conglomerate"	a coarse grained rock with rounded clasts that are greater than 2mm in size
"cut-off grade"	lowest grade of mineralised material considered economic, used in the calculation of ore resources
"dacite"	fine-grained igneous rock with composition between rhyolite and trachyte
"deposit"	coherent geological body such as a mineralised body
"diabase"	metamorphosed medium-grained igneous rock
"dip"	the true dip of a plane is the angle it makes with the horizontal plane
"diorite"	coarse-grained igneous rock with composition of andesite (no quartz or orthoclase), composed of 75% plagioclase feldspars and balance ferromagnesian silicates
"drive"	a horizontal underground tunnel
"dyke"	a sheet like body of igneous rock which is discordant
"exploration"	method by which ore deposits are evaluated
"extrusive"	said of igneous rock that has been erupted onto the surface of the Earth. Extrusive rocks include lava flows and pyroclastic material such as volcanic ash
"fault"	surface of rock fracture along which has been differential movement
"feasibilty study"	an extensive technical and financial study to assess the commercial viability of a project
"feldspar"	The most important group of rock forming silicate minerals, with end-members, alkali feldspar $KalSi_2O_8$, sodium feldspar $NaAlSi_2O_8$ and calcium feldspar $CaAlSi_2O_8$
"FIMMM"	Fellow of the Institute of Material, Mining and Metallurgy
"flotation"	a mineral processing used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
"fold"	a flexure in rocks
"footwall"	rock mass below a fault, vein, bed or mineralisation
"gabbro"	coarse-grained igneous rock with composition of basalt
"galena"	important sulphide ore of lead, PbS

"gangue"	rocks and minerals of no economic value that occur with valuable minerals in an ore
"geochemical"	prospecting techniques which measure the content of specified metals in soils and rocks; sampling defines anomalies for further testing
"geophysical"	prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
"grade"	relative quantity or the percentage of ore mineral or metal content in an ore body
"granite"	coarse-grained igneous rock dominated by light-coloured minerals, consisting of about 50% orthoclase, 25% quartz, and balance of plagioclase feldspars and ferromagnesian silicates
"granodiorite"	coarse-grained igneous rock intermediate in composition between granite and diorite
"hanging wall"	rock mass above a fault, vein, bed or mineralisation
"hornfels"	a medium or fine-grained rock produced by thermal metamorphism
"hydrogeology"	the study of the water cycle
"hydrothermal"	refers in the broad sense to the process associated with alteration and mineralisation by a hot mineralised fluid (water)
"igneous"	said of a rock or mineral that solidified from molten or partly molten material, i.e., from a magma
"Indicated Mineral Resource"	as defined in the JORC Code, is that part of a *Mineral Resource* which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable degree of reliability. An *Indicated Mineral Resource* will be based on more data and therefore will be more reliable than an *Inferred Mineral Resource* estimate
"Inferred Mineral Resource"	as defined in the JORC Code, is that part of a *Mineral Resource* for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
"intermediate"	the composition of igneous or volcanic rocks whose composition lies between those of basic and acid rocks
"intrusive"	of or pertaining to intrusion — both the processes and the rock so formed
"jamesonite"	ore mineral of lead antimony sulphide
"JORC Code"	the Australian Code for Reporting of Mineral Resources and Ore Reserves which sets out the minimum standards, recommendations and guidelines for the Public Reporting of exploration results, Mineral Resources and Ore Reserves in Australasia

"kaolinite/kaolin"	a monoclinic mineral, $Al_4Si_4O_{10}(OH)_8$; kaolinite-serpentine group; soft; white; formed by hydrothermal alteration or weathering of aluminosilicates, esp. feldspars and feldspathoids; formerly called kaolin
"kV"	kilo-volt
"lineament"	a large scale linear structural feature
"mm"	millimetres
"massif"	a very large topographic or structural feature, usually of greater rigidity than the surrounding rock
"Measured Mineral Resource"	defined in the JORC Code, as that part of a *Measured Mineral Resource* for which the resource has been intersected and tested by drill holes, underground openings or other sampling procedures at locations which are spaced closely enough to confirm continuity and where geoscientific data are reliably known. A *Measured Mineral Resource* estimate will be based on a substantial amount of reliable data, interpretation and evaluation which allows a clear determination to be made of the shapes, sizes, densities and grades
"metallogenic"	study of the genesis of mineral deposits, with emphasis on its relationship in space and time to regional petrographic and tectonic features of the Earth's crust
"metallogenic province"	a belt of rocks, often structurally controlled, that are host to a specific selection of minerals
"metallurgical"	describing the science concerned with the production, purification and properties of metals and their applications
"metamorphosed"	rocks which have been altered by temperature and pressure
"mill"	equipment used to grind crushed rocks to the desired size for mineral extraction
"mineralisation"	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
"Mineral Resource"	a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for the eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. *Mineral Resources* are sub-divided into *Inferred Mineral Resources*, *Indicated Mineral Resources* and *Measured Mineral Resources*
"NPV"	net present value
"ochre"	natural pigments, usually iron hydroxides and hydrated iron oxides
"open-pit"	a large scale hard rock surface mine
"Ordovician"	a period of geologic time from about 500 to 435 million years
"ore"	rock that can be mined and processed at a profit
"ore body"	mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions

"ore reserve"	the economically mineable part of a *Measured* or *Indicated Mineral Resource*. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore reserves are sub-divided in order of increasing confidence into Probable and Proven
"ounce"	troy ounce; equal to 31.1035 grammes
"outcrop"	a rock exposure on surface
"paragenesis"	the relationship of minerals expressed in terms of a time sequence
"plutonic"	pertaining to igneous rocks formed at great depths
"plunge"	a fold is said to plunge if the axis is not horizontal
"polymetallic"	refers to a mineral deposit or occurrence with several metal sulphides, common metals include Cu, Pb, Zn, Fe, Mo, Au and Ag
"porphyry"	igneous rock containing conspicuous phenocrysts (crystals) in fine-grained or glassy groundmass
"Precambrian"	era before 590 million years
"precious metal"	gold, silver and platinum group minerals
"pyroclastic"	produced by explosive or aerial ejection of ash, fragments, and glassy material from a volcanic vent
"pyrite"	an iron sulphide mineral with the formula FeS_2
"quartz"	Silica group of minerals
"recovery"	proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
"rhyolite"	a fine-grained extrusive igneous rock, often with a sugary texture, consisting of essential quartz, alkali feldspar and one or more ferromagnesian minerals
"sandstone"	detrital sedimentary rock in which particles range from 1/16 to 2mm
"scarn"	a thermally altered impure limestone
"schists"	metamorphic rock dominated by fibrous or platy minerals
"sedimentary"	rocks formed from material derived from pre-existing rocks by processes of denudation
"shaft"	vertical or inclined excavation into mine workings
"silicification"	the introduction of silica into a rock, either filling pore spaces or replacing pre-existing minerals
"siltstone"	detrital sedimentary rock in which particles are less than 1/16mm
"Silurian"	a period of geologic time from about 435 to 395 million years
"stibnite"	an antimony ore mineral Sb_2S_3

"stockwork"	a three-dimensional network of planar or irregular veinlets closely enough spaced that the whole mass is considered to be mineralised
"stoping"	the mining term for large-scale extraction of ore from underground
"strike length"	the longest horizontal dimension of an ore body or zone of mineralisation
"sub-volcanic"	pertaining to an igneous intrusion, or to the rock of that intrusion, whose depth is intermediate between that of abyssal or plutonic and the surface
"sulphide"	mineral containing sulphur in its non-oxidised form
"syncline"	a basin shaped fold
"tailings"	material that remains after all metals/minerals considered economic have been removed from the ore
"tectonic"	a structural feature
"terrigenous"	sediments formed and deposited on land
"telluride"	mineral containing tellurium
"Tertiary"	a period of geologic time from about two to 65 million years
"TMF"	tailings management facility
"tonalite"	alternative name for diorite
"top-cut"	process applied to grade evaluation to eradicate "nugget-effect"
"treatment plant"	a plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
"tuffs"	rock consolidated from volcanic ash
"underground working"	mine openings for evaluation for ore extraction excavated beneath the ground surface
"vein"	a tabular deposit of minerals occupying a fracture, in which particles may grow away from the walls towards the middle
"vein swarm"	multiple and composite veining
"weathering"	the breakdown of rocks and minerals in the near-surface environment by the action of physical and chemical processes, in the presence of air and water

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INDEX TO FINANCIAL INFORMATION

BDO Stoy Hayward
Chartered Accountants

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

The Directors
KazakhGold Group Limited
La Motte Chambers
St. Helier
Jersey JE1 1BT
Channel Islands

25 November 2005

The Directors
ING Bank N.V., London Branch
60 London Wall
London
EC2M 5TQ

Dear Sirs

KAZAKHGOLD GROUP LIMITED

We report on the financial information set out on page F-4. This financial information has been prepared for inclusion in the prospectus dated 25 November 2005 of KazakhGold Group Limited (the "Company") (the "Prospectus") on the basis of the accounting policies set out in Note 1 to the financial information.

This report is required by item 20.1 of Annex X to the Commission Regulation (EC) No 809/2004 as incorporated into the prospectus rules made by the Financial Services Authority for the purposes of Part 6 of the Financial Services and Markets Act 2000 (the "Prospectus Rules") and is given for the purpose of complying with that item and for no other purpose.

The Company was incorporated in Jersey on 26 September 2005 under the Companies (Jersey) Law 1991, as amended, as a public company limited by shares with the name KazakhGold Group Limited. The balance sheet is prepared as at the date of incorporation and, as at that date, the Company had not traded, nor had it received any income, incurred any expense or paid any dividends. Consequently no income statement is presented.

Responsibilities

As described in Note 1 to the financial information, the Company is responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations, adopted by the International Accounting Standards Board.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at the date stated in accordance with the basis of preparation set out in Note 2 and has been prepared in accordance with IFRS as described in Note 2.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Regulation.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

Balance sheet

	As at 1 October 2005
	£
ASSETS	
Current assets	
Debtors—unpaid share capital	4,000
Total assets	4,000
EQUITY AND LIABILITIES	
Share capital (Note 3)	4,000
Total equity and liabilities	4,000

Notes forming part of the financial information as at 1 October 2005

1 Responsibility

The Company is responsible for the financial information on the Company set out on page F-4 of the Prospectus.

2 Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

Basis of accounting

The financial information has been prepared in accordance with IFRS, including International Accounting Standards and Interpretations, adopted by the International Accounting Standards Board.

3 Share capital

The Company was incorporated with authorised share capital of £10,000 divided into 100,000,000 shares of £0.0001 each of which 100,000 were issued for cash at par to Abacus (C.I.) Limited as the subscriber to the Memorandum of Association as nominee for Gold Lion Limited. On 27 September 2005, the shares were transferred to Gold Lion Limited. On 30 September 2005, 39,900,000 shares of £0.0001 each were issued for cash at par to Gold Lion Limited.

4 Post balance sheet events

On 12 October 2005, the Company received the entire issued capital of Romanshorn LC AG, which is the holding company of JSC Kazakhaltyn Mining—Metallurgical Concern, from Mr. Kanat Assaubayev and Mrs. Marussya Assaubayeva (who are each directors of the Company) for nil consideration.

BDO Stoy Hayward
Chartered Accountants

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The Directors
KazakhGold Group Limited
La Motte Chambers
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Channel Islands

25 November 2005

The Directors
ING Bank N.V., London Branch
60 London Wall
London
EC2M 5TQ

Dear Sirs

JSC KAZAKHALTYN MINING—METALLURGICAL CONCERN ("KAZAKHALTYN")

We report on the financial information set out on pages F-7 to F-22. This financial information has been prepared for inclusion in the prospectus dated 25 November 2005 of KazakhGold Group Limited (the "Company") (the "Prospectus") on the basis of the accounting policies set out in Note 1 to the financial information.

This report is required by item 20.1 of Annex X to the Commission Regulation (EC) No 809/2004 as incorporated into the prospectus rules made by the Financial Services Authority for the purposes of Part 6 of the Financial Services and Markets Act 2000 (the "Prospectus Rules") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

As described in Note 1 to the financial information, the Company is responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations, adopted by the International Accounting Standards Board.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

The evidence available to us was limited in relation to the opening balances in the financial information for the year ended 31 December 2002, because audited financial information prepared in compliance with IFRS for the year ended 31 December 2001 were not available. In consequence, it was not possible for us to perform the work necessary to obtain sufficient appropriate evidence as regards the opening balances included in the financial information for the year ended 31 December 2002. Any adjustment to those

figures would have a consequential effect on the revaluation reserve and the profit for the year ended 31 December 2002.

Opinion

In our opinion, except for any adjustments that might have been found necessary had we been able to obtain sufficient evidence concerning the opening balances in the financial information for the year ended 31 December 2002, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Kazakhaltyn as at the dates stated and of its profits and cash flows for the years then ended in accordance with the basis of preparation set out in Note 2 and has been prepared in accordance with IFRS as described in Note 2.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in this document in compliance with item 1.2 of Annex X of the Prospectus Rules.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

Income statements

	Notes	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
		KZT'000	KZT'000	KZT'000
Revenues	3	1,545,606	1,526,355	1,141,180
Cost of sales		(1,236,530)	(1,115,945)	(937,321)
Gross profit		309,076	410,410	203,859
Expenses:				
Administrative expenses		(163,085)	(172,246)	(186,191)
Sales expenses		(9,055)	(8,781)	(23,635)
		(172,140)	(181,027)	(209,826)
Other operating income:				
Foreign exchange gains		—	103,204	132,992
Write-off of liabilities		728,556	—	10,923
Increase in fair value of investment property	9	—	—	62,000
Other income		78,417	19,811	4,562
		806,973	123,015	210,477
Other operating expenses:				
Foreign exchange losses		(48,194)	—	—
Loss from disposal of assets		(1,778)	(11,455)	—
Other expenses		(61,709)	(26,386)	(24)
		(111,681)	(37,841)	(24)
Profit before finance income/(expense) and tax		832,228	314,557	204,486
Finance income		—	10,529	57,926
Finance expense		(200,047)	(215,577)	(222,218)
Profit before tax		632,181	109,509	40,194
Taxation	5	(263,381)	(70,742)	(34,808)
Profit for the year		368,800	38,767	5,386
Earnings per share	6			
Basic and diluted		KZT 240	KZT 25	KZT 4

Statements of recognised income and expenses

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Profit for the year	368,800	38,767	5,386
Revaluation of fixed assets	259,218	—	1,456,225
Deferred tax liability arising on revaluation of fixed assets	—	—	(436,867)
Total recognised income and expense for the year	628,018	38,767	1,024,744

Balance sheets

	Notes	31 December 2002	31 December 2003	31 December 2004
		KZT'000	KZT'000	KZT'000
ASSETS				
Non-current assets				
Intangible assets	7	632	430	260
Property, plant and equipment	8	1,883,279	1,852,381	4,011,760
Investment properties	9	—	—	62,000
Capitalised mine development and mining costs	10	75,449	64,569	833,582
Long-term receivables		642,608	654,592	410,988
		2,601,968	2,571,972	5,318,590
Current assets				
Inventories	11	352,617	381,238	237,188
Trade receivables		183,279	375,741	312,397
Prepaid expenses		42,780	38,676	364,831
Other current receivables	12	24,040	49,686	365,036
Cash and cash equivalents	13	3,454	1,586	105,787
		606,170	846,927	1,385,239
Total assets		3,208,138	3,418,899	6,703,829
EQUITY AND LIABILITIES				
Equity				
Share capital	17	1,538,711	1,538,711	1,538,711
Revaluation reserves		259,218	252,437	1,255,022
Retained earnings		(441,475)	(395,927)	(373,768)
		1,356,454	1,395,221	2,419,965
Non current liabilities				
Bank loans—long-term	14	664,340	1,444,266	1,344,249
Bonds	14	—	—	1,723,316
Deferred tax liabilities	15	13,923	7,157	473,981
		678,263	1,451,423	3,541,546
Current liabilities				
Trade payables		259,199	154,102	113,192
Advances received		76,793	2,027	2,609
Income tax liabilities		43,216	60,425	99,815
Other tax liabilities		16,691	115,345	85,917
Bank loans—short-term	14	582,864	46,270	199,439
Other current payables	16	194,658	194,086	241,346
		1,173,421	572,255	742,318
Total equity and liabilities		3,208,138	3,418,899	6,703,829

Statement of changes in equity

	Share capital	Revaluation reserves	Accumulated losses	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Balance at 1 January 2002	1,538,711	—	(810,275)	728,436
Gains on revaluation of fixed assets	—	259,218	—	259,218
Profit for the year	—	—	368,800	368,800
Balance at 1 January 2003	1,538,711	259,218	(441,475)	1,356,454
Transfer	—	(6,781)	6,781	—
Profit for the year	—	—	38,767	38,767
Balance at 1 January 2004	1,538,711	252,437	(395,927)	1,395,221
Gains on revaluation of fixed assets	—	1,456,225	—	1,456,225
Deferred tax liability arising on the revaluation of fixed assets	—	(436,867)	—	(436,867)
Transfer	—	(16,773)	16,773	—
Profit for the year	—	—	5,386	5,386
Balance at 31 December 2004	1,538,711	1,255,022	(373,768)	2,419,965

Statements of cash flows

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	632,181	109,509	40,194
Adjustments for:			
Depreciation, depletion and amortisation	90,299	113,195	129,097
Finance income	—	(10,529)	(57,926)
Finance expense	200,047	215,577	222,218
Amortisation of bond issue costs	—	—	2,985
Change in value of investment property	—	—	(62,000)
Write-off of liabilities	(721,851)	—	—
Losses on disposal of property, plant and equipment	1,778	11,455	—
	202,454	439,207	274,568
Changes in working capital:			
Decrease/(increase) in other receivables	19,411	(16,572)	(125,879)
(Increase)/decrease in trade receivables	(178,962)	(192,462)	63,344
Decrease/(increase) in inventories	9,820	(35,149)	(106,311)
Decrease/(increase) in prepaid expenses	34,063	4,104	(326,155)
Increase/(decrease) in trade payables and other payables	172,974	(152,609)	(34,843)
Interest paid	(200,047)	(215,577)	(222,218)
	(142,741)	(608,265)	(752,062)
CASH GENERATED FROM/(ABSORBED BY) OPERATIONS	59,713	(169,058)	(477,494)
INVESTING ACTIVITIES			
Acquisition of mining and other property, plant and equipment	(79,984)	(80,670)	(1,293,216)
Acquisition of intangible assets	(203)	—	(102)
Proceeds from sale of long-term assets	—	4,528	—
Proceeds from long-term receivables	—	—	101,530
	(80,187)	(76,142)	(1,191,788)
FINANCING ACTIVITIES			
New bank loans raised	931,083	1,513,109	1,238,207
Repayment of borrowings	(918,807)	(1,269,777)	(1,185,055)
Proceeds from issue of bonds	—	—	1,720,331
	12,276	243,332	1,773,483
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,198)	(1,868)	104,201
CASH AND CASH EQUIVALENTS at beginning of year	11,652	3,454	1,586
CASH AND CASH EQUIVALENTS at end of year	3,454	1,586	105,787
Non cash transactions			
Transfer of materials to construction in progress	69,435	6,528	250,361
Reclassification of receivables from/(to) short term to/(from) long term	747,771	—	(200,000)

Notes forming part of the financial information for the years ended 31 December 2002, 31 December 2003 and 31 December 2004

1 Responsibility

The Company is responsible for the financial information on Kazakhaltyn set out on pages F-7 to F-22 of the Prospectus.

2 Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

Basis of accounting

The financial information has been prepared in accordance with IFRS, including International Accounting Standards and Interpretations, adopted by the International Accounting Standards Board.

Going concern

The financial information has been prepared on a going concern basis.

In the year ended 31 December 2004 Kazakhaltyn generated a profit before finance income/(expense) and tax of Thousand KZT 204,486 but has accumulated losses of Thousand KZT 373,768 and net current assets of Thousand KZT 642,921.

After considering the year end financial position and future prospects of Kazakhaltyn, the Company considers that Kazakhaltyn has adequate resources to continue in operational existence for the foreseeable future. For this reason, it has continued to adopt the going concern basis in preparing the financial information.

Foreign currency translation

Foreign currency transactions are translated into Kazakh Tenge (the currency of the primary economic environment in which it operates) using the exchange rate prevailing at the date of transaction. Monetary balance sheet items stated in foreign currencies are translated at the exchange rates ruling at the balance sheet dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in the income statement. Exchange differences arising on the translation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

Revenue recognition

Revenue and associated costs from the sale of gold and silver flotation concentrate, gravitational concentrate, quartzite ore and free gold are recognised when the risk and rewards of ownership together with effective control are transferred to the customer, and the amount or revenue and cost incurred in respect of the transaction can be reliably measured, as long as it is probable that the economic benefits associated with the transactions will flow to the entity.

Capitalisation of borrowing costs and interest

Borrowing costs and interest directly attributable to the acquisition, contribution 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 income statement in the period in which they are incurred.

Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit and is calculated using the balance sheet liability method.

Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised, and is recognised in all temporary timing differences.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be used.

Deferred tax liabilities arising on differences arising on the revaluation of fixed assets are charged against the revaluation reserve arising on those assets.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds it recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised within the statement as recognised income and expenses.

Intangible assets

Intangible assets are stated at cost of acquisition less accumulated amortisation.

Intangible assets are amortised using the straight line method based upon estimated useful lives.

Amortisation on intangible assets is charged to cost of sales over the following periods:

Mining and other licences:	3-4 years
Software:	3 years

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost.

Buildings and constructions are stated at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. Any decrease arising on the revaluation of such buildings and constructions is debited to the revaluation reserve to the extent that it reverses a previous revaluation increase for the same asset recognised within the revaluation reserve.

All other items of property, plant and equipment are stated at their cost less accumulated depreciation and impairment losses. Where the carrying amount of such an asset is greater than its expected fair value, the carrying value is written down to the higher of its value in use and its fair value less expected sale costs and the decrease recognised as an expense.

Property, plant and equipment are depreciated on a straight-line basis from the date they are ready to be brought into use over the estimated useful life of the item. Land is not depreciated.

Buildings and property	11 to 50 years
Machinery and equipment	2 to 35 years
Vehicles	4 to 10 years
Other	1.5 to 17 years

Expenses for maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishment and improvements are capitalised.

Investment property

Investment property which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of the investment property are included in the profit and loss for the period in which they arise.

Capitalised mine development and mining costs

Costs of acquisition, exploration and development of mining properties are capitalised as incurred using the full cost method. Whenever the carrying amount of an asset exceeds its recoverable amount, being the higher if its fair value less costs to sell and its value in use, an impairment loss is recognised in income. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset.

All geological and geophysical studies have been capitalised as part of the mining properties. Kazakhaltyn's mining properties primarily relate to the value of capitalised mine development and mining costs.

Depreciation, depletion and amortisation of producing mine properties is calculated using the "units-of-production method" based on estimated recoverable reserves, and are charged to the cost of finished goods.

Construction in progress

Assets under constructions are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs and interest capitalised in accordance with Kazakhaltyn's accounting policy. When the assets are ready for their intended use, their cost is transferred to the relevant class of property, plant and equipment.

Inventories

Inventories are initially recognised at cost.

Raw materials which consist of equipment for development activities, spare parts, diesel fuel, and various materials for use in mining operations are valued at the lower of cost and net realisable value on a weighted average cost basis. Under the full cost method inventory is attributed to capitalised mining properties when used in exploration, mining and development operations in ore deposits.

Finished goods (comprising gold and silver flotation concentrates, gravitational concentrates, quartzite ore and free gold) are stated at the lower of cost and net realisable value on a first in first out basis. Costs comprise direct materials, direct labour costs and production overheads (which includes the depreciation of relevant property, plant & equipment), and the amortisation of capitalised mine development and mining costs) in the ordinary course of business. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in selling and distribution.

Retirement benefits

Contributions to defined contributions schemes are charged to the income statement in the year to which they relate.

Financial assets

Kazakhaltyn classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Kazakhaltyn's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. Kazakhaltyn does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at discounted cost less any provision for impairment.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise Kazakhaltyn's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available for sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

Financial liabilities

Kazakhaltyn classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Kazakhaltyn's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowing and bonds issued by Kazakhaltyn are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

3 Revenues

All revenues, assets and liabilities relate to Kazakhaltyn's sole business segment of gold production in Kazakhstan.

Revenues represent export sales of gold and silver flotation concentrate, gravitational concentrate, quartzite ore and free gold.

The majority of flotation concentrate and gravity concentrate and quartzite ore is sold to Russia. The majority of free gold is sold to Switzerland.

Additionally in the year ended 31 December 2002 Kazakhaltyn had revenues of Thousand KZT 179,065 from exploration services.

All Kazakhaltyn's operations are located in Kazakhstan. The following table provides an analysis of the company's sales by geographical market.

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Russia	391,767	1,081,224	743,936
Switzerland	904,699	431,735	397,244
Other	249,140	13,396	—
	1,545,606	1,526,355	1,141,180

4 Profit before tax

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
This has been arrived at after charging/(crediting):			
Staff costs	303,905	371,012	418,933
Depreciation and amortisation	90,299	113,195	129,097
Write off of liabilities (see below)	(728,556)	—	(10,923)

In 2002, Kazakhaltyn wrote off liabilities totalling Thousand KZT 728,566 in respect of claims barred under the statute of limitations.

5 Taxation

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Current tax	43,216	77,508	4,851
Deferred tax	220,165	(6,766)	29,957
	263,381	70,742	34,808

Deferred tax reflects the estimated tax effect of temporary timing differences.

The current tax charge for the year can be reconciled to the profit per income statement as follows:

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Profit before tax	632,181	109,509	40,194
Tax at the domestic income tax rate of 30%	189,654	32,853	12,058
Permanent timing differences	95,563	37,889	22,750
Losses utilised	(245,962)	—	—
Other short term timing differences	(3,961)	6,766	(29,957)
Current tax for the year	43,216	77,508	4,851

The tax system and legislation in Kazakhstan have been in force for a relatively short time. As a result, the tax legislation in Kazakhstan is evolving and is subject to different and varying interpretations as well as inconsistent enforcement. The directors of Kazakhaltyn believe that there have been no material breaches of Kazakh tax regulations and that all necessary provisions have been made.

6 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Earnings			
Profit for the year	368,800	38,767	5,386
Number of shares	1,538,711	1,538,711	1,538,711

7 Intangible assets

Intangible assets consist of mining licences, other licences and software.

8 Property, plant and equipment

	Land	Buildings & constructions	Assets under construction	Machinery & equipment	Cars	Other	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
COST OR VALUATION							
At 1 January 2002	4,869	915,079	287,774	313,013	94,573	117,725	1,733,033
Additions	7,593	11,279	113,347	48,283	3,578	26,683	210,763
Disposals	(1,276)	(174)	—	(132)	(289)	(54)	(1,925)
Revaluation	—	275,962	—	—	—	—	275,962
Reclassification	—	52,329	(30,483)	(8,370)	—	(100,209)	(86,733)
At 31 December 2002	11,186	1,254,475	370,638	352,794	97,862	44,145	2,131,100
Additions	129	5,796	5,788	40,981	7,376	24,916	84,986
Disposals	—	—	(756)	(5,245)	—	(35)	(6,036)
Reclassification	—	11,041	(11,041)	—	—	—	—
At 31 December 2003	11,315	1,271,312	364,629	388,530	105,238	69,026	2,210,050
Additions	—	62,834	560,926	104,440	24,821	54,252	807,273
Subsequent cost	—	7,916	—	21,316	1,042	—	30,274
Disposals	—	—	(3,713)	—	—	—	(3,713)
Revaluation	—	1,574,851	—	—	—	—	1,574,851
Reclassification	—	—		32,502	—	(32,502)	—
At 31 December 2004	11,315	2,916,913	921,842	546,788	131,101	90,776	4,618,735

Included within additions to assets under construction and property, plant and equipment is interest capitalised in the year of Thousand KZT 63,249 (2003—Thousand KZT Nil, 2002—Thousand KZT Nil).

	Land	Buildings & constructions	Assets under construction	Machinery & equipment	Cars	Other	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
ACCUMULATED DEPRECIATION							
At 1 January 2002	—	44,707	—	67,951	26,211	2,253	141,122
Charge for the year	—	25,702	—	42,694	8,947	12,760	90,103
Disposals	—	(10)	—	(25)	(112)	—	(147)
Revaluation	—	16,743	—	—	—	—	16,743
Reclassification	—	808	—	(2,017)	—	1,209	—
At 31 December 2002	—	87,950	—	108,603	35,046	16,222	247,821
Charge for the year	—	39,252	—	53,325	10,328	10,088	112,993
Disposals	—	—	—	(3,129)	—	(16)	(3,145)
At 31 December 2003	—	127,202	—	158,799	45,374	26,294	357,669
Charge for the year	—	74,133	—	35,573	11,809	9,165	130,680
Revaluation	—	118,626	—	—	—	—	118,626
Reclassification	—	—	—	21,815	(21,242)	(573)	—
At 31 December 2004	—	319,961	—	216,187	35,941	34,886	606,975
NET BOOK VALUE							
At 31 December 2002	11,186	1,166,525	370,638	244,191	62,816	27,923	1,883,279
At 31 December 2003	11,315	1,144,110	364,629	229,731	59,864	42,732	1,852,381
At 31 December 2004	11,315	2,596,952	921,842	330,601	95,160	55,890	4,011,760

The buildings and constructions were revalued on 1 September 2004 by an independent valuer on an open market value basis to their fair value of Thousand KZT 2,603,767.

Had the building and constructions been accounted for under the historic cost method, their net book value would have been Thousand KZT 904,512 (2003—Thousand KZT 891,673 (2002—Thousand KZT 907,306).

9 Investment properties

During the year ended 31 December 2004 Kazakhaltyn's investment properties, which had previously been carried at nil value were revalued on an open market value basis to their fair value of Thousand KZT 62,000.

10 Capitalised mine development and mining costs

	Exploration costs	Mine development costs	Total
	KZT'000	KZT'000	KZT'000
Net book value			
At 1 January 2002	45,959	9,182	55,141
Additions	25,136	468	25,604
Disposals	—	(5,296)	(5,296)
Net book value			
At 1 January 2003	71,095	4,354	75,449
Additions	—	2,163	2,163
Depreciation	(13,043)	—	(13,043)
Net book value			
At 1 January 2004	58,052	6,157	64,569
Additions	276,035	542,742	818,777
Depreciation	(18,966)	(30,798)	(49,764)
Net book value			
At 31 December 2004	315,121	518,461	833,582

Mine development costs include amounts relating to the development of heap leaching, carbon in pulp and processing plants.

11 Inventories

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Raw materials	207,885	200,776	200,067
Finished goods	144,732	179,809	31,274
Work in progress	—	653	5,847
	352,617	381,238	237,188

12 Other current receivables

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Prepaid expenses	—	—	1,598
Receivables from employees and other persons	4,093	2,651	14,059
VAT receivables	14,869	47,035	89,673
Other	5,078	—	259,706
	24,040	49,686	365,036

Other current receivables are recognised at net realisable value less provisions for doubtful debts.

13 Cash and cash equivalents

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Cash at hand	3,149	1,425	11,061
Cash at bank	305	161	94,726
Total cash and cash equivalents	3,454	1,586	105,787

14 Long-term and short-term borrowings

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Long-term borrowings:			
Bank loans due after more than one year	664,340	1,444,266	1,344,249
Floating rate bonds	—	—	1,723,316
Total long-term borrowings	664,340	1,444,266	3,067,565
Total short-term borrowings	582,864	46,270	199,439
Total borrowings	1,247,204	1,490,536	3,267,004
The borrowings are repayable as follows:			
Amounts falling due:			
In one year or less or on demand	582,864	46,270	199,439
In more than one year but not more than two years	664,340	895,556	451,175
In more than two years but not more than five years	—	548,710	2,616,390
Total	1,247,204	1,490,536	3,267,004

	Total	KZT'000	US$
	KZT'000	KZT'000	KZT'000
Analysis of borrowing currency:			
31 December 2002	1,247,204	—	1,247,204
31 December 2003	1,490,536	—	1,490,536
31 December 2004	3,267,004	2,685,447	581,557

The bank loans bear interest at the fixed rate of 14% per annum (2003—14% to 18%, 2002—16% to 18%).

The bank loans are secured on the mining assets of Kazakhaltyn, 50% of the shares in Askam Investco Limited (a related company) and a property in Astana owned by a related party.

Under an agreement with one of Kazakhaltyn's bankers, a correction coefficient is applied to Tenge denominated loans (totalling Thousand KZT 932,215). This correction is equivalent to the change in the exchange rate and only applies should the US Dollar appreciate in value from the date of issue of the loans. This correction coefficient is applied at the earlier of the loan falling due for payment or being repaid. The effect of this is that Kazakhaltyn remains exposed to any appreciation in the value of the US dollar against the Tenge. At 31 December 2004 no correction would have been necessary, and the directors of Kazakhaltyn do not consider this arrangement to have a significant value as at 31 December 2004.

At 31 December 2004 Kazakhaltyn had been authorised to issue 2,800,000,000 bonds at par value of KZT 1 each, and issued 1,750,177,562 during that year.

The bonds are listed on the Kazakh stock exchange and pay a coupon of 9% (equivalent annual rate) during the first six months of circulation and then pay a coupon equivalent to 200 basis points above the consumer price index on the indexed nominal bond costs subject to a maximum of 13%. During the year ended 31 December 2004, the weighted coverage interest rate on these bonds was approximately 9%. The bonds fall due for redemption on 2 June 2009.

15 Deferred tax

Deferred taxes reflect the estimated tax effect of temporary differences between assets and liabilities for financial reporting purposes and those measured by tax laws and regulations. The components of deferred tax assets and deferred tax liabilities are as follows:

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Timing differences relating to:			
Revaluation of fixed assets	—	—	436,867
Other short term timing differences	13,923	7,157	37,114
	13,923	7,157	473,981

16 Other current payables

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Salaries payable	38,505	50,225	102,078
Pension benefits payable	70,838	96,179	72,407
Interest payable	28,223	4,133	38,809
Lease obligations	6,070	8,460	3,591
Financial aid	12,585	—	—
Miscellaneous other payables	38,437	35,089	24,461
	194,658	194,086	241,346

17 Share capital

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
Authorised share capital	1,538,711	1,538,711	3,000,000
Issued share capital	1,538,711	1,538,711	1,538,711

The issued share capital of Thousand KZT 1,538,711 comprises 1,538,711 shares each at par value of KZT 1,000.

During the year ended 31 December 2004 the authorised share capital of Kazakhaltyn was increased from 1,538,711 shares of KZT1,000 each by 1,461,289 shares of KZT 1,000 each, to 3,000,000 shares of KZT 1,000 each.

18 Financial instruments—Risk Management

Kazakhaltyn is exposed through its operations to one or more of the following financial risks:

- Fair value or cash flow interest rate risk
- Foreign currency risk
- Liquidity risk
- Market price risk
- Credit risk

Policy for managing these risks is set by the Board. All risks are managed centrally. The policy for each of the above risks is described in more detail below:

Fair value and cash flow interest rate risk

Kazakhaltyn obtains borrowings in the form of fixed rate loans, and floating rate bonds. The decision as to obtaining finance is reserved solely to the board of directors, who obtain finance based on the terms and conditions available for particular instruments at the time, taking into account the risk of paying rates in excess of market rates and the cash flow risk associated with interest rates, so as to achieve an appropriate balance of exposure to these risks.

Foreign currency risk

Foreign exchange risk arises because Kazakhaltyn's revenues are in US Dollars whilst Kazakhaltyn's primary functional currency is Kazakh Tenge in which all costs (other than equipment and a small amount of consumables purchased from overseas) are denominated.

Kazakhaltyn has a general policy of not hedging against foreign currency risk as this could impact its intention of being an unhedged gold producer.

Liquidity risk

The liquidity risk of Kazakhaltyn is managed centrally. New loans are taken out where additional funds are required, and surplus finds not required in the near future are utilised to repay existing loans.

Market price risk

As an unhedged gold producer, Kazakhaltyn is exposed to the market price of gold.

The directors believe that the exposure to market price risk from current activities is acceptable in Kazakhaltyn's circumstances.

Credit risk

Kazakhaltyn is mainly exposed to credit risk from credit sales which due to the nature of the business are concentrated to a small number of significant customers. It is Kazakhaltyn's policy to assess the

credit risk of new customers before entering into contracts, and where possible to trade with established companies.

19 Financial assets and liabilities—numerical information

Maturity of financial liabilities

The carrying amounts of financial liabilities, all of which are exposed to cash flow or fair value interest rate risk, are repayable as follows:

	31 December 2002	31 December 2003	31 December 2004
	KZT'000	KZT'000	KZT'000
In less than one year	582,864	46,270	199,439
In more than one year but not more than two years	664,340	895,556	451,175
In more than two years but not more than three years	—	344,354	474,727
In more than three years but not more than four years	—	204,356	302,997
In more than four years but not more than five years	—	—	1,838,666
	1,247,204	1,490,536	3,267,004

Interest rate risk

The currency and interest profile of Kazakhaltyn's financial liabilities are as follows:

	Floating rate liabilities 2004	Fixed rate liabilities 2004	Total
	KZT'000	KZT'000	KZT'000
KZT	1,723,316	962,131	2,685,447
US$	—	581,557	581,557
	1,723,316	1,543,688	3,267,004

	Floating rate liabilities 2003	Fixed rate liabilities 2003	Total
	KZT'000	KZT'000	KZT'000
KZT	—	—	—
US$	—	1,490,536	1,490,536
	—	1,490,536	1,490,536

	Floating rate liabilities 2002	Fixed rate liabilities 2002	Total
	KZT'000	KZT'000	KZT'000
KZT	—	—	—
US$	—	1,247,204	1,247,204
	—	1,247,204	1,247,204

20 Contingent liabilities

There were no contingent liabilities at 31 December 2002, 2003 or 2004.

21 Post balance sheet events

Kazakhaltyn entered into the following significant transactions after 31 December 2004:

(a) In July 2005 Visart LLP was acquired for approximately Thousand KZT 95,000.

(b) In July 2005 Rudnik Vasilevskyi LLP was acquired for approximately Thousand KZT 53,000. Rudnik Vasilevskyi LLP owns the rights to the Vasilevskyi deposit in Eastern Kazakhstan which is currently an exploration property.

(c) In July 2005 the property, licenses and mines previously owned by JSC Altyn Tobe were acquired for approximately Thousand KTZ 280,510.

The financial effect of the above acquisitions had not yet been assessed.

On 12 October 2005 Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva transferred the entire issued capital of Romanshorn LC AG, the holding company through which they indirectly held their interests in Kazakhaltyn, to KazakhGold Group Limited for nil consideration.

22 Transactions with related parties

Promplastmassa LLP was a related party of Kazakhaltyn for the years ended 31 December 2002, 2003 and 2004, due to the Assaubayev family having an interest in Promplastmassa LLP during these periods until they disposed of their interest in April 2004.

Kazakhaltyn entered into the following transactions with Promplastmassa LLP during these three years.

	2002	2003	2004
	KZT'000	KZT'000	KZT'000
Costs charged to Promplastmassa LLP during the year	26,445	2,930	5,134
Balance due to Kazakhaltyn as at the year end	25,920	27,375	32,394

Compensation of key management personnel

The remuneration of directors and other members of key management during the year, including pension contributions, was as follows:

	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	KZT'000	KZT'000	KZT'000
Assaubayev, K—President	540	570	4,152
Assaubayeva M—Vice president	480	480	3,000
Assaubayev B—Vice president	432	456	3,000
Assaubayev A—Vice president	432	456	3,000
Lyanov A M—Managing director	372	439	1,248
Total	2,256	2,401	14,400

In May 2004 a loan of Thousand KZT 10,321 was provided to a vice-president of Kazakhaltyn, with a repayment term of five years. This amount was outstanding at 31 December 2004.

Unaudited Interim Financial Information on Kazakhaltyn
for the six months ended 30 June 2004 and 2005

Set out below is the full text of the unaudited interim financial information on Kazakhaltyn for the six months ended 30 June 2004 and 2005:

"Income statements

	Notes	Unaudited Six months ended 30 June 2004	Unaudited Six months ended 30 June 2005
		KZT'000	KZT'000
Revenues	3	603,278	**290,396**
Cost of sales		(427,761)	**(266,548)**
Gross profit		175,517	**23,848**
Expenses:			
Administrative expenses		(80,722)	**(317,078)**
Sales expenses		(8,216)	**(37,086)**
		(88,938)	**(354,164)**
Other operating income:			
Foreign exchange gains		57,359	**—**
Other income		4,613	**12,656**
		61,972	**12,656**
Other operating expenses:			
Foreign exchange losses		—	**(73,618)**
Loss from disposal of assets		—	**(905)**
Other expenses		(6,415)	**(14,056)**
		(6,415)	**(88,579)**
Profit/(loss) before finance income/(expense) and tax		142,136	**(406,239)**
Finance income		28,963	**14,571**
Finance expense		(95,273)	**(225,295)**
Profit/(loss) before tax		75,826	**(616,963)**
Taxation		(29,393)	**—**
Profit/(loss) for the period		46,433	**(616,963)**
Earnings/(loss) per share			
Basic and diluted	4	KZT 30	**KZT (401)**

All recognised gains and losses are included in the income statement.

Balance sheets

	Notes	Audited 31 December 2004	Unaudited 30 June 2004	Unaudited 30 June 2005
		KZT'000	KZT'000	KZT'000
ASSETS				
Non-current assets				
Intangible assets	5	260	337	**10,791**
Property, plant and equipment	6	4,011,760	1,980,278	**5,013,324**
Investment properties		62,000	—	**62,000**
Capitalised mine development and mining costs	7	833,582	187,131	**884,151**
Long-term receivables		410,988	683,555	**320,479**
Restricted cash		—	—	**800**
		5,318,590	2,851,301	**6,291,545**
Current assets				
Inventories		237,188	392,360	**525,869**
Trade receivables		312,397	426,219	**358,914**
Prepaid expenses		364,831	204,391	**1,103,979**
Other current receivables		365,036	107,343	**460,369**
Cash and cash equivalents		105,787	438,397	**18,536**
		1,385,239	1,568,710	**2,467,667**
Total assets		6,703,829	4,420,011	**8,759,212**
EQUITY AND LIABILITIES				
Equity				
Share capital		1,538,711	1,538,711	**1,538,711**
Revaluation reserves		1,255,022	249,045	**1,247,758**
Retained earnings		(373,768)	(346,102)	**(983,467)**
		2,419,965	1,441,654	**1,803,002**
Non current liabilities				
Bank loans—long-term	8	1,344,249	1,409,521	**2,644,592**
Bonds	8	1,723,316	736,111	**2,542,962**
Finance leases	8	—	—	**140,540**
Deferred tax		473,981	13,637	**473,981**
		3,541,546	2,159,269	**5,802,075**
Current liabilities				
Trade payables		113,192	193,429	**343,538**
Advances received		2,609	70,723	**43,391**
Tax liabilities		185,732	142,351	**198,770**
Bank loans—short-term	8	199,439	193,757	**319,026**
Other current payables		241,346	218,828	**249,410**
		742,318	819,088	**1,154,135**
Total equity and liabilities		6,703,829	4,420,011	**8,759,212**

These unaudited interim financial statements were approved by the board of Kazakhaltyn on 25 November 2005.

Statement of changes in equity

	Share capital	Revaluation reserves	Accumulated losses	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Balance at 1 January 2004	1,538,711	252,437	(395,927)	1,395,221
Transfer	—	(3,392)	3,392	—
Profit for the period	—	—	46,433	46,433
Balance at 30 June 2004	1,538,711	249,045	(346,102)	1,441,654
Revaluation of fixed assets	—	1,019,358	—	1,019,358
Transfer	—	(13,381)	13,381	—
Profit for the period	—	—	(41,047)	(41,047)
Balance at 1 January 2005	1,538,711	1,255,022	(373,768)	2,419,965
Transfer	—	(7,264)	7,264	—
Loss for the period	—	—	(616,963)	(616,963)
Balance at 30 June 2005	**1,538,711**	**1,247,758**	**(983,467)**	**1,803,002**

Cash flow statements

	Unaudited Six months ended 30 June 2004	Unaudited Six months Ended 30 June 2005
	KZT'000	KZT'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	75,826	**(616,963)**
Adjustments for:		
Depreciation, depletion and amortisation	49,670	**66,638**
Finance expense	95,273	**225,295**
Finance income	(28,963)	**(14,571)**
Amortisation of bond issue costs	—	**5,057**
Losses on disposal of property, plant and equipment	3,713	**905**
	195,519	**(333,639)**
Changes in working capital:		
(Increase)/decrease in other receivables	(68,186)	**32,722**
(Increase) in trade receivables	(50,478)	**(46,517)**
(Increase) in inventories	(11,122)	**(288,681)**
(Increase) in prepaid expenses	(165,715)	**(739,148)**
Increase in trade payables and other payables	100,822	**327,561**
Interest paid	(109,189)	**(226,374)**
	(303,868)	**(940,437)**
CASH ABSORBED BY OPERATIONS	(108,349)	**(1,274,076)**
INVESTING ACTIVITIES		
Acquisition of mining and other property, plant and equipment	(303,792)	**(927,794)**
Acquisition of intangible assets	—	**(10,945)**
Proceeds from sale of long-term assets	—	**(800)**
Proceeds from long-term receivables	—	**25**
	(303,792)	**(939,514)**
FINANCING ACTIVITIES		
New bank loans raised	635,920	**1,957,526**
Repayment of borrowings	(523,079)	**(576,696)**
Proceeds from issue of bonds	736,111	**814,589**
Lease payments	—	**(69,080)**
	848,952	**2,126,339**
NET CHANGE IN CASH AND CASH EQUIVALENTS	436,811	**(87,251)**
CASH AND CASH EQUIVALENTS at beginning of period	1,586	**105,787**
CASH AND CASH EQUIVALENTS at end of period	438,397	**18,536**
Non cash transactions		
Reclassification of receivables from long term to short term	—	**105,080**
Acquisition of equipment by lease	—	**225,745**
VAT on leased properties	—	**22,975**

Notes forming part of the financial information for the six months ended 30 June 2004 and 30 June 2005

1 Responsibility

Kazakhaltyn is responsible for the interim financial information on Kazakhaltyn set out on pages F-23 to F-29.

2 Significant accounting policies

The principal accounting policies applied in the interim financial information remain the same as those applied in the annual financial information for the year ended 31 December 2004.

3 Revenues

All revenues, assets and liabilities relate to Kazakhaltyn's sole business segment of gold production in Kazakhstan.

Revenues represent export sales of gold flotation concentrate, gravitational concentrate, quartzite ore and free gold.

The majority of flotation concentrate and gravitational concentrate and quartzite ore is sold to Russia. The majority of free gold is sold to Switzerland.

All Kazakhaltyn's operations are located in Kazakhstan. The following table provides an analysis of the company's sales by geographical market.

	Unaudited Six months ended 30 June 2004	Unaudited Six months Ended 30 June 2005
	KZT'000	KZT'000
Russia	393,989	**175,318**
Switzerland	209,289	**114,915**
Other	—	**163**
	603,278	**290,396**

4 Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	Unaudited Six months ended 30 June 2004	Unaudited Six months Ended 30 June 2005
	KZT'000	KZT'000
Earnings/(loss)		
Profit/(loss) for the period	46,433	**(616,963)**
Number of shares	1,538,711	**1,538,711**

5 Intangible assets

Intangible assets consist of mining licenses, other licenses and software.

6 Property, plant and equipment

	Land	Buildings & constructions	Assets under construction	Machinery & equipment	Cars	Other	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
COST OR VALUATION							
At 1 January 2004	11,315	1,271,312	364,629	388,530	105,238	69,026	2,210,050
Additions	—	—	129,251	10,634	—	41,345	181,230
Disposals	—	—	(3,713)	—	—	—	(3,713)
Reclassification	—	11,554	(18,673)	50,675	2,065	(45,621)	—
At 30 June 2004	11,315	1,282,866	471,494	449,839	107,303	64,750	2,387,567
At 1 January 2005	11,315	2,916,913	921,842	546,788	131,101	90,776	4,618,735
Additions	—	—	748,135	180,055	121,216	19,313	1,068,719
Disposals	—	—	—	—	—	(930)	(930)
Reclassification	—	—	(251,239)	244,812	—	6,427	—
At 30 June 2005	**11,315**	**2,916,913**	**1,418,738**	**971,655**	**252,317**	**115,586**	**5,686,524**

Included within additions to assets under construction and property, plant and equipment is interest capitalised in the period of Thousand KZT 14,492 (31 December 2004—Thousand KZT 63,249, 30 June 2004—Thousand KZT 12,605).

	Land	Buildings & constructions	Assets under construction	Machinery & equipment	Cars	Other	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
ACCUMULATED DEPRECIATION							
At 1 January 2004	—	127,202	—	158,799	45,374	26,294	357,669
Charge for the period	—	19,670	—	19,860	5,176	4,914	49,620
At 30 June 2004	—	146,872	—	178,659	50,550	31,208	407,289
At 1 January 2005	—	319,961	—	216,187	35,941	34,886	606,975
Charge for the period	—	38,401	—	18,141	5,478	4,205	66,225
At 30 June 2005	—	358,362	—	234,328	41,419	39,091	673,200
NET BOOK VALUE							
At 30 June 2004	11,315	1,135,994	471,494	271,180	56,753	33,542	1,980,278
At 31 December 2004	11,315	2,596,952	921,842	330,601	95,160	55,890	4,011,760
At 30 June 2005	**11,315**	**2,558,551**	**1,418,738**	**737,327**	**210,898**	**76,495**	**5,013,324**

The buildings and constructions were revalued on 1 September 2004 by an independent valuer on an open market value basis to their fair value of Thousand KZT 2,603,764.

Had the building and constructions been carried out under the historic cost method, their net book value would have been Thousand KZT 843,107.

At 30 June 2005, included within machinery and equipment are assets held under finance lease of Thousand KZT 179,640.

7 Capitalised mine development and exploration costs

	Exploration costs	Mine development costs	Total
	KZT'000	KZT'000	KZT'000
Net book value			
At 1 January 2004	58,052	6,517	**64,569**
Movements in the period	14,009	108,553	**122,562**
At 30 June 2004	72,061	115,070	**187,131**
Movements in the period	243,060	403,391	**646,451**
At 1 January 2005	315,121	518,461	**833,582**
Movements in the period	21,636	28,933	**50,569**
At 30 June 2005	336,757	547,394	**884,151**

Mine development costs include amounts relating to the development of heap-leaching, carbon in pulp and processing plants.

8 Long-term and short term borrowings

	Audited 31 December 2004	Unaudited 30 June 2004	Unaudited 30 June 2005
	KZT'000	KZT'000	KZT'000
Long term borrowings:			
Bank loans due after more than one year	1,344,249	1,409,521	**2,664,592**
Floating rate bonds	1,723,316	736,111	**2,542,962**
Finance leases	—	—	**140,540**
Total long term borrowings	3,067,565	2,145,632	**5,238,094**
Short term borrowings:			
Bank loans falling due within one year	199,439	193,757	**279,926**
Finance leases	—	—	**39,100**
Total short term borrowings	199,439	193,757	**319,026**
Total	3,267,004	2,339,389	**5,647,120**

The borrowings are repayable as follows:

	Audited 31 December 2004	Unaudited 30 June 2004	Unaudited 30 June 2005
	KZT'000	KZT'000	KZT'000
Amounts falling due:			
In one year or less or on demand	199,439	193,757	**319,026**
In more than one year but not more than two years	451,175	393,846	**785,111**
In more than two years but not more than five years	2,616,390	971,083	**4,531,226**
In more than five years	—	44,592	**11,757**
Total	3,267,004	1,603,278	**5,647,120**

Independent review report to Kazakhaltyn in respect of its unaudited results for the six months period ended 30 June 2005

BDO Stoy Hayward
Chartered Accountants

BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL

The Directors
JSC Kazakhaltyn MMC
Satpaev Str. 18a
c. Almaty
Republic of Kazakhstan

25 November 2005

Dear Sirs

INDEPENDENT REVIEW REPORT TO JSC KAZAKHALTYN MINING-METALLURGICAL CONCERN ("KAZAKHALTYN")

Introduction

We have been instructed by Kazakhaltyn to review the financial information for the six months ended 30 June 2005 set out on pages F-23 to F-29.

Our report has been prepared in accordance with the terms of our engagement with Kazakhaltyn to review its financial information for the six months ended 30 June 2005 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by Kazakhaltyn. Kazakhaltyn is responsible for preparing the interim report and applying the accounting policies and basis of preparation consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Yours faithfully

BDO Stoy Hayward LLP
London''

25 November 2005

The Directors
KazakhGold Group Limited
La Motte Chambers
St. Helier
Jersey JE1 1BT
Channel Islands

ING Bank N.V., London Branch
60 London Wall
London
EC2M 5TQ

Dear Sirs,

Technical Report For The Gold Assets Held By Kazakhaltyn at Aksu, Zholymbet and Bestobe

INTRODUCTION

Purpose of Report

This report has been prepared by Wardell Armstrong International ("**WAI**") for inclusion in the prospectus (the "**Prospectus**") to be published by KazakhGold Group Limited (the "**Company**") in connection with a global offer of ordinary shares in the Company in the form of global depositary receipts and the proposed admission of the global depositary receipts to the Official List maintained by the Financial Services Authority ("**FSA**") and the admission of such shares to trading on London Stock Exchange plc's market for listed securities (the "**Global Offer**").

WAI was instructed by the Directors of the Company to prepare a Technical Report of the gold assets of JSC Kazakhaltyn Mining Metallurgical Concern ("**Kazakhaltyn**") at Aksu, Zholymbet and Bestobe in northern Kazakhstan. This report summarises the findings of WAI's review.

WAI has reviewed the practice and estimation methods undertaken by the Company for reporting reserves and resources in accordance with the Former Soviet Union ("**FSU**") "Classification and Estimation Methods for Reserves and Resources", last revised in 1981, and submitted as is mandatory to the Ministry of Energy and Mineral Resources of Kazakhstan. WAI has reviewed the reserve and resource statements of the individual units compiled by the Company.

From this, where appropriate, comment has been made with respect to internationally recognised reserve and resource categories of the "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004) published by the Joint Ore Reserves Committee ("**JORC**") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "**JORC Code**"). However, no attempt has been made to translate the Company's stated reserves and resources to JORC standards.

In this report, all reserve and resource estimates, initially prepared by the Company in accordance with the FSU Classification, have been substantiated by evidence obtained from WAI's site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by the Company's management and the directors of the Company.

In this regard, the valuation contained in this report is derived from consideration of all the assets described herein, paying cognisance to the relative risk associated with each of the individual parameters making up the estimation.

Capability and Independence

This report was prepared by WAI, the signatory to this letter. Details of the qualifications and experience of the consultants who carried out the work are in Annex A to this report. WAI operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to clients. WAI has received, and will receive, professional fees for its preparation of this report. However, neither WAI nor any of its directors, staff or subconsultants who contributed to this report has any interest in:

- the Company or Kazakhaltyn;
- the mining assets reviewed; or
- the outcome of the Global Offer.

Drafts of this report were provided to the Company, but only for the purpose of confirming both the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Scope of Work/Materiality/Limitations and Exclusions

WAI reviewed the assets in accordance with the scope of work and exclusions and limitations and on the basis of the materiality criteria set out in Annex B to this report.

WAI has independently assessed the gold assets of Kazakhaltyn at Aksu, Zholymbet and Aksu by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine ("**LOM**") plans relating to productivity, production, operating costs, capital expenditures and revenues.

All opinions, findings and conclusions expressed in this report are those of WAI and its subconsultants.

Inherent Mining Risks

Mining, and in particular underground metalliferous mining, is carried out in an environment where not all events are predictable. Whilst an effective management team can, firstly, identify the known risks, and secondly, take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is therefore not totally possible to remove all risks or state with certainty that an event that may have a material impact on the operation of a mine, will not occur.

Glossary of Terms

Defined and technical terms used in this report are set out in the "Glossary", included in this document.

CONTENTS

EXECUTIVE SUMMARY

Wardell Armstrong International (WAI) was commissioned by Kazakhaltyn to undertake a Technical Review for the Gold Assets Held by Kazakhaltyn at:

- Aksu;
- Quartzite Hills (which lies in very close proximity to Aksu);
- Zholymbet; and
- Bestobe

for the project covering the period 2006-2040 (the "**Project**").

Financial Analysis

WAI has reviewed the technical and cost estimates prepared by Kazakhaltyn and, where considered appropriate has provided revised estimates. These estimates have been entered into the WAI base case model. The results of this appraisal are presented in the table below.

WAI Appraisal Results

Discount rate	Value (in $ millions)
Project NPV Discounted at 8%	640
Project NPV Discounted at 10%	557
Project NPV Discounted at 12%	**488**
Project NPV Discounted at 14%	432

At a real discount rate of 12%, WAI estimates the Project to have a post-tax net present value of $488 million, and pre-tax net present value of $753 million.

Recently Kazakhaltyn has spent considerable time, effort and money reviewing the assets and developing a revised mining concept. This plan should turn around the fortunes of the previously ailing mines. The plan relies heavily on open pit mining and heap leaching, relatively modern low-cost technology with other easily mined, surface resources such as old tailings and dumps, also being treated. The old high-cost, low-recovery, flotation plants are being replaced with modern CIP plants producing doré bullion, although some flotation capacity will remain to treat refractory ores. 43% of the planned gold will still come from the underground mines. It is the opinion of WAI that the plan proposed by Kazakhaltyn is well conceived and should maximise the assets.

Using a 12% discount rate WAI estimates the net present value as $488 million. This is lower than Kazakhaltyn's valuation and reflects the opinion of WAI that some parameters used by Kazakhaltyn are optimistic, most particularly the grade of the underground ore and some mining costs. It also reflects some conservatism in process recovery. With a cash operating cost of $183 per ounce, the Project is extremely robust. Total operating costs are $1,638 million against total gold recovered of 8.9 million ounces.

Location and Access

The mines all lie on the relatively flat "steppe" country of northern Kazakhstan with elevations of around 160 metres to 180 metres above sea level. The countryside is typified by flat prairies with minor undulations and occasional hills of some 10 metres to 20 metres above the surrounding land.

The Aksu mine, and the adjacent Quartzite Hills mine, are situated in the Akmola region of northern Kazakhstan, some 180 kilometres southeast of Kokshetau and 18 kilometres north of the city of Stepnogorsk, to which it is linked by a metalled road and passenger train. Kazakhaltyn's head office is based in Stepnogorsk.

The Zholymbet mine lies some 100 kilometres to the south of Stepnogorsk and is accessed by a combination of metalled and gravel roads that are in fair condition. The small town surrounding the mine has been built-up purely as a consequence of the mine and is completely reliant on it for its prosperity.

The Bestobe mine is situated approximately 80 kilometres to the southeast of Stepnogorsk, 100 kilometres east of Aksu and 220 kilometres northeast of Astana, again accessed by a combination of metalled and gravel roads that are in fair condition.

Physiography, Climate and Land Use

The topography of all the mine sites is very similar and typical of the "steppe" country found in northern Kazakhstan. The Aksu mine is found on the main undulating plain at an average height of 350 metres above sea level. Zholymbet lies on a gently rolling plain of low relief at an elevation of between 280 metres and 378 metres above sea level. The plain is dissected by the valley of the Ashilyayryk River to the north-east (which provides the main source of un-potable water to the process plant).

The climate is extremely continental, characterised by a long severe winter and a short, hot summer. The average precipitation is less than 300mm. Temperatures can fall to −30°C in January and reach +30°C in July. The wind direction is predominately southwesterly to westerly at an average speed of around 16 metres per second.

Within the mine concession boundary, all unapportioned lands comprise uncultivated "steppe" plains of meadow grasses, with localised areas of birch and aspen. Outside of the mine, processing and populated areas, the lands are typically cultivated with wheat type crops.

Geology and Mineralisation

Within the metallogenic province of northern Kazakhstan, gold deposits such as Bestobe and Zholymbet are located along the trend of deep seated lineaments orientated within the Stepnyak and Selentinsky synclines, which are comprised mainly of Ordovician sediments.

The major deposits of gold are found within Late-Ordovician or Silurian low-normal-sulphur gold-quartz veins.

Aksu and Quartzite Hills

The Aksu ore zone is located on the eastern side of the Aksu-Domralin and Aksu-Zholymbet synclinal zone, which can be traced for several hundred kilometres. On a regional scale it is evident that all of the large scale gold deposits are located at the intersection between major northeast-southwest and conjugate trending fault zones and north-south trending deep seated lineaments. The Aksu and Quartzite Hills deposits are situated at the intersection of such cross faults, namely, Celinograd and Atanasor and the main north-east trending deep lineament. These mineralised centres are often associated with small intrusive bodies of upper Ordovician and Silurian age, which together with the contact rocks often play host to the main mineralisation.

Mineralisation within the Aksu ore field is hosted within Cambrian and Ordovician volcanogenic and sedimentary rocks and associated with intrusive rocks of Upper-Cambrian (gabbro and gabbro-diabase dykes and rod-like bodies), Middle (gabbro-diorites) and Upper-Ordovician (rod-like granodiorites) age.

The deposit lies within the central area of the Aksu ore field and is characterised by late stage (Stepnyak type) intrusions which bisect the axis of the relatively tightly folded Aksu anticline. Intrusions of Stepnyak type of Upper Ordovician age are either small (50 metres by 100 metres) or very large (2.2 kilometres by 5 kilometres). The largest of them are located in the north-eastern part of the ore field, where they form three separate massifs (Northern, Central and Southern Aksu).

The auriferous quartz veins are found almost exclusively within the intrusive rocks and only rarely within the contact aureoles. Additionally this mineralisation is characterised by a close structural relationship with the first and second stage intrusive dykes, typically with the veins following the contact surface against the dykes.

The quartz veins often have a strike length of between 100 metres and 150 metres with a few reaching 300 metres and 600 metres. The thickness varies between 0.05 metres and 0.7 metres, averaging 0.2 metres. Veins generally dip at 47° to 87°; very occasionally they are flat dipping at 10° to 30°, and most of the veins plunge at between 10° and 30°. Typically, the veins have an overall north-easterly strike and a southeastern dip, with a small number of them striking northwest and dipping to the southwest. The auriferous veins (with the exception of the Yanvarskaya and Belaya veins) are not laterally extensive, ranging from 120 metres to 150 metres and vary from only a few centimetres up to 0.30 metres in width, with the average being between 0.10 metres and 0.20 metres.

The composition of the veins is predominantly quartz, tourmaline and sericite, with a little carbon material. Less than 5% of the vein is made up of pyrite, chalcopyrite and galena and sphalerite. Distribution of ore

minerals in the veins is extremely random, and consists of clusters, bunches or streaks along the length of the vein or the contact with the vein margins.

The ore bodies of the Quartzite Hills deposit are located within large tectonic fault "blocks" of a strike-slip nature with intersecting oblique faults. They consist of breccias and schist units, which have undergone late stage silicification and are characterised by intensive schist formation, crush zones and further metasomatic silicification. Carbon rich clay and carbon-rich-clay-silicious schists are also hosts to mineralisation (which may have an impact on the cyanidation recovery process)

The ore bodies range from between 50 metres and 200 metres long and between 240 metres and 500 metres deep and are considered to be steeply dipping with a flattened lens and tube-like form (pipe-like).

The ores are made up of on average 10% to 15% sulphides of which 9% to 13% is pyrite and 1.0% to 1.5% is arsenopyrite. The vein minerals consist of quartz and carbonates with minor amounts of sericite-phengite and chlorite.

Ore minerals include wide-spread pyrite, arsenopyrite, black jack, antimonite, with minor chalcopyrite, tetrahedrite, jamesonite, chalcostibite, freibergite, gold, andorite, copper physelite, scheelite and boulangerite.

Free gold is distributed in microscopic amounts (0.074mm to 0.1mm), and on occasion, gold of a size of 1.00mm (northern part of IV ore body) has been identified.

Within the pyrite, gold is found in the form of threads and grains to 0.002mm. Gold mineralisation of Quartzite Hills is of a lower grade (780 microns to 790 microns) in comparison to the gold of the Aksu deposit. It is common for this gold to contain large amounts of silver with a composition of: 79.65% silver, 19.08% gold, 0.11% copper, 0.05% iron.

Currently there are six recognised ore bodies at the Quartzite Hills deposit:

- ore body I (1st Quartzite Hills);
- ore body II (2nd Quartzite Hills);
- ore body III (3rd Quartzite Hills); and
- ore bodies IV, V and VI that are not exposed at surface (blind ore bodies).

Zholymbet

The Zholymbet ore field is located on the northern limb of the Sofiyevskoye anticline, the axis of which passes through the eastern part of the deposit. The position of both the ore bodies and intrusives, are spatially related to the western limb of this anticline and the intersection point of conjugate faults/small crenulations in the major fold limb which trend in a northeasterly and northwesterly direction.

The deposit is characterised by sedimentary rocks of early to middle Ordovician age, together with volcano-sedimentary rocks of middle Ordovician age cut by intrusives of Upper Ordovician age.

Within the licence area, the early to middle Ordovician sediments consist of mudstones, siltsones and quartz, quartz-feldspar and greywacke sandstones, siliceous rocks, lime mudstones. These sediments are well developed in the south-eastern part of the deposit, in the form of a broad (2 kilometres wide) band striking in a northeast-southwesterly direction.

Middle Ordovician rocks are located in the western part of the ore field and are characterized by a large variety of the rocks which exhibit sharp facies change. In the northern and northwestern part of the ore field they form a wide (one kilometre to three kilometre) band, which continues beyond the limits of the ore field. In the south, Mid Ordovician sediments are overlain by the volcanogenic Silurian formations. The middle Ordovician formations consist of andesite and dacite tufa, tufa sandstones and siltstones, dacitic tuffs, basaltic, andesite-basaltic, andesite, andesite-dacite and dacite porphyrytes. Besides conglomerate-breccias and sandstones, there are also siltstones, mudstones, limestone and siliceous mudstones, pelitic limestones and siliceous rocks. Basalts and andesitic-basalts of Silurian age are located in the southern part of ore field. These outcrop over an area of approximately 1.5 kilometres by 0.5 kilometres to the southwest.

Five main intrusive bodies and dykes have been identified within the ore field, namely:

- Northern intrusive which occupies an area of 1.3 square kilometres and is elongated in an east-westerly direction;
- Zarechniy intrusive is situated in the northwestern part of the ore field, approximately three kilometres to the northwest of Shaft No.8. The body is circular in shape and has a similar composition to that of the Northern intrusive;
- The Central intrusive is a dyke-like body, striking in a northeastly direction azimuth (025°). It can be traced over a distance of 1,350 metres and a thickness that varies from 50 metres to 190 metres;
- May intrusive forms a series of apophysis and dyke-like bodies confined to the Silicified Zone. At a depth these apophysis form a single intrusion dipping to the west at an angle of 75° to 80°. It is made up of quartz-gabbro and gabbro-diorites; and
- Currently a further five dyke-like bodies have been identified in the Southern Zone.

Gold mineralisation is normally associated with polymetallic suphides, tellurides, quartz and pyrite. Gold is most commonly found in close association with the polymetallic sulphides (galena and chalcopyrite).

In quartz, gold is often found together with tellurides in the form of very thin disseminations, within micro-fractures in coarse-grained milky-white quartz. Often these are associated with pyrite; large clusters of polymetallic sulphides or close to grey, small-grained quartz with relict minerals. Except the dissemination, gold together with galena forms vein-like isolation in quartz. The fineness of gold is high (850 microns to 890 microns) varying from 835 microns to 923 microns. Impurities include silver, copper, iron, tellurium, lead, arsenic and bismuth. The highest occurring grades for gold are located within the oxidation zone, whilst gold-tellurides are wide spread in quartz veins of the central areas.

There are three known types of the ore bodies:

- auriferous quartz veins;
- stockworks; and
- zones of the hydrothermally altered rocks with vein-disseminated sulphide mineralisation.

Gangue minerals consist mainly of quartz and carbonates, together with minor chlorite and sericite. Gold and tellurides are associated with the sulphides (pyrite, chalcopyrite, galena).

A zone of strong silicification is located in the western side of the Zholymbet deposit. Strong silicification is associated with a deep seated, approximately north-south trending, suture zone which is characterized by intrusion of sub-volcanic (dyke-like) bodies with associated metasomatism and silicification

Bestobe

The Bestobe deposit covers an area of around four square kilometres and is located within the Seletinsky geosyncline, situated between the Low-Yermentau and the Ishke-Olmes anticlines in an area of Lower-Palaeozoic tectonic structural development.

The area is characterised by rocks of Lower-Ordovician, Middle-Ordovician (Yerkebadaik suite) and Upper-Ordovician (Angrensor and Zharsor suites) age. Silurian (Shansor series) and coal-bed sediments of the area form separate superimposed troughs similar to grabens.

Intrusive activity consists of granitoids of Upper-Ordovician age (Kyrkuduk intrusive complex), small intrusions of Stepnyak complex and a whole series of dykes, which form ring and line structures close to and within the Arkalyksky massif and inside the deposit area.

The Bestobe ore field is intensively dislocated. Cambrian rocks are characterized by a consistent north-northeast strike and a steep dip with interstrata isoclinal folds, micro-folded structures and are cut by major faults. Ordovician rocks are located in steep folds of northeasterly strike with flanks sloping of 70° to 85°. All rock types are intensively deformed and fractured by tectonism and as a result small isoclinal folds, faults and displacements disguise the form of the larger structure elements. The main ancient, deep seated faults have either a northwesterly, southeasterly or approximately east-west trend.

Host rocks consist of sedimentary rocks of Middle-Ordovician age cut by intrusions of granites and crossed by dykes (including diabases, plagio-granites, granite-porphyries). Ordovician rocks strike northeast with a

steep dip to the northwest in the Central area, and with a southeast trend in the Western plot, with dips of 40° and 70° respectively. Units consist of alternating layers of sandstones, clay-schists, and siltstones.

Magmatic rocks of the ore field consist of small intrusive bodies of basic, medium, and acid nature (gabbro-diorites, diorites, quartz diorites, tonalite, dykes of plagio-granites, granite-porphyries, and diabases).

Hydrothermal gold-quartz veins and gold quartz-veins with sulphide mineralisation are almost exclusively associated with intrusion of gabbro-diabases. There are four main zones inside the Bestobe ore field comprising Western, Central, Northern and Eastern.

Veins have been mined in the Western, Central and Northern Zones. Quartz veins located in the Northern Zone (1.5 kilometres to the north of the Central Zone) contain almost no gold. Most of the quartz veins of the deposit are hosted in Ordovician rocks.

The structure of the quartz veins is complex with the most complex ore bodies found in places where deformation forces reached their peak.

The Bestobe deposit is represented by a series of thin, generally steeply dipping (65° to 70°) occasionally 25° to 45° quartz veins, with an average thickness of between 0.25 metres and 0.4 metres, but occasionally reaching 1.0 metre. The veins are filled with schistose, crumbly material together with quartz inclusions. Quartz forms up to 80% of the vein bulk.

Besides quartz, the main gangue minerals consist of sericite, peach, albite, epidote, and celestine. Carbonates are also wide-spread.

Other common minerals include arsenopyrite, pyrite, galena, sheelite and sulphur salts. Secondary minerals include bournonite, famatinite, jordanite, tetrahedrite, altaite, and barterite.

Although Gold is the primary extractive mineral there is, in addition by-product, minerals including silver and arsenic (2.6 grams per tonne and 0.71% respectively).

The quality of gold varies from 546 microns to 932 microns, with a mean of 865 microns. The quality of gold falls off with depth and in the deep levels is approximately 847 microns. Impurities in the gold include silver, copper, arsenic, lead, antimony and selenium.

Resources

Since 1999, Kazakhaltyn has been actively undertaking a surface drilling programme together with surface trenching and underground development to enhance the resources at all three mine sites.

Exploration at Aksu began in 1929 when more than 200 veins were discovered by surface works. The veins were divided up between six distinct ore zones, each of which was characterised by different geological features. Further underground exploration has been conducted from a total of nine shafts.

The most promising mining targets are considered to be Oktyabrskaya I and Budennovskaya ore zones. Initial drilling was undertaken through the deposit and combined with exploration shafts and drives, allowed the deposit to be evaluated between the 300 and 600 metre level under P_1 and P_2 categories. Numerous exploration drives have been carried out at the 95 metre, 135 metre and 165 metre levels within Oktyabrskaya II area and at the 60 metre and 130 metre levels within the Budennovskaya area.

Discovery and exploration work at Zholymbet began in 1931, and by the beginning of 1934 mining had commenced within the Central Zone. Exploration and mining operations existed simultaneously for a number of years by various organisations all within the limits of the ore zone. Much exploration was carried out during the period 1932 to 1939 by different bodies resulting in a thorough understanding of the deposit and the following identified characteristics:

- Silicified zone extending some 2.5 kilometres in length and up to 80 metres wide.
- Three types of ore identified:
    1. Vein type (>80 quartz veins in the Eastern and Western areas);
    2. Porphyry ore (Silicified Zone); and
    3. Alluvial gold along the Asha river terrace.

It is not clear as to the exact period of discovery and exploration of the Bestobe deposit but much of what is know today is taken from work undertaken during the late 1950's and into the 1960's. This may have been due to the relatively poor surface exposure of low grade mineralised zones. However following a number of exploration drill holes within exposures to depths of up to 100 metres it became apparent that with depth the number of mineralised veins, and resultant gold content, improved.

Reserves and Resources

In connection with the Global Offer, WAI has reviewed the Group's stated B and C_1 reserves as at 13 June 2005 which were prepared by the Group using the FSU Classification. Based on this review, WAI has prepared the statement set out below, of the Group's mineable resources which, in WAI's view, could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken. However, such further exploration and feasibility studies have not yet been undertaken and WAI has not reclassified the Group's B and C_1 reserves as either "reserves" or "resources" under the JORC Code.

Kazakhaltyn's mineable resource as per WAI's review

	As reviewed by WAI			
	Ore	Grade	Gold	
	(million tonnes)	(grams per tonne)	(thousand kilograms)	(million ounces)
Aksu (including Quarzite Hills deposit)				
Underground	10.3	8.26	85.1	2.7
Open Pit	29.0	2.06	59.7	1.9
Tailings	7.8	0.97	7.6	0.2
Waste Dumps	14.8	1.00	14.8	0.5
Total	**61.9**	**2.70**	**167.2**	**5.4**
Bestobe				
Underground	5.7	7.28	41.5	1.3
Open Pit	20.2	2.24	45.3	1.5
Tailings	6.3	1.00	6.3	0.2
Waste Dumps	2.8	1.02	2.8	0.1
Total	**35.0**	**2.74**	**95.9**	**3.1**
Zholymbet				
Underground	1.5	32.50	48.0	1.5
Open Pit	34.3	1.87	64.1	2.1
Tailings	9.3	1.00	9.3	0.3
Waste Dumps	9.9	1.20	11.9	0.4
Total	**55.0**	**2.42**	**133.3**	**4.3**
Total Group				
Underground	17.5	9.99	174.5	5.6
Open Pit	83.5	2.03	169.1	5.4
Tailings	23.4	0.99	23.2	0.7
Waste Dumps	27.5	1.07	29.5	0.9
Total	**151.9**	**2.61**	**396.4**	**12.7**

In addition to the above resources, which is based on WAI's review of the Group's stated B and C_1 reserves, as at 13 June 2005 the Group had the following C_2 and P_1 resources under the FSU Classification at its principal Aksu, Bestobe and Zholymbet mines. WAI has not conducted a review of any of the Groups C_2 or P_1 resources.

	Reserves and Resources as stated by Kazakhaltyn			
	Ore	Grade	Gold	
	(million tonnes)	(grams per tonne)	(thousand kilograms)	(million ounces)
Aksu (including Quarzite Hills deposit)				
C_2	21.8	7.16	156.3	5.0
P_1	62.0	5.00	310.0	10.0
Total	**83.8**	**5.56**	**466.3**	**15.0**
Bestobe				
C_2	9.2	12.90	118.2	3.8
P_1	33.3	6.00	200.0	6.4
Total	42.5	**7.49**	**318.2**	**10.2**
Zholymbet				
C_2	23.8	4.40	104.6	3.4
P_1	44.1	3.40	150.0	4.8
Total	67.9	**3.75**	**254.6**	**8.2**
Total C_2	54.8	6.92	379.1	12.2
Total P_1	139.5	4.73	660.0	21.2
Total C_2+P_1	194.2	5.35	1,039.1	33.4

Mining Strategy

For open pit mining, the initial 10 metres to 20 metres depth below ground level is free-digging allowing the use of hydraulic excavators and ripping dozers to excavate the subsoil. Thereafter drilling and blasting is required to free the rock allowing subsequent extraction by hydraulic shovels and trucks. Standard adopted bench height is 5 metres, however this is reduced to 2.5 metres in complex ore zones (thin veins), or increased to 10 metres where practical.

Current excavators use 1.6 cubic metres bucket capacity; this is planned to increase relative to production where bucket capacity of 5 cubic metres (ore) and 8 cubic metres (waste) are to be introduced. Material haulage to heap leach pads is undertaken with Belaz-7540 (30 tonne) trucks, while larger 55 tonne trucks will be introduced to handle the increased production.

Underground mining is carried out by either sub-level open stoping or overhand open stoping alternatively referred to as the flat panel method.

By sub-level open stoping (locally known as the "**Swedish method**") sub-levels are mined at 15 metre vertical intervals between 60 metre spaced main levels. Panels are 15 metres wide along strike with 5 metre rib pillars between each panel. 15 metres high slot raises are hand mined (using telescopic stoper drills) and thereafter fans of 105mm holes are drilled using bar-mounted, compressed air powered drifters, charged with Granulite AC-8 and top primed for firing with electric detonators. Mucking out is via drawpoints, which are between 10 metres and 12 metres long and spaced at 10 metre intervals along strike.

Development headings, along with ventilation and slot raises, are advanced using compressed air jackhammers, drilling 1.8 metre long holes of 45mm diameter, producing advance rates of around 1.0 metre per blast.

Tracked ends are cleaned using overshoot compressed air loaders, whilst trackless ends and stope drawpoints are lashed with load haul and dump trucks ("**LHDs**").

Overhand open stoping or flat panel method is adopted for steeply dipping veins (>60°) that are mined by hand, using telescopic stoper drills working from timber platforms rigged between timber stulls and drilling 40mm diameter holes. Explosives used are Ammonit-6ZhV and Ammonal, top primed for firing with electric detonators. One metre holes are drilled in the roof in a panel of 40 metres long, mining to a

vertical height of 40 metres with rib pillars 5 metres thick left between panels. Ore is gathered at the base of the stope by means of a small 0.3 cubic metre scoop, drawn by an electric scraper to the nearest ore pass raise, from where it is drawn into mine cars via a manually operated chute box.

Flatter dipping veins are mined in similar fashion except that the panels are generally 40 metres square by 40 metres square, and irregular pillars are left for support. The ore is scraped both down dip and along strike to the nearest ore pass raise.

Both methods have a minimum mining width of 70 centimetres and a maximum of three metres, and stope veins are exploited from as thin as 5 centimetres. The thinner the veins the richer they are, and some thin veins run at grades of up to 600 grams per tonne of gold. Dilution of the ore by the addition of adjacent waste rock is a dominating feature of this method of mining, and dilutions rise to 300% or 400%.

Processing

The processing plants at Aksu, Zholymbet and Bestobe have historically used gravity and flotation technologies to treat the higher-grade underground sulphide ores. The exploration efforts of Kazakhalytyn have centred on developing the near-surface oxidised ores and tailings resources, which are amenable to cyanidation processing technologies.

The existing plants at Aksu and Zholymbet are being modified to incorporate carbon in pulp ("**CIP**") technology and a new CIP plant is planned for Bestobe in 2006. Heap leach plants ("**HLP**") were under construction at Aksu and Bestobe during WAI's visit in July 2005, which are now in operation. A further heap leach plant is planned for Zholymbet in the first quarter of 2007.

Infrastructure

As the mine sites have been operational for a considerable time all external infrastructure and facilities have been put in place over many years. This includes the local towns at each mine site which were established because of, and are consequently dependant on, the mining operations.

The rail and road links are all in relatively good condition and given the proximity of major rail and road links, the operations are not considered to be remote. This comment is reinforced by the location of Astana international airport within 220 kilometres.

However the main internal infrastructure components remain unproven at the proposed high levels of production. This comment refers particularly to fixed plant such as winders, main pumping stations, ventilating fans, compressors, and other service equipment. It would be unrealistic to expect old equipment, currently operating at very low duty levels, to operate at close to capacity for extended periods of time with the same level of reliability.

Environmental

Each mine site includes abandoned open pits and waste dumps; several working or abandoned shafts with associated infrastructure; large tailings dams and adjacent dependent settlements.

The proposed development for the operations includes the commencing of new open pits, the installation of new CIP plants, the construction of heap leach plants for the treatment of low grade ore and the reprocessing of existing waste dumps and tailings, the construction of the new tailings management facilities ("**TMF**"), the extension of underground workings and the backfilling old open pits with de-toxified waste.

In any other circumstances, the combination of these development activities on "virgin" land would result in significant negative environmental impact. However the existing environmental and social conditions are already derogated to such an extent that any future development by a well structured operation would be unlikely to have a further negative effect. Indeed, if realised, the reworking and processing of waste dumps and tailings material in addition to the utilisation of waste as backfill in open pits, has the potential to bring about an environmental gain. Furthermore, the continuation and expansion of work in the locality is also likely to generate positive socio-economic circumstances in the short and medium term.

1 INTRODUCTION

WAI was commissioned by Kazakhaltyn to undertake an initial review of some of the mineral holdings of Kazakhaltyn which include four gold deposits:

- Aksu;
- Quartzite Hills (which lies in very close proximity to Aksu);
- Zholymbet; and
- Bestobe.

This document represents a Technical Report produced by Wardell Armstrong International ("**WAI**") for JSC Kazakhaltyn Mining—Metallurgical Concern ("**Kazakhaltyn**") in connection with the proposed global offer of ordinary shares in the form of global depository receipts and admission to listing on the Official List of the Financial Services Authority and to trading on London Stock Exchange plc's market for listed securities of the global depository receipts. The principal assets under review are the Aksu, Zholymbet and Bestobe gold deposits which are all located in the Akmola region of the Republic of Kazakhstan, as shown in Figure 1.1 below.

Figure 1.1: Location of the Company's principal operations in Kazakhstan

These mines, together with further potential mineral extraction and exploration areas of Kazakhstan, were acquired for the extraction of gold mineralisation as part of Kazakhaltyn's plans to develop their gold mining potential.

An initial data collection and scoping study visit was made by M Owen and C Osmond, to the four deposits from 28 June to the 2 July 2005; as well as to the Kazakhaltyn regional office for the Akmola region in Stepnogorsk followed by a desk top appraisal in the UK. A full technical review and mine site visit was further conducted by consultants from WAI, including P Newall, D Chilcott, J Eyre, M Hooper and S Newson, from 19 July to 23 July 2005.

The Global Geological Resource as stated by Kazakhaltyn as of 13 June 2005, to the FSU Classification, is summarised in Table 1.1 overleaf.

The total geological resources of $B+C_1+C_2$ under the FSU classification are 216,353 thousand tonnes of ore containing 790.5 thousand kilograms (25,414 thousand ounces) of gold. P_1 resources comprise 139,451 thousand tonnes of ore containing 660.0 thousand kilograms (21,219 thousand ounces) of gold.

Table 1.1: Global Geological Resource of Kazakhaltyn's Principal Deposits (June 2005) under the FSU Classification

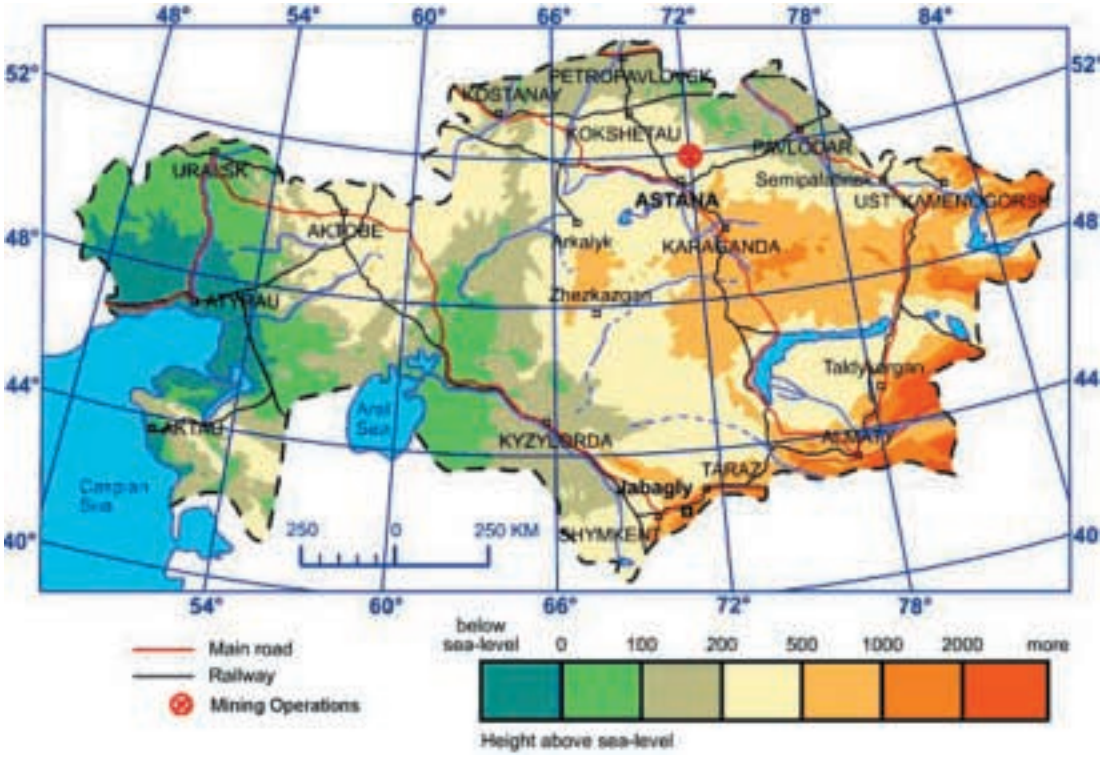
	$B + C_1$				B				C_1				C_2				P_1			
	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Aksu, including:	**46,293**	**2.99**	**138.3**	**4,445**	**13,102**	**2.10**	**27.5**	**884**	**33,191**	**3.34**	**110.8**	**3,561**	**21,535**	**7.20**	**155.1**	**4,985**	**62,000**	**5.00**	**310.0**	**9,967**
Underground—I	113	25.99	2.9	94	23	25.52	0.6	19	90	26.11	2.4	76								
Underground—II (Vera)	5,674	10.66	60.5	1,945					5,674	10.66	60.5	1,945								
Open pit	32,698	2.06	67.3	2,162	13,079	2.06	26.9	865	19,619	2.06	40.4	1,297								
Tailings dam	7,808	0.97	7.6	243					7,808	0.97	7.6	243								
Quartzite Hills, including:	**24,423**	**1.73**	**42.3**	**1,360**	**885**	**5.04**	**4.5**	**143**	**23,538**	**1.61**	**37.8**	**1,217**	**305**	**4.15**	**1.3**	**41**				
Underground	4,423	5.04	22.3	717	885	5.04	4.5	143	3,538	5.04	17.8	574	305	4.15	1.3	41				
Waste dumps	20,000	1.00	20.0	643					20,000	1.00	20.0	643								
Bestobe, including:	**34,516**	**2.71**	**93.6**	**3,011**	**4,934**	**3.39**	**16.7**	**538**	**29,582**	**2.60**	**76.9**	**2,472**	**9,162**	**12.90**	**118.2**	**3,801**	**33,333**	**6.00**	**200.0**	**6,430**
Underground	5,574	7.37	41.1	1,321	1,857	4.10	7.6	245	3,717	9.01	33.5	1,076								
Open pit	19,094	2.23	42.7	1,371	3,077	2.97	9.1	294	16,017	2.09	33.5	1,078								
Tailings dam	6,300	1.00	6.3	203					6,300	1.00	6.3	203								
Waste dumps	3,548	1.02	3.6	116					3,548	1.02	3.6	116								
Zholymbet, including:	**56,345**	**2.43**	**137.1**	**4,409**	**7,975**	**2.55**	**20.3**	**654**	**48,370**	**2.41**	**116.8**	**3,755**	**23,774**	**4.40**	**104.6**	**3,363**	**44,118**	**3.40**	**150.0**	**4,823**
Underground	2,513	21.15	53.1	1,708	1,037	4.99	5.2	166	1,476	32.50	48.0	1,542								
Open pit	31,710	1.87	59.3	1,906	6,938	2.19	15.2	488	24,772	1.78	44.1	1,419								
Tailings dam	9,268	1.00	9.3	298					9,268	1.00	9.3	298								
Waste dumps	12,854	1.20	15.4	496					12,854	1.20	15.4	496								
Total, including:	**161,577**	**2.55**	**411.3**	**13,225**	**26,896**	**2.57**	**69.0**	**2,220**	**134,681**	**2.54**	**342.3**	**11,005**	**54,776**	**6.92**	**379.1**	**12,189**	**139,451**	**4.73**	**660.0**	**21,219**
Underground	18,297	9.84	180.0	5,786	3,802	4.69	17.8	573	14,495	11.19	162.1	5,212								
Open pit	83,502	2.03	169.2	5,440	23,094	2.22	51.2	1,646	60,408	1.95	118.0	3,794								
Tailings dam	23,376	0.99	23.1	744					23,376	0.99	23.1	744								
Waste dumps	36,402	1.07	39.0	1,255					36,402	1.07	39.0	1,255								
Company Total																				
$B+C_1$	161,577	2.55	411.3	13,225																
C_2	54,776	6.92	379.1	12,189																
P_1	139,451	4.73	660.0	21,219																
Total $B+C_1+C_2+P_1$	**355,804**	**4.08**	**1,450.4**	**46,633**																

2. LOCATION OF DEPOSITS

2.1 General

The mines all lie on the relatively flat 'steppe' country of Northern Kazakhstan with elevations of around 160 metres to 180 metres above sea level (See Figure 2.1 and Figure 2.2 below).

Figure 2.1: Kazakhstan—Relief and Main Transportation Routes



The countryside is typified by very flat prairies with minor undulations and occasional hills of some 10 metres to 20 metres above the surrounding land.

Figure 2.2: Location of all the Mine Sites and Central Offices of Kazakhaltyn

2.1.1 Aksu

Aksu mine, and the adjacent Quartzite Hills mine, is situated in the Akmola region of Northern Kazakhstan some 180 kilometres southeast of Kokshetau and 18 kilometres north of the city of Stepnogorsk, to which it is linked by a metalled road and passenger train. Kazakhaltyn has its head office in Stepnogorsk, which is some 170 kilometres north to northeast of Astana. The deposit is found on the main undulating plain at an average height of 350 metres.

Stepnogorsk rarely appears on old maps of Kazakhstan; being a "closed" city, it was formerly a centre for uranium processing and a centre for biological warfare research and production. The city has a population approaching 63,000 and appears relatively modern. There is also an airstrip, but it is not in use for scheduled flights.

2.1.2 Zholymbet

The Zholymbet mine lies some 100 kilometres to the south of Stepnogorsk and is accessed by a combination of metalled and gravel roads that are in fair condition. The small town surrounding the mine has been built-up purely as a consequence of the mine and is completely reliant on it for its prosperity. The deposit lies on a gently rolling plain of low relief at an elevation of between 280 metres and 378 metres above sea level. The plain is dissected by the valley of the Ashilyayryk River to the northeast (which provides the main source of un-potable water to the process plant).

The closest rail-link is at Shortandy at a distance of 60 kilometres west of the mine. This region is one of the most important grain producing centres of Kazakhstan. Power supply to the mine is supplied from the Celinenergo net. For local heating the company uses coal which is transported to Zholymbet from Karaganda.

2.1.3 Bestobe

The Bestobe mine is situated approximately 80 kilometres to the northeast of Stepnogorsk, 100 kilometres east of Aksu and 220 kilometres northeast of Astana, accessed by a combination of metalled and gravel roads that are in fair condition.

The nearest station to Bestobe is 86 kilometres away from Bestobe with the town only having the requisite infrastructure to support the mines.

2.2 Climate

The climate is extremely continental, characterised by a long severe winter and a short, hot summer. The average precipitation is less than 300mm. Temperatures can vary from -30°C in January up to +30°C in July. The wind direction is predominately southwesterly to westerly at an average speed of between 6 metres per second and 20 metres per second.

2.3 Hydrology

2.3.1 Aksu

The mineralisation at the Aksu deposit is characterised by fissure openings and faults within the Early Paleozoic sedimentary and metamorphic rocks. Fissuring of rocks extends to between 60 metres and 70 metres below ground level; although around areas in proximity to faulting fissures can extend to a depth of 100 metres. Waters in the region are acidic.

Water inflow to the underground workings at Aksu is given as:

- Oktyabrskaya II (Shaft Nos. 38, 38-bis and 40) = 150 cubic metres per hour
- Budennovskaya (Shaft Nos. 39 and 41) = 180 cubic metres per hour.

Additional water is derived from a reservoir on the Aksu river, some four kilometres away. In 2004 a volume of 376,976 cubic metres was extracted for use at the mine site.

2.3.2 Zholymbet

Primarily meteoric water enters underground via the open-pit stock work zone on the Diorite Dyke zone (to the depth of 115 metres) and remains relatively insignificant down to the 430 metre level (in the range of 20 to 30 cubic metres per hour). A more significant water make is then encountered from the Northern

Zone at the 430 metre level (50 cubic metres per hour to 70 cubic metres per hour) and deeper (460 metres to 480 metres) in the Central Zone (20 cubic metres per hour to 40 cubic metres per hour). Total water make on the 430 metre level of the "Central" Shaft is approximately 80 cubic metres per hour to 120 cubic metres per hour on average through the year.

Underground waters are mineralised but are not acidic (pH 8 to 9). Considerable seasonal variation has been recorded.

Water is also sourced from the nearby Ashily River, some two kilometres from the plant, and in 2004 a total of 264,983 cubic metres was extracted as opposed to 980,370 cubic metres that was pumped from the underground mine.

2.3.3 Bestobe

The only watercourse in the area is Seleta River, which lies between approximately 8 kilometres and 10 kilometres to the southeast of the mine. This water flow in the river is extremely variable with water discharge in the range of 118.8 cubic metres per hour to 198 cubic metres per hour in 2004 a total of 27,560 cubic metres was extracted for use at the mine, however almost 400,000 cubic metres was derived from mine recirculation.

2.4 Vegetation

The vegetation of the main uncultivated steppe plains typically consists of meadow grasses, with localised areas of birch and aspen.

2.5 Current Situation

Since the WAI visit in July 2005, Kazakhaltyn has provided production data from the newly commissioned plants at Aksu and Zholymbet as well as the performance of the heap leach pads at Aksu and Bestobe.

These preliminary results indicate that in general, production rates are currently ahead of budget for 2005 which does provide further comfort on the future forecasts made by Kazakhaltyn.

Brief details of the present position of the three mines are provided below.

2.5.1 Aksu

Stacking of the heap leach pads at Aksu was started on 13 July 2005 with capacity of 500 thousand tonnes per annum. In July, approximately 42 thousand tonnes of ore were stacked (versus a budget of 41 thousand tonnes), in August 161 thousand tonnes (versus a budget of 150 thousand tonnes), and in September 174 thousand tonnes (versus 175 thousand tonnes budgeted).

Cyanide treatment started from 2 September 2005 and by the end of the month, 71 kilograms of sludge gold were produced (versus 48 kilograms budgeted).

In addition, in August, 8.8 thousand tonnes of underground ore from Quartzite Hills were processed using the old flotation technology producing 32 kilograms of gold in the form of flotation concentrate (versus 33 kilograms budgeted), whilst in September this figure was 34 kilograms (versus 33 kilograms budgeted).

The new CIP plant at Aksu was launched on 28 August 2005 with capacity of 1 million tonnes per annum. By the end of the month, 13 thousand tonnes of open pit ore had entered the plant. In September, 29 thousand tonnes of open pit ore (versus 30 thousand tonnes budgeted) together with 42 thousand tonnes of tailings (versus 45 thousand tonnes budgeted) were processed, producing 116 kilograms of gold doré.

2.5.2 Bestobe

Stacking for the heap leach pads at Bestobe started on 15 August 2005. During this month, about 58 thousand tonnes of ore were stacked (versus a budget of 60 thousand tonnes), and in September, 124 thousand tonnes (versus 120 thousand tonnes budgeted). Treatment by cyanide solution started on 1 October 2005.

In the first 8 months of 2005, 82 thousand tonnes of underground ore (versus 84 thousand tonnes budgeted) from Zapadnaya Shaft and Shaft Nos. 2 and 50 were processed using the old flotation technology, producing 575 kilograms of gold, including 259 kilograms of free gold and 316 kilograms of

flotation concentrate. In September, a further 9.5 thousand tonnes of underground ore were processed producing 72 kilograms of gold (versus 72 kilograms budgeted), of which 39 kilograms in the form of flotation concentrate and 33 kilograms of free gold.

2.5.3 Zholymbet

The new CIP plant at Zholymbet was launched on 2 August 2005 with capacity of 500 thousand tonnes per annum. During this month, 7.5 thousand tonnes of underground ore from Tsentralnaya (versus 7.5 thousand tonnes budgeted) and 12 thousand tonnes of tailings were processed, producing 39 kilograms of gold in the form of sludge (versus 42 kilograms budgeted). In September 2005, 17 thousand tonnes of underground ore (versus 15 thousand tonnes budgeted) together with 31 thousand tonnes of tailings were processed into 88 kilograms of gold in the form of sludge produced by electrolysis in the CIP plant (with gold content varying between 10% and 80%).

3. GEOLOGY AND RESOURCES

3.1 Geology and Mineralisation of Kazakhstan

The following factors have affected the distribution of gold deposits within northern Kazakhstan:

- The amount of contained gold in any deposit depends on the intensity of Caledonian intrusive activity. Variscian metallogeny is not well developed.
- The majority of gold deposits consist of quartz-vein and stockwork type mineralisation.
- All gold deposits are found in effusive-sedimentary Ordovician masses.
- Gold deposits are genetically and spatially related to granite-like rocks. The larger deposits of gold are related to intrusions, which are characterised by multi-stage, complex activity (intrusion formation made up of various structures and ages, with small intrusions and dykes lying inside them). Simple structured intrusions usually contain only minor gold mineralisation.
- The gold is derived from ancient Pre-Cambrian rocks.
- Structure is fundamentally the most important factor in gold deposit formation. Gold deposits are formed in clusters within the most complex structures, where tectonic activity has formed large and deep breaks/faults, schistosity zones, and areas of faulting tectonics of pre-intrusion and ore stages. Gold deposits are chiefly situated close to prominent horst and graben structures, among the pre-Cambrian and Palaeozoic basement.

The main gold deposits can be separated into two groups:

Quartz-Vein Group:

- Quartz veins (Stepnyak, Aksu, Bestobe, Zholymbet, Akbeit, Bailyusty, etc.)
- Stockwork deposits (Quartzite Hills at the Aksu deposit, gold diorites at the Zholymbet and Danilovskoye deposits)

Metasomatic Group:

- Disseminated ores inside diorites and quartz zones (quartz zone at the Zholymbet deposit stockwork)
- Quartz-barium sulfate lenses (Ushbulak, Bilyuy-Hodzha)
- Gold-skarn deposits (Yeshke-Ulmes, Baksy, etc)

3.2 FSU Classifications

3.2.1 FSU Categories of Reserves and Resources

Given the level of work carried out at the deposits by Kazakhaltyn under the FSU C_1, C_2 and P_1 categories, a comparison between the levels and requirements to attain western standards as defined by the JORC Code should be considered. A summary of the requirements of the FSU system is given below.

The former Soviet system for classification of reserves and resources, developed in 1960 and revised in 1981, is still used today in the Commonwealth of Independent States, including in Kazakhstan. Essentially, it divides mineral concentrations into seven categories of three major groups, based on the level of exploration performed: explored reserves (A, B, C_1), evaluated reserves (C_2) and prognostic resources (P_1, P_2, P_3).

The following description of the resource and reserve classification is derived from a paper by S.A. Diatchkov (1994) and has been modified to relate to currently acceptable international standards.

The classifications of the reserves described by Diatchkov are those that were developed by the authorities of the former Soviet Union. In principle, they follow a succession of approximations that are applied to various stages of exploration. This means that reserves are assigned to classes based on the degree of reliability of data and indicate their comparative importance for the national economy.

Resources are classified into five main categories and designated by the symbols A, B, C_1, C_2 and P_1. Capital letters are used to designate ores that are economic. Sometimes, the same group of letters are written in lower case (i.e. a, b, c) when the mineralisation is considered sub-economic. Alternatively, a

simple classification into "balansovye" (commercially exploitable reserves) and "zabalansovye" (uneconomic resources) is used.

Resources and Reserves include the first four categories, A, B, C_1 and C_2 as defined here:

Category A

The reserves in place are known in detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

Category B

The reserves in place have been explored but are only known in fair detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

Category C_1

The reserves in place have been estimated by a sparse grid of trenches, drillholes or underground workings. This category also includes reserves adjoining the boundaries of A and B reserves as well as reserves of very complex deposits in which the distribution cannot be determined even by a very dense grid. The quality and properties of the deposit are known tentatively by analyses and by analogy with known deposits of the same type. The general conditions for exploitation are known tentatively.

Category C_2

The reserves have been extrapolated from limited data, probably only a single hole. This category includes reserves that are adjoining A, B, and C_1 reserves in the same deposit.

Prognostic Resources

Prognostic resources are estimated for mineralisation outside the limits of areas that have been explored in detail and are often based on data from trenches and from geochemical and geophysical surveys.

Estimates of Prognostic Resources routinely depend on assumptions and projections regarding the probable dimensions (length, width and depth) and grade of the deposit that are subject to confirmation by more detailed investigations.

Category P_1

Resources under the P_1 category may extend outside the actual limits of the ore reserves defined in the C_2 category. The outer limits of P_1-type resources are determined indirectly by extrapolating from similar known mineral deposits in the area. P_1 is the main source from which C_2 reserves can be increased.

Category P_2

These resources represent possible mineral structures in known mineral deposits or ore-bearing regions. They are estimated based on geophysical and geochemical data. Morphology, mineral composition and size of the ore body are estimated by analogy with similar mineralised geologic structures in the area.

Category P_3

Any potential ore-bearing deposits are classified as resources in the P_3 category. The presence of these resources relies on the theoretical definition of a "favourable geological environment". Resource figures are derived from figures of similar deposits in the region.

3.2.2 Classification of FSU Mineral Deposits

Deposits of solid minerals in republics of the FSU are classified into five major groups, based largely on the character and size of the deposit. The ability to define the categories of reserves depends on the deposit group in which the deposit is classified. Following is a summary description of the five groups:

Group 1 deposits

Large deposits, simple in form with uniform distribution of minerals (examples: coal, some iron and disseminated copper deposits). A normal density of drillholes allows the definition of a high level of A and B reserves.

Group 2 deposits

Large deposits with different and sometimes complicated forms and uneven distribution of minerals (examples: some iron and sedimentary copper deposits). Only B category reserves may be defined with a normal grid of drillholes. A combination of drilling and underground workings may be necessary to define the reserves. Category A reserves can be established only by close spaced drilling and underground workings.

Group 3 deposits

Smaller sized deposits with uneven distribution of minerals (examples: some veins, skarns, dykes, and pegmatite deposits). Drillholes can only establish C_1 reserves. A and B reserves can be established only with underground workings.

Group 4 deposits

Smaller sized deposits similar to Group 3 deposits or with even more complex shapes (examples: some veins, skarns, dykes, pegmatite deposits and gold placers). Category A reserves cannot be established with drilling or a normal grid of underground workings. Drilling in combination with underground workings is necessary to establish category B reserves.

Group 5 deposits

Small "pocket" type deposits. Category A and B reserves cannot be established by systematic prospecting. Only category C reserves can be established.

3.2.3 Kazakhaltyn's application of the FSU Classification

Resources have been classified by Kazakhaltyn under the FSU system using the following criteria:

- B resources—are those blocks which are bordered by excavations from three or all four sides;
- C_1 resources—are those blocks that are bordered from two or three sides, but are not explored fully; and
- Resource blocks that lie below the deepest mining level on a vein, or reserves that are bordered by one or two sides were included either in C_1 or C_2.

The evaluation of resource blocks is done by manual calculations. Initially, the veins are split up into various simple and sometimes complex geometric figures on long section and the outlined areas are defined by planimeter. Volumes were similarly calculated using planimetered area combined with the average width for the area outline. These methods were approved by technical committee of "Kazzoloto" with representatives of Central Kazakhstan Geological Department and Ministry of Geology of Kazakh SSR in 1961.

WAI Comment:

It is the opinion of WAI that the underground vein deposits of Kazakhaltyn are classified as Group 3 deposits. This view is shared by Kazakhaltyn. As Group 3 deposits, drillholes can only establish C_1 resources and underground workings are required to establish A and B resources.

The Kazakhaltyn resource work was carried out in accordance with traditional FSU cross-sectional and irregular blocking methods, using B, C_1 and C_2 resource categories.

WAI has been able to undertake a basic review on the tabulated reserves and resources provided by Kazakhaltyn in order to verify the figures stated. In the timeframe available it has not been possible for WAI to complete a review of the assets covered in WAI's report to JORC standards.

In many instances the reviewed deposits correlate well and the quantity and grades of ore stated appear accurate, however they tend to be stated as an overall total sum and not broken into respective classifications.

Examples include:

- Deep Horizons of Zholymbet (underground);
- Lower resources of the Western and Central sectors of Bestobe (underground);
- Vera Zone at Aksu (underground);
- Five individual ore zones of Quartzite Hills (underground); and
- Central Zones (1008, 1009 and 1022) of Bestobe (open pit).

Computer generated models have been completed on the deposits but most calculations have been undertaken manually with basic checks. It would be prudent to undertake a full and thorough computer generated modelling exercise on the entire ore zones available that will not only assist in the reclassification of ore bodies and reassessment of tonnages and grades, but also assist in mine design and the calculation of mining reserves.

3.3 The 1999 Australasian Code for Reporting of Mineral Resources and Reserves (JORC Code)

Extracts from the JORC code defining the types of mineral resources and reserves are presented below.

3.3.1 Reporting Of Mineral Resources

A "Mineral Resource" is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

A "Measured Mineral Resource" is that part of a "Mineral Resource" for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

An "Indicated Mineral Resource" is that part of a "Mineral Resource" for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

An "Inferred Mineral Resource" is that part of a "Mineral Resource" for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

3.3.2 Reporting Of Ore Reserves

An "Ore Reserve" is the economically mineable part of a "Measured Mineral Resource" or "Indicated Mineral Resource". It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the

time of reporting that extraction could reasonably be justified. "Ore Reserves" are sub-divided in order of increasing confidence into "Probable Ore Reserves" and "Proved Ore Reserves".

A "Probable Ore Reserve" is the economically mineable part of an "Indicated Mineral Reserve", and in some circumstances "Measured Mineral Resource". It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A "Proved Ore Reserve" is the economically mineable part of a "Measured Mineral Resource". It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

3.3.3 WAI commentary on conversion of B, C_1 and C_2 under the FSU Classification to JORC

Under the FSU Classification system C_1 and sometimes C_2 equate to reserve categories, whereby international ore reserve and mineral resource equivalents are as follows:

- Proved Reserves equate to reserves containing A and B with a "Measured Mineral Resource" equivalent;
- Probable Reserves equate to C_1 and some C_2 with an "Indicated Mineral Resource" equivalent; and
- Inferred Mineral Resources equate to C_2.

Drill holes can only be used to define C_1 and underground development for A and B. In addition, economic parameters are applied to obtain a C_1 and C_2 reserve. Hence, the C category under the FSU Classification has reserve implications built in.

However, once the C_1 and C_2 "reserves" are approved, a mining scheme (pit design) can be established and the mineable reserve is established as an in-pit reserve statement based on design and economic parameters.

It is however the opinion of WAI that Kazakhaltyn's stated C_1 and C_2 reserves and resources should be considered resources only, as to obtain reserves under JORC, differing mine design and reserve parameters are applied.

3.3.4 WAI commentary on conversion of P_1, P_2 and P_3 under the FSU Classification to JORC

WAI Comment:

Estimates of Prognostic Resources routinely depend on assumptions and projections regarding the probable dimensions (length, width and depth) and grade of the deposit that are subject to confirmation by more detailed investigations. It is the opinion of WAI that these deposits equate to "Exploration Results" as they cannot be attributed as a resource and can therefore be considered only as exploration potential.

Where P category resources have been stated in the FSU reports, from surface to depths considered beyond that of the transition between the oxide zone and the sulphide zone, the resources have been proportionally divided on the basis that the oxide depth extends to a thickness of 50 metres below surface. These resources are exploration potential only and must be subject to follow-up fieldwork and exploration to be able to attribute the mineralisation as a resource category block.

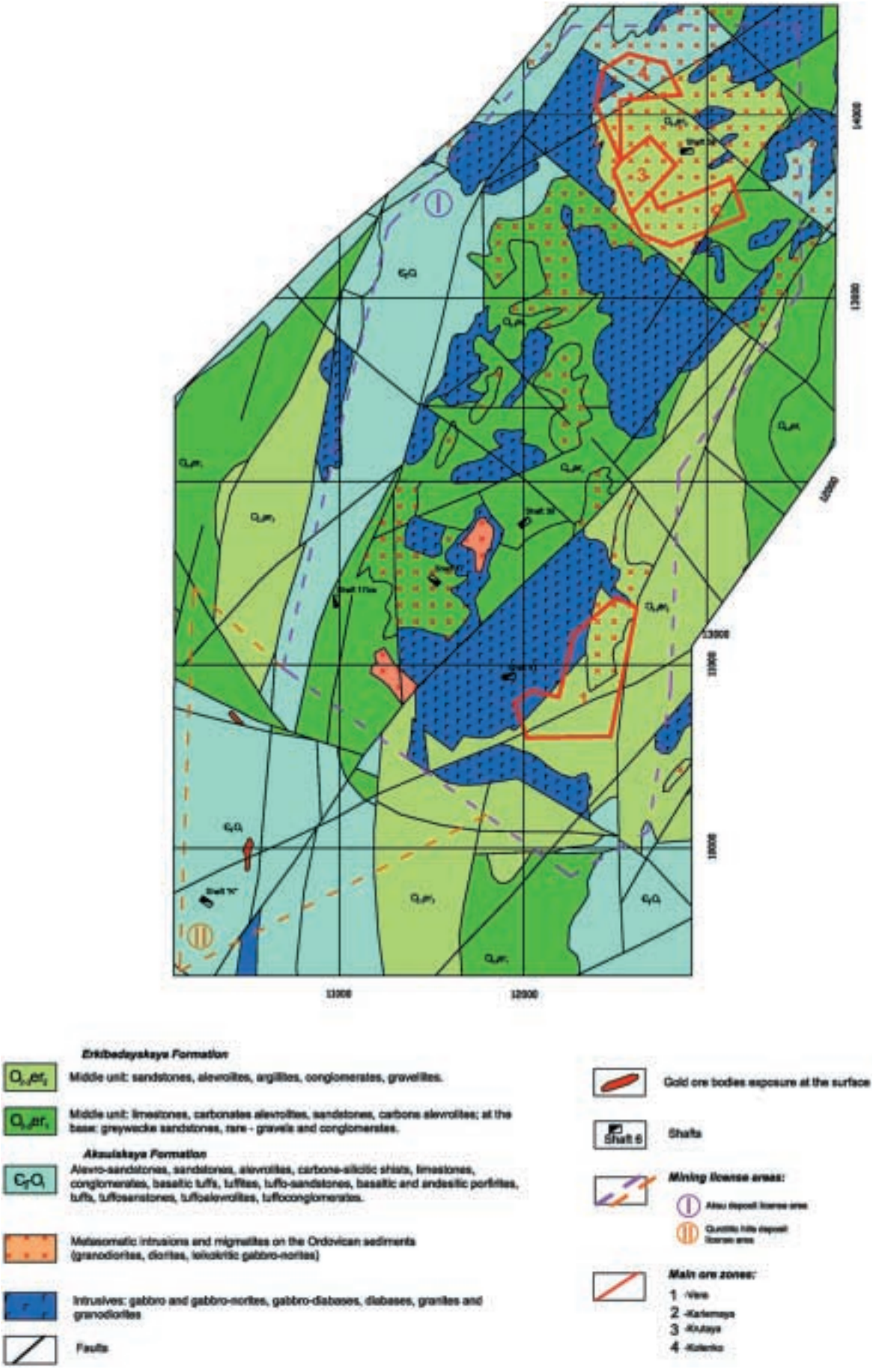
4. GEOLOGY OF AKSU DEPOSIT

4.1 Regional Setting

Within the metallogenic province of northern Kazakhstan, gold deposits such as Bestobe, Zholymbet and Stepnyak are located along the trend of deep seated lineaments orientated within the Stepnyak and Selentinsky synclines, which are composed mainly of Ordovician sediments.

Aksu Zone itself is located on the east side of the Aksu-Domralin and Aksu-Zholymbet synclinal zones, which can be traced for several hundred kilometres. On a regional scale it would appear that all of the large-scale gold deposits are located at the intersection between major northeast-southwest and conjugate trending fault zones and north-south trending deep-seated lineaments. Aksu and Quartzite Hills deposits are situated at the intersection of such cross faults, namely, Celinograd, Atanasor and the main northeast trending deep lineament. These mineralised centres are often associated with small intrusive bodies of upper Ordovician and Silurian age, which together with the contact rocks often play host to the main mineralisation.

Figure 4.1: Regional geological setting of the Aksu Mine



4.2 Mineralisation

4.2.1 General

The majority of deposits and ore-exposures of the northern Kazakhstan auriferous province are situated within the limits of the Selety-Stepnyak folded area. There are seven types of gold mineralisation present within its limits, which include:

- Sulphur with gold, Upper-Ordovician and Pre-Krykkuduk;
- Low-normal sulphur gold-quartz, late Ordovician;
- Low-normal sulphur gold-quartz, Silurian;
- Low-normal quartz with gold, Silurian;
- Sulpho-arsenide-carbonate with gold, Upper Devonian;
- Barium-sulphur-polymetallic gold—silver, late Devonian; and
- Barium-sulphur-mercury-antimony with gold, post Devonian.

The major deposits of gold are found within:

- Late-Ordovician low-normal-sulphur gold-quartz; and
- Sillurian low-normal-sulphur gold-quartz.

4.2.2 Ore Types

Within the Aksu-Seletin region the most widespread deposits are of late Ordovician age, (Post-Krykkuduk) low-normal-sulphur type with the following phases:

- mineralised skarn—Ishkeolmes, Magnetite scarns—Aksu;
- ore veins (quartz)—Aksu, Sazy, Taskul, Stepnogorskoe; and
- mineralised hydrothermally altered rocks (sulphides)—Quartzite Hills deposit, ore-exposures Bolshaya Griva, Shirotnaya Zone.

Mineralisation within the Aksu ore field is hosted within Cambrian and Ordovician volcanogenic and sedimentary rocks and associated with intrusive rocks of Upper-Cambrian (gabbro and gabbro diabase dykes and rod-like bodies), Middle (gabbro-diorites) and Upper-Ordovician (rod-like granodiorites) age.

The Aksu deposit is within the central area of the Aksu ore field and is characterised by Stepnyak type intrusions that are likely to be late stage intrusions which bisect the axis of the relatively tightly folded Aksu anticline.

Intrusions of the Stepnyak type of the Upper Ordovician complex are either small (50 metres by 100 metres) or very large (2.2 kilometres by 5 kilometres). The largest of them are located in the north-eastern part of the ore field, where they form three separate massifs (Northern-Aksu, Central and Southern Aksu).

The auriferous quartz veins are found within the intrusive rocks and only rarely within the contact aureoles. Additionally, this mineralisation is characterised by close structural relationships with first and second stage intrusive dykes, represented by veins following the contact surface against the dykes. During early prospecting works around 200 auriferous quartz veins were identified, 110 of which are included Kazakhaltyn's stated reserves and resources.

The quartz veins often have a strike length of between 100 metres and 150 metres with a few reaching to between 300 metres and 600 metres. The thickness varies between 0.5 metres and 0.7 metres, averaging 0.2 metres. Veins generally dip from 47° to 87°, rarely they are flat 10° to 30° as seen around Shaft No. 38. Most of the veins plunge at between 10° and 30°.

The composition of the veins is predominantly quartz, tourmaline and sericite with a little carbon material. Less than 5% of the vein is made up of pyrite, chalcopyrite and galena, sphalerite. Distribution of ore minerals in the veins is extremely non-uniform, being in the form of clusters, bunches or streaks along the length of the vein or the contact with the vein margins.

Three stages of mineral paragenesis can be recognised:

- Significant quartz with carbonate and first generation pyrite;
- Quartz-carbon-sulphides with gold deposited in two stages; and
- Post ore quartz-pyrite.

It has been noted around Shaft No. 38 that the ore contains a significant quantity of bismuth and tellurides together with arsenic, silver and stibnite. In contrast in the vicinity of Shaft No. 17, arsenic and stibnite is significantly reduced with a corresponding reduction in gold grade.

Typically, the veins have an overall north-east strike and a south-east plunge, with only some of them striking north-west and plunging to the south-west. Auriferous veins, excluding the Yanvarskaya and Belaya, are not laterally extensive (120 metres to 150 metres) and from only a few centimetres up to 0.30 metres wide, the average being between 0.10 metres and 0.20 metres.

4.2.3 Spatial Distribution of the Quartz-Gold Veins

Within the Aksu deposit the quartz-gold veins are directly related to intrusions of Stepnyak type and their contact zones. The quartz vein swarms have been grouped into six separate areas. These are as follows:

- Western;
- Budennovskaya;
- Staratelskaya;
- Central;
- Oktyabrskaya I and II; and
- Stalinskaya.

4.2.3.1 Western Zone (Shaft No. 17 area)

This zone is situated inside the western part of southern Aksu diorite massif, 2.0 kilometres to the northeast of the Quartzite Hills deposit. The zone is characterised by intrusive rocks of the Stepnyak type and sometimes by sedimentary rocks of Cambrian and Ordovician age.

Intrusions (of three ages) consist of early gabbro and gabbro-diorites, late quartz diorites and finally plagio-granites of Upper-Ordovician age. Host rocks have been altered into hornfels and amphibolites at their contact with intrusions.

The western part of the gabbro-diorite massif, which hosts the gold quartz veins is bounded by deep seated faults in the west and in the south-east respectively. Inside this block, some 25 quartz veins striking approximately north-south and east-west are located. Veins have dips of 30° to 70° and strike lengths from 50 metres (veins Gavrilova, Suhaya, etc.) to between 400 metres and 500 metres (veins Yanvarskaya and Fevralskaya), with thickness of no more than 0.05 metres to 0.50 metres. Gold content varies from several grams to several hundreds of grams per tonne. Of the veins identified, eight veins are included in Kazakhaltyn's statement of reserves and resources.

These veins are Yanvarskaya, Fevralskaya, Poperechnaya, Udarnaya 1, Sluchaynaya, Gavrilova, Western, Electricheskaya II.

Yanvarskaya vein is one of the largest veins inside the ore field. It strikes in a north-west direction (290° to 300°) and dips to the southwest at 50° to 55°; its grade varies from several grams per tonne to 600 grams per tonne. The vein has been exposed over a strike of 320 metres; underground workings exist down to 165 metres and drilling has intersected the vein to a depth of between 180 metres and 210 metres. It is worked out from Shaft No. 1 to the 42 metre level, and it is worked from Shaft No. 17 to the 125 metre level and partially on the 165 metre level. Currently cross-cut and drifts have been driven from Shaft No. 17 on the 165 metre level. The vein stretches for 415 metres at this elevation.

Morphology of the veins is relatively simple. However, the presence of small apophyses, branches and minor faulting (throw not more than 2.0 metres) of the veins, complicates its structure. It is connected to a spessartite dykes along its strike. According to exploitation and prospecting the intensity of mineralisation increases with depth as can be seen in Table 4.1 below.

Table 4.1 Average Gold Content and Thickness of Veins Against Increasing Depth

Prospecting levels	Strike length	Thickness	Average grade
	(metres)	(metres)	(grammes per tonne)
40-50	290	0.06	32.7
75	153	0.13	71.6
125	281	0.15	73.6
165	415	0.22	78.9

Fevralskaya vein is situated in the hanging wall side of Yanvarskaya vein and is the longest of all the veins in the zone. It strikes northeast-southwest (at 70° to 80°), and dips to the south-east at 40° to 55°. The total strike length is 530 metres at surface, 240 metres at the 75 metre level and 155 metres at the 127 level. Hence it is depleting at depth. The thickness of the vein is between 0.12 metres and 0.16 metres, and the amount of contained gold averages 40 grams per tonne to 80 grams per tonne. The vein fissure is made up of grey quartz and rarely with pockets of intensive sulphide mineralisation, consisting of pyrite, chalcopyrite and minor galena. This vein has been exposed from Shaft No. 17 at a depth of 75 metres and exploited between the 110 metre and 127 metre levels. Almost all the reserves, except for blocks on the eastern side between the 75 metre and 127 metre levels are worked out. An exploration cross-cut for opening and tracing of the vein along its strike by drifts is planned from the Yanvarskaya vein on the 165 metre level.

4.2.3.2 Budennovskaya Zone

The Budennovskaya Zone is situated within the eastern part of the Southern-Aksu gabbro-diorite massif and abuts the Western Zone on its north-west border.

This zone is made up of intrusive rocks of Stepnyak type of Upper-Ordovician age hosted within terrigenous-sedimentary rocks of Lower-Middle Ordovician age. Stepnyak intrusives consist of gabbro and gabbro-diorites (first intrusive stage), quartz diorites (second intrusive stage), and plagio-granites (third intrusive stage). Host rocks consist of sandstones, siltstones, and silt-sandstones. These rocks are altered to hornfels at their contact with intrusion.

The zone is bounded by faulting, limited by a major fault in the north-west and a fault of north-east strike in the south-east.

14 veins have been identified in the zone; 11 of these are located within the intrusion. The zone is characterised by the distinct shallow dip and "pinch and swell nature" (up to 1.0 metres) of the veins. All the veins within the intrusion are part of one system of fissures, located closely to each other and fissures coupled with each other and parallel to the intrusive contacts.

Four veins are included in Kazakhaltyn's statement of reserves and resources, namely:

- Mother;
- Budennovskaya;
- Shirotnaya 4; and
- Mongloskaya.

Mother vein is hosted within quartz diorites of the Southern-Aksu intrusion. Its length is 235 metres, dipping in a north-northeasterly direction at 20°. The vein thickness varies from 0.02 metres to 1.0 metres and the amount of gold contained varies from 0.6 grams per tonne to 924.2 grams per tonne.

The vein has been worked out from the surface down to the 58 metre level from Shaft Nos. 3 and 8. The morphology of the vein is relatively complex and is characterised by considerable changes in thickness (complex bulges and necks), numerous branches and shifts along the main tectonic structures.

The vein fissure is composed mainly of quartz, and sometimes by kaolinised ochre, along with clay materials together with quartz. Host rocks are kaolinised at the contact with the vein. Vein quartz is thick, its color is milk-white and grey, and it also has greasy shine.

Sulphide mineralisation consists of pyrite, which is widespread in the form of clusters and lens-like inclusions, particularly along vein contacts.

Budennovskaya vein is located within quartz diorites and intersects Mother vein at its northern end. It has a length of 200 metres and dips to the south-east at 26°. The thickness varies from 0.03 metres to 0.5 metres and the amount of gold contained ranges from 0.4 grams per tonne to 800 grams per tonne.

Reserves have been mined out down to the 57 metre level from Shaft No. 5. Morphology of the vein is very complex, and consists of multiple branches, considerable changes of thickness along strike and dip, together with multiple faulting of the vein.

Quartz is milk-white-grey and massive. The structure of it is fine and medium-granular. Sulphide mineralisation consists of clusters and individual crystals of pyrite.

4.2.3.3 Central, Staratelskaya, and Oktyabrskaya I Zones

Central, Staratelskaya, and Oktyabrskaya I Zones are situated in the central and north-eastern parts and share many common features.

The structure of these areas consists generally of intrusive rocks of the Upper-Cambrian and Upper-Ordovician age, with sedimentary rocks of the Lower-Middle Cambrian age and terrigunous sediments of the Lower-Middle Ordovician age. Intrusive rocks consist of Upper-Cambrian gabbros, which strike to the north-westerly for 1.4 kilometres. The zone is fault bounded with faults in the south-east and a major fault striking north-easterly in the north-west. Upper-Ordovician intrusive rocks consist of gabbro and gabbro-diorites of the Southern-Aksu intrusion (first stage), quartz diorites (second stage) of the Northern-Aksu and intermediate massifs. Quartz diorites of the second intrusive stage cut through the gabbro of the Upper-Cambrian age. They are intensively altered in the area of their contact with quartz gabbro-diorites. Rocks of the third intrusive stage are represented by dyke-like bodies of plagio-granites, which have a northeasterly and north-southerly strike. Host rocks of Cambrian and Ordovician are metamorphosed to hornfels in the contact areas close to intrusions.

Quartz-gold veins within Oktyabrskaya I mine area are located inside the Stepnyak type quartz-diorite intrusion (intermediate massif), and gold-quartz veins of areas Central and Staratelskaya Zones are located within and at the contact zones with the intrusions described above.

Most of the quartz-gold veins within this zone strike in a north-easterly direction and dip to the south-east at 50° to 65°. A smaller number of veins have a north-westerly, sub-latitude, and sub-meridional strike. Their dip is to a south-westerly, south, north-east and easterly direction. Dips range from 30 to 80°, and have a strike length of between 35 metres and 360 metres. Most of the veins (about 20) have a strike length of between 150 metres and 200 metres.

Most of the veins are worked down to the 10 metre and 20 metre levels and a small part of them are worked out down to the 30 metre and 40 metre level.

4.2.3.4 Oktyabrskaya II Zone (Shaft No. 38)

Oktyabrskaya II is situated in the north-eastern part of the ore field within the Northern-Aksu diorite intrusion. This plot is made up by quartz diorites, tonalities, and gabbro-diorites of the Upper-Ordovician complex; it also contains gabbros of the Upper-Cambrian intrusive complex and diabases of the Lower-Middle Cambrian period. Terrigenous sedimentary rocks of the Lower-Middle Ordovician metamorphosed to hornfels are exposed at surface in the north-west, in contact with intrusion, in the form of small sediments inside the massif. Tectonic faults with a north-easterly and north-westerly strike are widespread in the area and determine the area's block-like structure.

About 40 quartz-gold veins are found within the zone. These veins are of north-easterly, sub-latitude, and sometimes northwesterly strike with dips to the south-east, south, and south-west falls at between 20° and 87°. Vein length varies from 40 metres to 150 metres, with a few between 400 metres and 600 metres (veins Dalnaya and Belaya). Mean thickness of veins is between about 0.08 metres to 0.5 metres. Two systems of quartz veins can be found in the area: steep-dipping (45° to 85°) and flat (15° to 35°). The majority of the veins are steep, whilst the flat veins include Shilling's, Electricheskaya II, Mekhanicheskaya, Direktivnaya, Pologaya I and II, and Druzin's.

The quartz-gold veins are distributed in separate clusters of closely situated veins. 23 veins within the zone are in Kazakhaltyn's stated reserves and resources. These veins include Belaya, Sopryazhennaya I, II, and III, Kollektivnaya, Noyabrskaya, Eastern, Ivanovskaya, Direktivnaya I, Radchenko, Mekhanicheskaya, Garazhnaya, Gnhilitsky's, Vein N°1, Pologaya I and II, Fortieth Bubnovsky's and Kotenko.

4.2.3.5 Vera Ore Zone

In 1996 a new ore zone known as Vera Zone was identified within the Aksu ore field. This zone is located between Shafts Nos. 41 and 39 and consists of a series of sub parallel flat lying auriferous mineralised zones identified over a strike length of approximately one kilometre, lying at a depth of between 100 metres and 400 metres. At surface the zone covers an area of some 232,000 square metres.

The major gold mineralisation is found within conglomerate horizons. Subsidiary mineralisation is associated with sandstones where ore is often confined to the boundary of sandstones and black organic rich siltstones, which form lenses in the sandstone bodies.

The conglomerates consist of poorly sorted gravels, sandstones and rare pebbles. There is considerable variation in composition both vertically and laterally. Ore horizons are enriched in pyrite and chalcopyrite. Sulphides, silicification zones alteration and quartz, quartz-sulphide veins generally lie concordant with the cleavage.

Three resource blocks (I, II and III) have been delimited to date, all of which have been classified by Kazakhaltyn to either C_2 or P_1 category. They consist of the following:

- Block I—contains ore zones up to 5.89 metres in thickness, averaging 1.2 metres with grades ranging from 2.5 grams per tonne to 53.5 grams per tonne, averaging 11.84 grams per tonne.
- Block II—contains ore zones from 0.5 metres to 6.50 metres in thickness, averaging 2.0 metres with grades ranging from 2.7 grams per tonne to 48.7 grams per tonne, averaging 10.70 grams per tonne.
- Block III—contains ore zones from 0.5 metres to 3.55 metres in thickness, averaging 1.4 metres with grades ranging from 2.7 grams per tonne to 48.7 grams per tonne, averaging 11.50 grams per tonne.

A total of 59 diamond cored holes have been drilled into this exploration target on a 45 metres by 50 metres by 100 metres grid, totaling over 17,844 metres with 4,547 samples taken and assayed. The depth of holes varied from 321 metres to 498 metres, and averaged 366 metres.

WAI Comment:

WAI considers that the initial drill results for this deposit indicate that it is a promising prospect, but would recommend that further in-fill drilling is undertaken at the earliest opportunity to upgrade the classification to "reserves" under the JORC code. In addition, mineralogical and process testwork should be conducted, particularly on each individual ore type to ascertain further detail of chemical and physio-chemical composition and relationship to recoverable products.

4.2.4 Density

The density is stated as 2.7 tonnes per cubic metre for the quartz ore and 2.6 tonnes per cubic metre for the oxide ore.

The density value used for resource and reserve determination is 2.7 tonnes per cubic metre on a global basis.

WAI comment respective to all deposits (Sulphide and Oxide phases):

WAI consider that the value used for resource estimates is acceptable, but would recommend that further density characterisation of typical run of mine ("**ROM**") ores from the various mineralised zones be established. Thereafter, future resource estimation should attempt to identify the volumetric proportion of individual ore types (massive and disseminated; oxide and sulphide) and on the basis of individual density determinations estimate the tonnage attributable to them.

4.2.5 Structure

The Aksu ore field is formed within an asymmetrical syncline and is characterised by tectonic block structures formed by the intersection of several sets of block faults. These faults trend in and almost east-west; northwest-southeast and north-south direction. The ore field structure and distribution of the main gold bearing ore bodies is controlled by the emplacement of the east-west and northeast-southwest trending fault lines.

The east-west faults are the oldest and are often crossed by the northeast-southwest and northwest-southeast trending faults. Displacement on the fault planes is of the order of hundreds of metres, and dip to the west at 65 to 70°.

The northwest-southeast trending faults are characterised by contortion, development of schistocity and crush zones from between 0.2 metres and 0.3 metres up to 60 metres to 70 metres in width. The rocks surrounding the faults zones have undergone chloritisation and carbonisation. Fault planes dip steeply at between 50 and 80°.

Faults of a northeast-southwest trend are the most consistent along strike and are characterised by intense schistose development, crush structures and hydrothermal alteration. They are the youngest fault set and often dip to the northwest at angles of 65 to 80°.

WAI Comment:

WAI consider that the structural style of the deposit and the relationship to the ore forming mineralisation is well understood, given the longevity of mining in this area, particularly in the underground environment.

4.3 In-Situ Resources

The deposits were first discovered in the late 1920's and were then targeted for more detailed and intensive exploration. Typically, as found in many FSU explored deposits, exploration involved surface drilling and extensive underground exploration through the use of many relatively shallow shafts and exploration drives. This is still evident today by the number of head frames still present.

Since 1999 Kazakhaltyn has been actively undertaking further exploration work through the process of surface trenching, drilling (both from surface and underground) and from exploration drives incorporating channel sampling.

4.3.1 Detailed Exploration

Exploration began in 1929 when more than 200 veins were discovered by surface works. The veins were divided up between six distinct ore zones, each of which was characterised by different geological features.

Underground exploration has been conducted from a total of nine shafts, namely (from southwest to northeast), Shaft Nos. 17, 17 bis, 41, 39, 40, 38, 38 bis, I and B.

The most promising mining targets are considered to be Oktyabrskaya I and Budennovskaya ore zones. Initial drilling was undertaken on a random basis through the deposit, but combined with exploration shafts and drives, allowed the deposit to be evaluated to between the 300 metre and 600 metre level under P_1 and P_2 categories. Following surface exploration boreholes were undertaken on a grid of 200 metres by 100 metres down to the 300 metre level almost throughout the whole deposit. Numerous exploration drives have been carried out at the 95 metre, 135 metre and 165 metre levels within Oktyabrskaya II area and at 60 metre and 130 metre levels within the Budennovskaya area.

Since 1999 Kazakhaltyn has been actively undertaking a surface drilling programme using 76mm diameter core drilling, larger through the initial surface oxide material, using conventional methods and a 3 metre double tube core barrel. The core is logged on site by a geologist whose logs are then checked by Kazakhaltyn's Chief Geologist. The descriptions are mostly quantitative and include the rock type, structural features and mineralisation, although there is no photographic record of any of the rock core sampled as would be expected with a more Western approach. The total core recovery is recorded by the geologist who also identifies the assay interval of normally 1.0 metre. However this is adjusted according to the degree of mineralisation.

Up until 2004, 100% of the core identified for assaying was sent to an in-house laboratory, this was then changed to 50% after the acquisition of a diamond saw as the core could be split. The in-house laboratory undertakes all stages of assaying, however, 50% of the sample is returned for check analysis at an independent laboratory.

As the majority of the boreholes are vertical (or no less than 78°), and relatively shallow (less than 100 metres), only the collar is surveyed by conventional surveying methods to a local grid coordinate system. Ground level is also measured, but for resource and reserve estimation purposes the ground is assumed to be horizontal.

Surface trenching has also been carried out in parallel to the drilling, however results of the trenching exercises have not been included in any resource and reserve estimation.

From underground exploration drives, channel samples have been cut from the sidewalls to obtain approximately 8 kilograms of sample from a single 1.0 metre long, 100mm wide and 50mm deep channel. The 2.0 metre channels, floor to roof, are staggered on either sidewall and spaced at 1.0 metre intervals that are offset on each sidewall. Channel sample assays have been included in Kazakhaltyn's resource and reserve calculations where full ore zone intersections are exposed. However WAI believe that they have been omitted from the most recent computer modelling and resource estimation as none of the plan levels have been digitised. Core drilling has also been undertaken from within some of the exploration drives, mostly where surface drilling was unsuccessful in penetrating to the desired zone.

The deposit has been explored by several methods including:

- Trenches on surface, for open pit; and
- Drill profiles of the Silicified Zone for Ore body II of between 50 metres and 130 metres with drill hole spacing up to 25 metres are recorded, however within Ore body I these are reduced to profiles of 30 metres and 86 metres and spacing of less than 10 metres.

Ore grades within the Silicified Zone have been identified in drill intersections to a maximum depth of approximately 270 metres for Ore body I and 320 metres for Ore body II (plane of lode from surface—POL).

4.3.2 Underground Resources

Kazakhaltyn's stated underground resources for Aksu, as of 13 June 2005, are given in Table 4.2 below.

Table 4.2 Underground Resources for Aksu

	B				C_1			
	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Underground I . . .	23	25.52	0.6	19	90	26.11	2.4	76
Underground II (Vera)	—	—	—	—	5,674	10.66	60.5	1,945
Total	**23**	**25.52**	**0.6**	**19**	**5,764**	**10.90**	**62.8**	**2,020**

All underground resources have been extracted between Shaft Nos. 17 and 17 bis.

In situ resources (B + C_1) been identified between:

- Shaft Nos. 41 and 39—between the 75 metre and 125 metre levels; and
- Shaft Nos. 40 and 38 bis—between the 95 metre and 165 metre levels.

The zone directly overlying the 75 level and lying between Shafts Nos. 41 and 39 is the Vera ore zone.

C_2 resources have been identified between:

- Shaft Nos. 40 and 38 bis—between the 165 metre and 305 metre levels; and
- Shaft Nos. 41 and 39—between the 165 metre and 270 metre levels.

Calculations of the resources, including gold contained in quartz veins of Aksu, are based on FSU exploration and geological block modelling methods that are considered best suited for these quartz veins and shallow deposits. Ore bodies explored by underground exploration drives are evaluated by the "exploitation block" method. Deeper deposits are calculated by the "geological block" method (hanging method), where the classification does not usually exceed C_1 or C_2 category.

The volume weight of ore and host rock was determined at the Aksu mine laboratory using paraffin-coated samples. These studies were undertaken over a long period of time using conventional methods. Shaft Nos. 17 and No. 38 supplied large amounts of quartz ore for examination and accordingly produced an average specific gravity ("**SG**") of 2.7 tonnes per cubic metre, very similar to the host rock. Earlier calculations (1947) produced an SG for the oxide zone, possibly as deep as 30 metres to 40 metres in some

areas, of around 2.55 tonnes per cubic metre to 2.6 tonnes per cubic metre. As a result it is considered that the acceptable specific gravity values used in the Kazakhaltyn calculations are 2.6 tonnes per cubic metre for the oxide zone and 2.7 tonnes per cubic metre thereafter.

Calculations have therefore been carried out by the following equations;

Block Volume $V = S \times M_{mean,}$ **where**

S	=	Block area (square metres)
M_{mean}	=	Average Block thickness (metres)

Ore Resource (per Block) **W = V × d, where**

V	=	Block volume (cubic metres)
d	=	Volume gravity (tonnes per cubic metre)

Gold resource are determined by the following formula; Q = W × C, where

W	=	Ore resource (tonnes)
C	=	Average amount of gold per block (grams per tonne)

More recent calculations for resources have been undertaken by "Surpac" 3D computer modelling package which has only been employed since March 2005. However these are currently considered preliminary, although figures obtained are comparable to those calculated by hand.

Therefore gold resources have been calculated for all of the mineral zones are based on the following parameters:

- Cut-off grade of 0.5 grams per tonne of gold (Open Pit)
- Cut-off grade of 3.0 grams per tonne of gold (Underground)
- Bulk density of oxide ore is 2.6 tonnes per cubic metre
- Bulk density of quartz ore is 2.7 tonnes per cubic metre
- Category of assessment for the deposit is defined as Group 2B, with the following criteria:
  - for B classification—requiring a drill spacing of between 75 metres and 150 metres;
  - for C_1 classification—requiring a drill spacing of between 150 metres and 300 metres; and
  - for C_2 classification—requiring a drill spacing of twice that required for C_1.

Kazakhaltyn's stated resources for Aksu as at 13 June 2005 are presented in Table 4. 3 below:

Table 4.3 Total Resources for Aksu

	B				C_1				C_2			
	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Underground I	23	25.52	0.6	19	90	26.11	2.4	76				
Underground II (Vera)	—	—	—	—	5,674	10.66	60.5	1,945				
Open pit	13,079	2.06	26.9	865	19,619	2.06	40.4	1,297				
Tailings	—	—	—	—	7,808	0.97	7.6	243				
Total	**13,102**	**2.10**	**27.5**	**884**	**33,191**	**3.34**	**110.8**	**3,561**	**21,535**	**7.20**	**155.1**	**4,985**

Therefore the total geological resource for categories $B+C_1+C_2$ is 67,828 thousand tonnes of ore containing 293.4 thousand kilograms (9,430 thousand ounces) of gold (average grade 4.32 thousand grams per tonne). However an additional 62,000 thousand tonnes of ore containing 310.0 thousand kilograms (9,967 thousand ounces) of gold (average grade 5.00 grams per tonne) is also stated at P_1 category.

The open pit is actually divided between three separate zones:

- Kariernaya/Diagonalnaya (7.7 million tonnes);
- Krutaya (12.8 million tonnes); and
- Kotenko (12.3 million tonnes).

4.4 Vera Resources at Aksu

The substantial Vera ore zone has been identified at Aksu, and is located directly to the east of Shaft No. 41. The ore zone has been delineated by borehole intersection data only and interpreted as a series of flat lying and gently dipping veins which exist below the 135 metre level drive horizon down to a maximum depth of the 430 metre level horizon. Historically it is understood that similar flat lying veins above the 135 metre level drive horizon have been exploited.

For resource purposes Vera ore zone has been divided into three separate resource blocks, namely Block I-C_1 Block II-C_1 and Block III-C_1.

Kazakhaltyn's total stated resources for Vera Ore Zone are given in Table 4.4 below.

Table 4.4 Total Resources as Stated by Kazakhaltyn for Vera Ore Zone

Block	Tonnage (thousand tonnes)	Average thickness (metres)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
I-C_1	1,746	7.50	11.84	20.7	665
II-C_1	3,142	9.06	10.70	33.6	1,081
III-C_1	442	6.20	11.50	5.1	163
Total	**5,330**	**8.31**	**11.14**	**59.4**	**1,909**

4.4.1 Resource Calculation Method

The method of calculation adopted by Kazakhaltyn is as follows:

- measured planimeter area from horizontal lode projection;
- calculated composite thickness as an arithmetic mean of each individual veins within each borehole;
- calculated grade as a weighted average grade of each individual veins within in each borehole and thereafter;
- calculated a combined weighted average grade and thickness for all boreholes within the resource block; and
- specific gravity 2.7 tonnes per cubic metre.

WAI has taken Block II-C_1 as an example and reviewed the data for it. The results of which are provided in Table 4.5 below.

Table 4.5 Vera Zone—Block II-C_1

Hole number	Hole ID	Thickness (metres)	Grade (grams per tonne)	Gold (kilograms)	% (of total gold accumulation) (ounces)
1	366	17.45	7.36	128.4	5.9
2	454	16.65	13.40	223.1	10.2
3	387	19.90	8.44	168.0	7.7
4	368	8.30	7.90	65.6	3.0
5	457	13.15	23.30	306.4	14.0
6	461	16.07	11.70	188.0	8.6
7	182	8.67	14.00	121.3	5.5
8	374	11.11	8.60	95.6	4.4
9	789	2.80	15.10	42.3	1.9
10	463	6.50	4.90	31.9	1.5
11	343	11.30	6.40	72.3	3.3
12	704	3.68	58.06	213.8	9.8
13	494	2.50	1.92	4.8	0.2
14	752	0.80	23.60	18.9	0.9
15	338	5.80	6.23	36.1	1.7
16	341	2.00	29.50	59.0	2.7
17	793	1.00	43.00	43.0	2.0
18	336	11.68	2.93	34.2	1.6
19	342	23.84	11.60	276.5	12.6
20	48/39	16.86	3.40	57.3	2.6
Sum		**200.06**		**2,186.5**	**100**
Average		**10.00**	**10.93**		

WAI Comment:

Borehole Nos. 454, 457 and 342 (three out of a total of 20 holes) contain high grade metal accumulations which represents a total of 36.8% of the total contained metal in the resource have no top-cut applied to them. WAI would recommend that the concept of top-cutting of high values should be re-investigated.

The continuity of veins between drill sections has not been well established and consequently identification of resource by vein has not been undertaken. Kazakhaltyn has calculated vein thickness and grade, where total vein accumulations within each borehole are utilised rather than the results identified within discreet vein horizons.

The majority of gold-bearing horizons have been included in Kazakhaltyn's resource estimate, regardless of width (and hence mineability). WAI would recommend that the resources be recalculated with particular regard to the intersection width and where possible by identification of individual continuous veins and thereby produce resources for each of them.

Drill lines are currently spaced at 100 metres apart and drill holes placed at approximately 50 metres spacing along them. Some in-fill drilling has been undertaken on an ad-hoc basis. WAI would recommend that further drilling be undertaken on this existing target, whereby the drill spacing is reduced by at least half, on both lines down to 50 metres and holes spacing, down to 25 metres.

4.5 WAI's Review Summary

Table 4.6 below indicates a comparison between Kazakhaltyn's stated B and C_1 resources and WAI's review. This table does not include a review of Kazakhaltyn stated C_2 resources.

Table 4.6 Comparison Between Kazakhaltyn's B and C_1 Resources and WAI's Review

	Kazakhaltyn				WAI Review			
	Ore	Grade	Gold	Gold	Ore	Gold	Gold	WAI Comments
	(million tonnes)	(grams per tonne)	(thousand kilograms)	(thousand ounces)	(million tonnes)	(thousand kilograms)	(thousand ounces)	
Underground								
Vera	5.67	10.66	60.5	1,945	5.90	62.9	2,022	Drill profiles 100 metres and hole spacing 50 metres
Aksu vein	0.11	25.99	2.9	94				WAI understand that these are currently being mined
Total underground	**5.79**	**10.96**	**63.4**	**2,039**	**5.90**	**62.9**	**2,022**	
Open pit								
Kariernaya/ Diagonalnaya	7.65	1.79	13.7	441	7.20	12.9	415	Drill profiles <50 metres and hole spacing <30 metres and some underground development
Krutaya	12.80	1.98	25.3	814	10.50	20.8	668	Drill profiles 100 metres and hole spacing <30 metres but to 100 metres
Kotenko	12.25	2.30	28.2	907	11.30	26.0	837	Drill profiles >50 metres (to 120 metres) and hole spacing 50 metres
Total open pit	**32.70**	**2.06**	**67.3**	**2,162**	**29.00**	**59.7**	**1,920**	
Tailings dam	7.81	0.97	7.6	243	7.81	7.6	243	See Section 4.6 below
Total Aksu	**46.29**	**2.99**	**138.3**	**4,445**	**42.71**	**130.2**	**4,185**	

Note: Grade and tonnages are in-situ values with no account for mining dilution and loses.

WAI are of the opinion that the current classification of the open pits and underground mines is acceptable under the FSU Classification.

Vera Zone (accounting for 44% of the gold content for Aksu) consists of a series of flat lying veins with thicknesses of between 0.5 metres and 10.0 metres (average 2.0 metres). However ore resource calculations have been performed on the horizontal projection for the entire ore zone, and do not account for the individual vein thickness and criteria necessary for selecting a suitable mining method and subsequent mining dilution. Some of the veins have been delineated on the basis of one drill hole only. It is also noted in Block II-C1 that 37% of the gold content is accounted for in only three of the 20 boreholes drilled.

WAI do consider that the overall figures established for the deposits in terms of in-situ geological resource are broadly reliable, though more detailed modelling of the ore bodies would greatly improve the accuracy of tonnage and grade estimation that could then assist in the subsequent mine planning procedures.

4.6 Tailings Dam Resources

The old tailings dam at the Aksu mine has an estimated resource (C_1 category) of 7,808 thousand tonnes grading at 0.97 grams per tonne for a gold content of 7.6 thousand kilograms (243 thousand ounces).

A process has been instigated whereby the old tailings are mined on site with shovels and trucks and taken to a slurry plant which will pump the tailings to the plant and provide 45% of the processing plant throughput. Removal of old tailings will then form an area for the deposition of new tailings material from the processing plant.

The area of the dam is in the order of 750 metres by 1,350 metres and approximately 6.0 metres thick for a total approximate volume of around 6.1 million cubic metres. Only approximately 40% of the dam area has been drilled (approximately 231 boreholes) on a 40 metre grid spacing, with the remainder being drilled out on a widely spaced sporadic drill pattern (approximately 14 boreholes), as well as being sampled from dump truck loads as excavated.

WAI Comment:

The resource study within the tailings dam remains incomplete due to the irregularity of sampling within approximately 60% of the surface area. However the uniformity of grade and grain size throughout the drill hole samples suggest that consistency should be uniform across the dam with no anomalous high or low grade areas. It can therefore be assumed with some confidence that the figures stated are acceptable for use in resource estimation as C_1 category. However WAI would recommend further drilling to verify these resources.

5. GEOLOGY OF THE QUARTZITE HILLS DEPOSIT

5.1 Regional Setting

See Section 4.1 for details.

5.2 Mineralisation

5.2.1 Ore Types

The ore bodies of the Quartzite Hills deposit are located within large tectonic fault "blocks" of a strike-slip nature with intersecting oblique faults. They consist of breccias and schist units, which have undergone late stage silicification and are characterised by intensive schist formation, crush zones and further metasomatic silicification. Carbon rich clay and carbon-rich -clay-silicious schists are also hosts to mineralisation (which may have an impact on the cyanidation recovery process).

The ore bodies range from between 50 metres and 200 metres long and between 240 metres and 500 metres deep and are considered to be steeply dipping with a flattened lens and tube-like form (pipe-like).

The ores are made up of on average 10% to 15% sulphides of which 9% to 13% is pyrite and 1.0% to 1.5% is arsenopyrite. The vein minerals consist of quartz and carbonates with minor amounts of sericite-phengite and chlorite.

Ore minerals include widespread pyrite, arsenopyrite, black jack, antimonite, with minor chalcopyrite, tetrahedrite, jamesonite, chalcostibite, freibergite, gold, andorite, copper physelite, scheelite, and boulangerite.

Several mineral associations at the deposit have been distinguished; each of the associations reflects a particular stage of mineralisation. These mineral associations are as follows:

- Early quartz, pyrite, and arsenopyrite;
- Carbonate-quartz-poly-sulphides with gold; and
- Post gold carbonate-quartz with some amount of non-gold-bearing pyrite.

Free gold is distributed in microscopic amounts (0.074mm to 0.1mm), on rare occassions gold of a size of 1.0mm (Northern part of IV ore body) has been identified.

Within the pyrite, gold is found in the form of threads and grains to 0.002mm. Gold mineralisation of Quartzite Hills is of a lower grade (780mm to 790mm) in comparison to the gold of the Aksu deposit. It is common for this gold to contain large amounts of silver with a composition: 79.65% of gold, 19.08% of silver, 0.11% of copper, 0.05% of iron. Nazmova and Spiridonov (1979) demonstrated that there is gold containing 2.9% to 14.8% of mercury (Hg) (quicksilver gold).

The following five stages of ore formation have been identified:

- Stage of hydrothermal modification of ores with formation of beresite-schists and impregnations of pyrite.
- Early stage of sulphide and gold mineralisation. Minerals: quartz, collomorphic pyrite, arsenopyrite and gold.
- Late stage polysulphide mineralisation with gold. Minerals: quartz, calcite, antimonite, black jack, chalcopyrite, faded ores, jamesonite, chalcostibnite, andorite, and gold.
- Final post-mineralisation stage includes hydrothermal activity forming quartz-calcite.
- Post-gold stage of overlapping telethermal mineralisation of Late-Ordovician age. Minerals: barite, quartz, realgar, antimonite, and cinnabar.

Currently there are six recognised ore bodies at the Quartzite Hills deposit:

- Ore body I (1st Quartzite Hills);
- Ore body II (2nd Quartzite Hills);
- Ore body III (3rd Quartzite Hills); and
- Ore bodies IV, V and VI that are not exposed at surface (blind ore bodies).

However ore body VI has been mined out and reserves have therefore been exhausted.

5.2.2 *Density*

The density is stated as 2.7 tonnes per square metre for the quartz ore and 2.6 tonnes per cubic metre for the oxide ore.

The density value used for resource and reserve determination is 2.7 tonnes per cubic metre on a global basis.

5.3 In-Situ Resources

Detailed exploration

Historically, resources have been exploited by open pit on ore bodies I and IV down to a depth of approximately 100 metres. Below this level, mining from underground has exhausted much of the resources down to the 420 metre level.

The location of current resources of ore bodies I to V are given in Table 5.1 below:

Table 5.1 Location of Current Underground Resources at Quartzite Hills

	Resource Category			
	B	C_1	C_2	
Ore Body	Level Intervals			Width/Strike Extent (metres)
I	174-240	240-330	330-370	30x90
II	100-151	—	—	20x60
III	—	35-230	—	5x80
IV	210-300	240-420	420-500	20x100
V	—	351-420	285-335	5x60

The resource estimate for Quartzite Hills as stated by Kazakhaltyn as at 13 June 2005 is presented in Table 5.2 below.

Table 5.2 Resource Estimate for Quartzite Hills (June 2005)

	B				C_1				C_2			
	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Underground	885	5.04	4.5	143.5	3,538	5.04	17.8	574	305	4.15	1.3	41
Waste Dumps					20,000	1.00	20.0	643	—	—	—	—
Total	**885**	**5.04**	**4.5**	**143.5**	**23,538**	**1.61**	**37.8**	**1,217**	**305**	**4.15**	**1.3**	**41**

The total geological resource for categories $B+C_1+C_2$ is 24,728 thousand tonnes of ore containing 43.6 thousand kilograms (1,401 thousand ounces) of gold (average grade 1.76 grams per tonne).

5.4 WAI's Review Summary

The following table indicates a comparison between Kazakhaltyn's stated B and C_1 resources and WAI's review. This table does not include a review of Kazakhaltyn's stated C_2 resources.

Table 5.3 Comparison Between Kazakhaltyn's B and C_1 Resources and WAI's Review

	Kazakhaltyn				WAI Review			
	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Gold (thousand kilograms)	Gold (thousand ounces)	WAI Comments
Underground								
Ore body I	1.80	4.93	8.9	286	1.80	8.9	286	Derived from underground development drives with supplementary drill holes
Ore body II	0.13	4.58	0.6	19	0.11	0.5	16	As above—B classification only from development drives
Ore body III	0.01	5.71	0.1	3	0.01	0.1	3	C_1 classification only from one drive with drill holes
Ore body IV	2.40	5.25	12.6	406	2.40	12.6	406	Derived from underground development drives with supplementary drill holes
Ore body V	0.07	1.77	0.1	4	0.07	0.1	4	C_1 classification only from one drive with supplementary drill holes
Total underground	**4.42**	**5.04**	**22.3**	**717**	**4.40**	**22.2**	**714**	
Waste Dumps	20.00	1.00	20.0	643	14.80	14.8	476	See Section 5.5 below
Total	**24.42**	**1.73**	**42.3**	**1,360**	**19.20**	**37.0**	**1,190**	

Note: Grade and tonnages are in-situ values with no account for mining dilution and loses.

5.5 Waste Dump Resources

Kazakhaltyn state that a total of 20 million tonnes at 1.0 grams per tonne of gold (C_1 resources) are contained in the waste dumps.

Data has been presented in the form of tables, detailing assay results from 15 kilograms "grab samples" from shallow trenches along with a basic topographic plan of the actual dump. However the source of the dumps is from underground as well as old open pit and WAI believe there are both low grade as well as waste material present.

There are a total of five individual dumps sampled, one derived from underground waste and the remaining from two old open pit operations. A further nine smaller unsampled dumps also exist. From the sampled dumps one is formed from underground waste and the remaining from two old open pits. Generally there are between two and 20 samples taken per dump for a total of 51. The grade distribution also shows a high coefficient of variability (156%), and four samples account for more than 40% of the stated gold content.

WAI has calculated the volume of the dumps from basic topographic maps provided by Kazakhaltyn, no detailed topographic survey has been made available, and WAI has subsequently calculated a volume of 6.16 million cubic metres for all five dumps.

If a specific gravity of 2.4 tonnes per cubic metre is applied to this it results in 14.8 million tonnes (sampled dumps only), 75% of Kazakhaltyn's stated figure. However Kazakhaltyn has included outlying waste dumps in their volume and tonnage calculation that have no assay data associated with them, and as such WAI has been unable to quantify these resources.

WAI Comment:

The dumps observed during the site visit were substantial and showed a considerable variation in colour, particle size and constituents. Inevitably these dumps consist of both surface oxide material from the open pits (pure barren waste and low grade ore), together with product from underground mine development (again pure waste and low grade ore) and have been built up over a considerable period of time.

The number of samples relative to the stated resource is unrealistic, 51 "grab samples" for a stated 20 million tonnes at 1.0 grams per tonne. Grade calculations appear to have been carried out using simple averages for the entire dump sampled, no top cut was applied, and consequently does not provide an accurate representation of the grade distribution as they also show high variation.

The majority of the dumps have less than 20 samples from surface for an estimated 2.6 million cubic metres of material (approximately 6 million tonnes) and this cannot justify a reserve classification. Even if all the dumps are included a volume of 6.16 million cubic metres is achieved (approximately 14 million tonnes) and is therefore very difficult to justify the 20 million tonnes stated by Kazakhaltyn.

No detail for specific gravity of the waste dump material, which is suspected to be variable, has been presented.

Clearly, the waste dumps contain a gold resource that requires validation. Until such time that the volumes, bulk densities and grade distribution are clearly defined by drilling, pitting and trenches, this resource should remain unclassified. However in order to investigate the waste dumps as a resource and delimit the various ore types, grade distribution and tonnage, will involve a difficult, expensive and time consuming process.

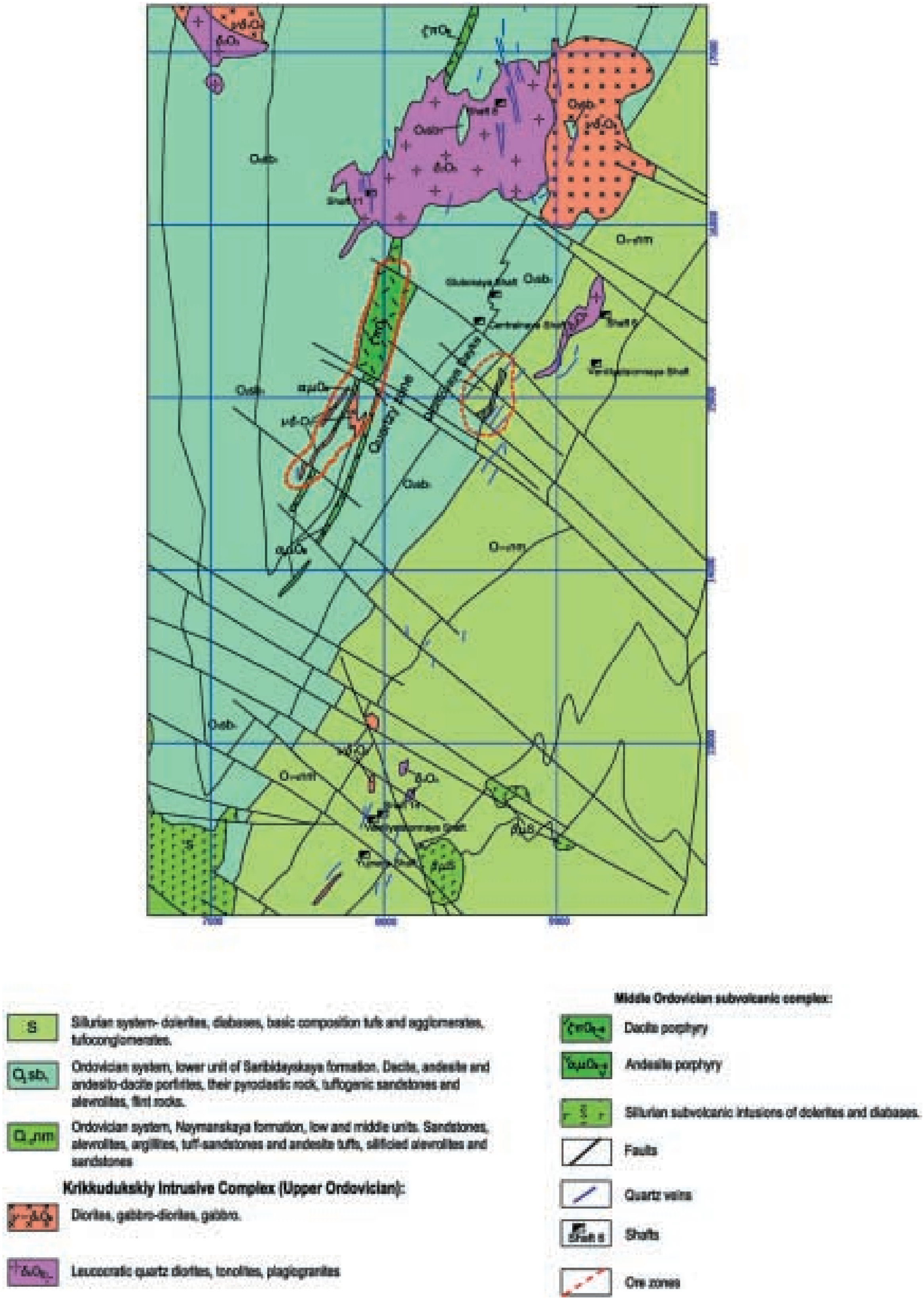
For the purposes of the financial appraisal the waste dumps have been included as it is not unreasonable to assign them as "Inferred Mineral Resources" under the JORC Code. These could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken.

6. GEOLOGY OF THE ZHOLYMBET DEPOSIT

6.1 Regional Setting

The deposit is characterised by sedimentary rocks of the early to middle Ordovician age, volcano-sedimentary rocks of middle Ordovician age and intrusives of Upper Ordovician. See Figure 6.1 below.

Figure 6.1: Regional Geological Setting Of The Zholymbet Mine



6.1.1 Host Rocks

Early to middle Ordovician sediments consist of mudstones, siltsones and quartz, quartz-feldspar and greywacke sandstones, siliceous rocks, lime mudstones. These sediments are well developed in the south eastern part of the deposit, in the form of a broad (two kilometres wide) band striking in a northeast-southwesterly direction.

Middle Ordovician rocks are located in the western part of the ore field and characterised by a large variety of the rocks, which exhibit sharp facies change. In the northern and northwestern part of the ore field they form a wide (one to three kilometre) band, which continues beyond the limits of the ore field. In the south, middle Ordovician sediments are overlain by the volcanogenic Silurian formations. The middle Ordovician formations consist of andesite and dacite tufa, tufa sandstones and siltstones, dacitic tuffs, basaltic, andesite-basaltic, andesite, andesite-dacite and dacite porphyrytes. Besides, conglomerate-breccias and sandstones, there are also siltstones, mudstones, limestone and siliceous mudstones, pelitic limestones and siliceous rocks.

Basalts and andesitic-basalts of Silurian age, are located in the southern part of ore field. These outcrop over an area of approximately 1.5 kilometres by 0.5 kilometres to the south-west.

6.1.2 Intrusives

Five main intrusive bodies and dykes have been identified within the ore field, namely:

- Northern intrusive, which occupies an area of 1.3 square kilometres and is elongated in an east-west direction and dips on its north side at 60° and 65° to 75° on the southern flank. Two intrusive phases and vein formation have been identified. The first intrusive phase includes quartz and quartz containing, gabbros and gabbro-diorites. The second phase includes quartz diorites and tonalities. Quartz veins within the intrusives strike either approximately north-south with a dip to the east, east-west with a dip to the north or northwest-southeast with a dip to the north-east. Alteration includes chloritisation, carbonitisation, sulfurisation, albitisation, silicification and sulphidisation within the quartz diorites and tonalities, which contain gabbro, along the quartz veins;
- Zarechniy intrusive is situated in the north-western part of the ore field, approximately three kilometres to the north-west of Shaft No.8. The body is circular in shape and has a similar composition to that of the Northern intrusive;
- The Central intrusive is a dyke-like body, which strikes in a north-easterly direction azimuth (025°). It can be traced over a distance of 1,350 metres and a thickness that varies from 50 metres to 190 metres. The contacts of intrusive are irregular, steep with rare apophysis. The dyke dips to the south-west at angle of 75°. The composition of the dyke is made up of gabbros, gabbro-diorite, gabbro-anorthosites and anorthosite (which are not widespread), diorites and tonalities. Gabbro-diorites and gabbro form 80% to 85% of the intrusive volume;
- May intrusive forms a series of apophysis and dyke-like bodies confined to the Silicified Zone. At a depth these apophysis form a single intrusion dipping to the west at an angle of 75° to 80°. It is made up of quartz-gabbro and gabbro-diorites; and
- Currently five dyke-like bodies have been identified in the Southern Zone.

6.2 Mineralisation

6.2.1 Gold Distribution

Gold is normally associated with polymetallic suphides, tellurides, quartz and pyrite. Gold is most commonly found in close association with the polymetallic sulphides (galena and chalcopyrite). In galena gold has an irregular form, which depends on the degree of galena substitution. Tellurides are constantly present in the galena, especially altaite (PbTe), and less commonly as calaverite and hessite. In chalcopyrite, gold occurs as altaite. Tellurides are closely associated with each other and gold and are located among polymetallic sulphides in quartz and pyrite. On rare occasions free gold has been identified within quartz veins hosted within hornfels of the Central area.

In quartz, gold is often associated together with tellurides in the form of very thin disseminations, within micro-fractures in coarse-grained milky-white quartz. Often these are associated with pyrite; large clusters of polymetallic sulphides or close to grey, small-grained quartz with relict minerals. Except the dissemination, gold together with galena forms vein-like isolation in quartz. The fineness of gold is high

(850 microns to 890 microns) varying from 835 microns to 923 microns. Impurities include silver, copper, iron, tellurium, lead, arsenic and bismuth. The highest occurring grades for gold are located within the oxidation zone, whilst gold-tellurides are wide spread in quartz veins of the Central area.

6.2.2 Ore Types

There are three known types of the ore bodies:

- auriferous quartz veins;
- stockworks; and
- zones of the hydrothermally altered rocks with vein-disseminated sulphide mineralisation.

Gangue minerals consist mainly of quartz and carbonates, together with minor chlorite and sericite. Gold and tellurides are associated with the sulphides (pyrite, chalcopyrite, galena).

Vein quartz is mainly milk-white or greyish-white with the subordinate development of spotty and vein-like of the grey quartz.

6.2.3 Silicified Zone

A zone of strong silicification is located at the western side of the Zholymbet deposit. Strong silicification is associated with a deep seated, approximately north-south trending, suture zone which is characterised by:

- intrusion of sub-volcanic (dyke-like) bodies (dacite, andesite, rarely andesite-basaltic), associated with middle Ordovician volcanism;
- intrusion of small upper Ordivician complex;
- hydrothermal metamorphism with the formation of metasomatic and silicification and rare sulphide mineralisation; and
- density.

The density is stated as 2.7 tonnes per cubic metre for the quartz ore and 2.6 tonnes per cubic metre for the oxide ore.

The density value used for resource and reserve determination is 2.7 tonnes per cubic metre on a global basis.

6.3 Structure

The Zholymbet ore field is located on the northern limb of the Sofiyevskoye anticline, the axis of which passes through the eastern part of the deposit. The position of both the ore bodies and intrusives, is spatially related to the western limb of this anticline and the intersection point of conjugate faults/small crenulations in the major fold limb which trend in a north-easterly and north-westerly direction.

6.4 In-Situ Resources

Detailed Exploration

Discovery and exploration work began in 1931 and by the beginning of 1934 mining had commenced within the Central Zone. Exploration and mining operations existed simultaneously for a number of years by various organisations all within the limits of the ore zone. Much exploration was carried out during the period 1932 to 1939 by different bodies resulting in a thorough understanding of the deposit and the following identified characteristics:

- Silicified Zone extending some 2.5 kilometres in length and up to 80 metres wide.
- Three types of ore identified:
    1. Vein type (>80 quartz veins in the Eastern and Western areas);
    2. Porphyry ore (Silicified Zone); and
    3. Alluvial gold along the Asha river terrace.

Between 1959 and 1963 further geological survey work was conducted to create topographical maps with the aid of aerial photography. This work also confirmed the accuracy of the very early (1934) exploration and operational work within the shafts and underground drives. Silver and gold resources for Zholymbet were repeatedly approved by the State Reserves Commission of USSR. The stated resources were located within 25 quartz veins over nine zones.

Since 1999 Kazakhaltyn has been actively undertaking a surface drilling programme using identical techniques to those at the Aksu deposit.

The Resource estimate for the Zholymbet deposit, as stated by Kazakhaltyn as at 13 June 2005 is presented in Table 6.1 below.

Table 6.1 Resource Estimate for the Zholymbet Deposit (June 2005)

	B				C_1				C_2			
	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilo-grams)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilo-grams)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilo-grams)	Gold (thousand ounces)
Underground	1,037	4.99	5.2	166.3	1,476	32.50	48.0	1,542				
Open pit	6,938	2.19	15.2	487.5	24,772	1.78	44.1	1,419				
Tailings	—	—	—	—	9,268	1.00	9.3	298				
Waste dumps	—	—	—	—	12,854	1.20	15.4	496				
Total	**7,975**	**2.55**	**20.3**	**653.8**	**48,370**	**2.41**	**116.8**	**3,755**	**23,774**	**4.40**	**104.6**	**3,363**

The total geological resources for categories B, C_1 and C_2 are 80,119 thousand tonnes of ore containing 241.7 thousand kilograms (7,772 thousand ounces) of gold (average grade 3.02 grams per tonne).

The Silicified Zone can be split into three areas, according to the amount of exploration work undertaken to date, namely Northern, Southern, and Western.

The Northern and Southern Zones cover an area of 113,400 square metres and 22,400 square metres respectively, and have been prospected by both underground adits and drilling and as a direct result ore bodies I and II have been identified.

An underground adit at 30 metre depth has been driven along the strike of ore body I for a distance of 144 metres. Indications from drilling and underground exposure suggest that this ore body has a width of between 15.7 metres and 21.5 metres (average 19.1 metres), whilst gold grade varies from 1.2 grams per tonne to 3.94 grams per tonne, with an average of 2.07 grams per tonne.

Ore body II is located in the northern part of the deposit and has been explored by open-cast and excavations over a distance of 680 metres. Drill holes have been drilled every 50 metres to 100 metres and an underground adit at 30 metres depth has been driven along the strike for some 120 metres. The thickness of the ore body on the surface varies from 80 metres to 100 metres. The thickness of the ore body varies from 80 metres to 96 metres, and averages 89.8 metres whilst the gold grade varies from 0.8 grams per tonne to 6.8 grams per tonne with an average of 1.86 grams per tonne.

6.5 WAI's Review Summary

The following table indicates a comparison between Kazakhaltyn's stated B and C_1 resources and WAI's review. This table does not include a review of Kazakhaltyn's stated C_2 resources.

Table 6.2 Comparison Between Kazakhaltyn's B and C_1 Resources and WAI's Review

	Kazakhaltyn				WAI Review			WAI Comments
	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Gold (thousand kilograms)	Gold (thousand ounces)	
Underground								
Diorite Dyke . .	1.04	4.99	5.2	166				Unable to confirm—225 to 320 level below former open pit, WAI believes this is currently being exploited
Zholymbet Deep Horizons	1.48	32.50	48.0	1,542	1.48	48.0	1,542	See section 6.5.1 below
Total underground . .	**2.51**	**21.15**	**53.1**	**1,708**	**1.48**	**48.0**	**1,542**	
Open pit								
Silicified Zone (Quartz)	31.71	1.87	59.3	1,906	34.30	64.1	2,062	Derived from underground development drives with supplement drill holes
Total open pit . .	31.71	1.87	59.3	1,906	34.30	64.1	2,062	
Tailings dam . . .	9.27	1.00	9.3	298	9.30	9.3	299	See section 6.6 below
Waste dumps . .	12.85	1.20	15.4	496	9.90	11.9	382	See section 6.7 below
Total Zholymbet	**56.35**	**2.43**	**137.1**	**4,409**	**54.98**	**133.3**	**4,285**	

Note: Grade and tonnages are in-situ values with no account for mining dilution and loses.

WAI is unable to confirm the classification of B category within the Silicified Zone, however the C_1 and C_2 resources of the Silicified Zone appear correct with two distinct ore bodies identified. Drill profiles of between 50 metres and 130 metres for Ore body I and 30 metres to 86 metres for Ore body II with hole spacing of < 10 metres to 25 metres have been identified from plans provided. For Ore body I C_1 category is calculated to approximately 52 metres depth and C_2 to a maximum depth of approximately 190 metres (P_1 to 360 metres). For Ore body II C_1 is confirmed to 60 metres depth and C_2 to 272 metres depth. However further more detailed investigation and modelling is required to confirm current classification and any necessary reclassification requirements.

6.5.1 Zholymbet Deep Horizons

6.5.1.1 Introduction

A single resource has been blocked out by Kazakhaltyn between the 600 metre and 1,200 metre level horizons.

On lode development exists on two levels, namely the 600 metre and 640 metre levels. A deeper horizon has been developed at the 680 metre level, but to date no on-lode development appears to have been undertaken. From surface a further 13 levels exist down to the 600 metre level.

A total of 13 drill holes have been utilised in the resource calculation. Of these some have been drilled from surface, whilst others have been drilled from excavations on the 640 metre and 680 metre level horizons. Up to three deflected holes have been drilled from the surface holes. Drill holes have identified target intersections both within the boundaries of the intrusive dyke and the surrounding sedimentary sequence. Kazakhaltyn's stated total reserves and resources for Zholymbet Deep Horizons are given in Table 6.3 below.

Table 6.3 Total C_1 Resources—Zholymbet Deep Horizons

Tonnage (thousand tonnes)	Av. thickness (metres)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
1,476	0.84	32.50	48.0	1,542

Between the 600 metre and 1200 metre level horizons this resource has been split into two sections as follows in Table 6.4 below;

Table 6.4 Division between two separate zones at Zholymbet Deep Horizons

Block	Strike Length (metres)	Block Height (metres)	Tonnage (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
600 metre to 720 metre Level	922	146	442	45.30	20.0	644
720 metre to 1200 metre Level	922	586	1,034	27.03	27.9	898

6.5.1.2 Method of Resource Calculation

The method of calculation adopted by Kazakhaltyn is as follows:

- total vein strike length was calculated by the summation of each individual vein as measured on the 600 metre level horizon, which equates to 975 metres;
- total vein length for the base of the resource at 1,200 metre level was taken as 90% of that established on the 600 metre level, which equates to 869 metres;
- the plane of lode length was established (vertical height of 600 metres) at average dip of 55° which equates to 732 metres;
- lode area is 647,197 square metres; and
- specific gravity 2.7 tonnes per cubic metre.

Grade is established from both channel sample development data and borehole intersection data.

Several stages of manipulation have been undertaken for grade interrogation on channel sample data:

- level grades on both 600 metre and 640 metre levels are established from weighted average grades for each vein (from 6 to 120 channel intersections per vein are utilised in the calculation) thereafter; and
- weighted average grades (based on arithmetic average vein thickness) are calculated for each level.

For each borehole intersection;

- a total composite weighted average grade for each hole is calculated (from 6 to 75 individual intersections per hole are utilised in the calculation) exclusive of the waste intervals that lie between each of the grade intersections; and
- the average thickness is calculated as the arithmetic mean of all of the intersections.

A reference table showing the average thickness and grades estimated by these methods is provided in Table 6.5 below.

Table 6.5 Average thickness and Grade Calculated by Kazakhaltyn per Borehole

Horizon Interval	Arithmetic Average thickness (metres)	Grade (grams per tonne)
600 metre level	0.65	45.4
640 metre level	0.50	39.8
Hole 010	0.92	26.8
Hole 010a	0.93	33.4
Hole 010b	0.96	18.6
Hole 07v	0.38	20.5
Hole 07g	0.6	14.6
Hole 07e	1.47	16.9
Hole 07j	1.37	15.4
Hole 249	0.88	37.5
Hole 250	0.75	38.0
Hole 320	0.72	50.7
Hole 321	0.85	37.7
Total	0.84	32.5***

*** Recalculated by WAI as 30.4 grams per tonne

WAI Comment:

The total resource block has been classified as a C_1 resource by Kazakhaltyn, but WAI considers that the resource block size is too large, and recommends that it should be split into several sub-blocks. The potential C_1 resource equates to a minor proportion of the total resource for Zholymbet Deep Horizons. However, WAI has not undertaken a reclassification of these resources.

WAI recommends that those resources identified by development levels which lie between the 600 metre and 640 metre levels and the underslung block down to the 680 metre level should be re-calculated and stated separately for each individual ore body, not as a composite unit.

Ore continuity within individual ore bodies has not been well established, particularly below the 640 metre level. WAI considers that the method of compositing of intersections within a single borehole, with the exclusion of the intervening waste material, is not an acceptable resource calculation method as defined under the JORC Code. It is normal practice to identify those intersections that have the highest grade and aggregate them together wherever possible, but include the waste dilution between them in the overall composite grade. WAI believe that this practice has not been employed by Kazakhaltyn.

Separate resource estimates should be established for different hosts to the ore body mineralisation, with particular reference to intrusive and sedimentary wall rock hosts. Resources below the 640 metre level are based on borehole data alone and should be classified as no more than a C_2 resource. However, WAI has not undertaken to reclassify those resources. Intercept angles of the ore bodies in the core varied from 20° to 70° and as such it is difficult, if not impossible, to establish the population of steep or flat ore bodies that are present.

In summary, WAI believes that the majority of the Zholymbet Deep Horizons has only been partially tested, and under western guidelines would correspond to an "Inferred Mineral Resource" under the JORC Code at best (with the exception of the zone above the 640 metre level). For mining, it is highly unlikely that the total resource contained gold could be extracted, even utilising bulk mining methods. As such, considerable underground drilling and development is required to better classify this resource, and moreover to identify realistic mining targets. WAI is of the opinion that this resource could be reclassified into a higher resource category under the JORC Code if the necessary further exploration was undertaken. For the purposes of the financial appraisal, these resources have been included.

6.6 Tailings Dam Resources

The old tailings dam at the Zholymbet mine has an estimated resource of 9,268 thousand tonnes grading at 1.00 grams per tonne for a potential gold content of 9.3 thousand kilograms (298 thousand ounces). A process has been developed whereby the old tailings are mixed on site with water to form a slurry that will then be pumped (2.5 kilometres) to provide an initial 70%, reducing to 40% in year 2, of the processing plant throughput. Where old tailings are removed an area will be made available to accept new tailings material from the processing plant. This operation is already underway, old tailings are being removed and stockpiled ready for pulping.

The dam has an area in the order of 800 metres by 1,400 metres and is approximately 5.0 metres thick for a total volume of around 5.6 million cubic metres. The dam appears to have been drilled along east-west sections of 200 metre spacing with drill holes at 100 metre centres, although this is not continuous across the entire dam. Some areas do not have any drill holes and may have been sampled by excavations and dump truck grab sampling, while some areas have a more random pattern of drill spacing (less than 100 metres). In total there appears to be 49 drill holes across the entire tailings dam proving a thickness of between 3.0 metres and 6.0 metres and a relatively consistent grade.

WAI Comment:

Although proving of the available resource within the tailings dam can be considered as incomplete due to the irregularity of sampling, the uniformity of grade and grain size throughout the drill hole samples suggests that consistency should be stable across the dam with no anomalous high or low grade areas. It can therefore be assumed with some confidence that the figures stated are acceptable for use in resource estimation and, as such, have been included in the financial appraisal.

6.7 Waste Dump Resources

Kazakhaltyn's statement of resources provides that a total of 12,854 thousand tonnes at 1.20 grams per tonne of gold (C_1 category) is contained in the on-site waste dumps for 15.4 thousand kilograms (496 thousand ounces) of gold.

Data has been presented in the form of tables detailing assay results from channels samples from the old open pits along with a basic topographic plan of the actual dump. However the source of the dumps is thought to be from underground as well as old open pit and WAI believe, there are both low grade dumps as well as waste dumps.

The source for the waste material is believed to be the old open pit, mined from 1954 to 1964. Grade estimation from the waste material has subsequently been calculated from grade control channel samples from open pit benches, a total of 1,025 samples.

The assay tabulation does quote a specific gravity of 1.84 tonnes per cubic metre, a volume of 6,930,000 cubic metres for a tonnage of 12.75 million tonnes.

WAI Comment:

The dumps observed during the site visit were substantial and showed a considerable variation in colour, particle size and constituents. Inevitably these dumps consist of both surface oxide material from the open pits (pure barren waste and low grade ore), together with product from underground mine development (again pure waste and low grade ore) and have been built up over a considerable period of time.

The plans for the old open pit, showing channel samples, do not contain any pit outlines so it is not possible to appreciate how representative the samples are. There are no samples from the dumps themselves. WAI calculations indicate a volume of the dumps at approximately 5.4 million cubic metres. If a specific gravity of 1.84 tonnes per cubic metre is applied, as used by Kazakhaltyn, this equates to 9.9 million tonnes.

Clearly, the waste dumps contain a gold resource that requires validation. Until such time that the volumes, bulk densities and grade distribution are clearly defined by drilling, pitting and trenches, this resource should remain unclassified. It will be an expensive and time consuming process to investigate the waste dumps as a resource and delimit the various ore types, grade distribution and tonnages.

For the purposes of the financial appraisal the waste dumps have been included as it is not unreasonable to assign them as "Inferred Mineral Resources" under the JORC Code. These could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken.

7 GEOLOGY OF BESTOBE DEPOSIT

7.1 Regional Setting

Bestobe deposit is located within the Seletinsky geosyncline, which is situated between the Low-Yermentau and the Ishke-Olmes anticlines in an area of Lower-Palaeozoic tectonic structural development (Caledonian and Hercynian tectogeneses).

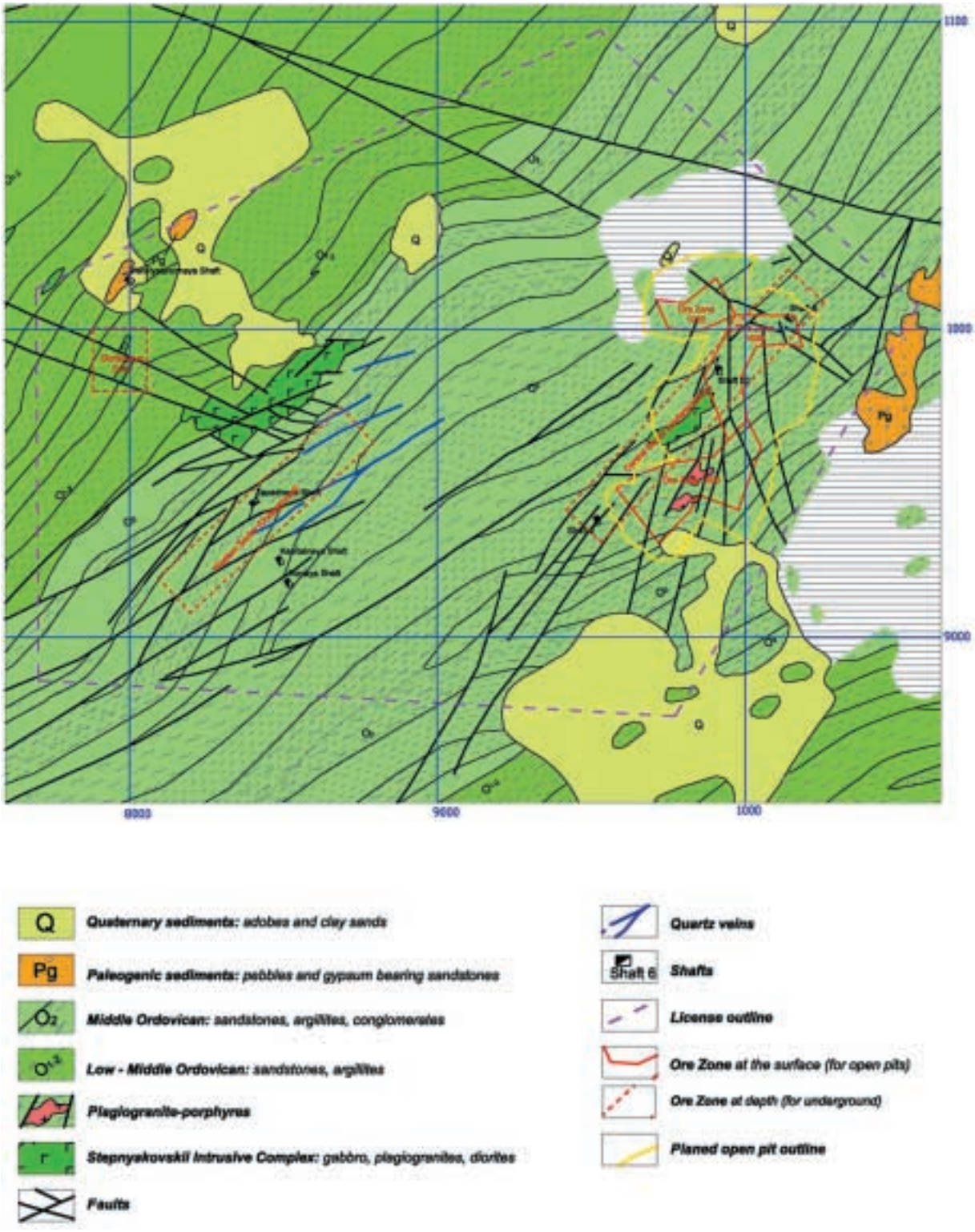
The area is characterised by rocks of the Lower-Ordovician, Middle-Ordovician (Yerkebadaik suite) and Upper-Ordovician (Angrensor and Zharsor suites) age. Silurian (Shansor series) and coal-bed sediments of the area form separate superimposed troughs similar to grabens.

Intrusive activity consists of granitoids of the Upper-Ordovician age (Kyrkuduk intrusive complex), small intrusions of Stepnyak complex and a whole series of dykes, which form ring and line structures close to and within the Arkalyksky massif and inside the deposit area.

Deep-seated faulting is widespread and has had a major influence on the metallogenic features of this gold area. These lineaments strike in a north-easterly direction and are usually accompanied by a series of secondary fissures, which are thought to have an influence on ore formation. Small intrusions of gabbro-diorite of the Upper-Ordovician age, rocks of the dyke series and sub-volcanic bodies of the Silurian age are related to these structural features (Bestybinskiy and Kyrgyltasskiy faults).

The Bestobe ore field is intensively dislocated. Cambrian rocks are characterised by a consistent north-north-easterly strike and a steep dip with interstrata isoclinal folds, micro-folded structures and are cut by major faults. Ordovician rocks are located in steep folds of north-easterly strike with flanks sloping of between 70° and 85°. All rock types are intensively deformed and fractured by tectonism and as a result small isoclinal folds, faults and displacements disguise the form of the larger structure elements. The main ancient, deep seated faults have either a northwesterly, southeasterly or approximately east-west trend. See Figure 7.1 overleaf.

Figure 7.1: Regional geological setting of the Bestobe Mine



7.2 Host Rocks of the Bestobe Ore Field

The ore field of the Bestobe deposit covers an area of four square kilometres. Host rocks consist of sedimentary rocks of the Middle-Ordovician age cut by intrusions of granites and crossed by dykes (diabases, plagio-granites, granite-porphyries, etc.). Ordovician rocks strike to the north-east with a steep dip to the north-west in the Central area, and with a south-east trend in the Western plot, with dips of 40° and 70° respectively. Units consist of alternating layers of sandstones, clay-schists, and siltstones.

7.3 Intrusives in the Bestobe Ore Field

Magmatic rocks of the ore field consist of small intrusive bodies of basic, medium, and acid nature (gabbro-diorites, diorites, quartz diorites, tonalite, dykes of plagio-granites, granite-porphyries, and diabases).

The largest intrusion is located in the area of the Western ore zone. This 700 metre to 800 metre long massif is pear shaped, elongated in a north-easterly direction, whilst dipping to the south-east at 60° to 70° and has an average width of 200 metres. Smaller intrusions are found in the Central ore area, 200 metres to 250 metres to the north-east of Shaft No.2. The largest is some 300 metres long, and 50 metres wide, and the two remaining are approximately 100 metres long and 50 metres long each.

Porphyry dykes are not widespread; most notable is a dyke of gabbro-diabase, 600 metres long and 2.0 metres to 8.0 metres thick. All the intrusive bodies are of irregular shape and are characterised by a clear oblong shape.

Hydrothermal gold-quartz veins and gold quartz-veins with sulphide mineralisation are almost exclusively associated with intrusion of gabbro-diabases.

There are four main zones inside the Bestobe ore field. They are:

- Western;
- Central;
- Northern; and
- Eastern.

Veins have been mined in the Western, Central and Northern Zones. Quartz veins located in the Northern Zone (1.5 kilometres to the north of the Central Zone) contain almost no gold. Most of the quartz veins of the deposit are hosted in Ordovician rocks.

The structure of the quartz veins is complex with the most complex ore bodies found in places where deformation forces reached their peak.

The structure of the ore bodies can be summarised as follows:

1. Ore bodies formed in hornfels, sandstones and siltstones are usually of a simple shape. More complex ore body structures are those found in mudstones and intrusions of both the Western and Central Zones;
2. Highly complex structures are located in areas of strong tectonic deformation;
3. Areas with weak tectonics have simple structure; and
4. The most complex structure are found in those veins that form fracture fissures which lie at the intersection of two fracture sets.

7.4 Mineralisation

7.4.1 Ore Types

The Bestobe deposit is represented by a series of thin, steeply dipping (65° to 70°), but sometimes as low as 25° to 45° quartz veins, with an average thickness of between 0.2 metres and 0.4 metres, but occasionally reaching 1.0 metres.

Veins are filled with schistose, crumbly material together with quartz inclusions.

Quartz forms up to 80% of the vein bulk and is found in three types of various ages:

1. Milky-white quartz of the I generation (veins of large-and fine-granular, sometimes crystalline structure) is strongly cataclised with a large amount of chips of host rocks;
2. Grey and dark grey quartz of the II generation, that makes up 15% to 20% of the total bulk. This ore is composed of sericite-ankerite-quartz and peach-ankerite-quartz with arsenopyrite and pyrite (developed in the form of breccia cement); and
3. Translucent-clear quartz of the III generation, usually deposited on the vein hanging wall.

Besides quartz, the main gangue minerals consist of sericite, peach, albite, epidote, and celestine. Carbonates are also widespread and are represented by peach and ankerite of the veins of IV and III generations respectively. These minerals are found in the form of clusters, and threads, filling voids formed during vein formation. Sometimes they cement chips of quartz and accommodating rocks, forming breccia-type structures.

Other common minerals include arsenopyrite, pyrite, galena, sheelite and sulphur salts. Secondary minerals include bournonite, famatinite, jordanite, tetrahedrite, altaite, and barterite.

Although gold is the primary extractive mineral there are in addition by-product minerals including silver and arsenic (2.6 grams per tonne and 0.71% respectively).

Three generations of gold mineralisation have been identified:

1. Generation I is associated with high temperature minerals (pyrite and arseno-pyrite). This generation is always represented by small grains.
2. Generation II gold is also associated with sulphides but consists of larger grains in the form of plates, wires, spongy junctions of complex and simple crystals.
3. Generation III gold is the most economically valuable. It is coarse-grained and is deposited over the sulphide group of minerals.

The quality of gold varies from 546 microns to 932 microns (Bogdanov A.B., 1940), with a mean of 865 microns. The quality of gold falls off with depth and in the deep levels is approximately 847 microns. Impurities in the gold include silver, copper, arsenic, lead, antimony and selenium.

7.4.2 Density

Volume weight of the quartz ore is 2.64 tonnes per cubic metre, and that of accommodating host rocks 2.72 tonnes per cubic metre, mean volume weight of saleable ore is accepted as 2.68 tonnes per cubic metre.

7.5 Structure

The Seletinskiy anticline (with a north-easterly orientation) in the eastern part of the region is located between the Yermentau-Niyazskiy and Ishkeolmesskiy anticlines and formed by Cambrian sediments with Ordovician sediments in its western areas. These Ordovician sediments (sandstones, siltstones and lesser mudstones) usually form elongate folds (30 kilometres to 40 kilometres limbs) with second and third order folding evident, the deposit of Bestobe is situated on its northern limb. The immediate area is further complicated by steeply dipping (50° to 80°) second and third phase micro folding.

Steeply dipping (60° to 75°) faults orientated in a northwest to southeasterly direction strongly affect the Ordovician rocks of the area. Within these are brecciated zones of several hundred metres in length and around 2.5 metres to 3.0 metres in thickness. Offsets are observed, within Shaft Nos. 4 and 3 (Vein No. 9), from several centimetres up to 20 metres.

Secondary stage cross faulting is present which is orientated diagonally to the primary stage faults and is often marked by quartz breccia that forms the veins including Sekushaya, Novayam Shirtnaya and Promexhutochnya in the Western ore zone, and Diagonalnaya, Vstrechnaya, Novaya, June and Sekushaya in the Central Zone.

Smaller scale tertiary fissures of the Central and Western Zones are similar to the secondary structures except that they form a series of parallel fractures, from several mms up to 0.15 metres wide, and lack quartz mineralisation.

7.6 In-Situ Resources

7.6.1 Detailed Exploration

It is not clear as to the exact period of discovery and exploration of the Bestobe deposit but much of what is know today is taken from work undertaken during the late 1950s and into the 1960s. This may have been due to the relatively poor surface exposure of low grade mineralised zones. However following a number of exploration drill holes within exposures to depths of up to 100 metres it became apparent that with depth the number of mineralised veins, and resultant gold content, improved.

Underground development for the Bestobe veins is proved down to the 700 metre level and 340 metre level within the Dalnaya Zone.

Kazakhaltyn's stated resources at Bestobe as at 13 June 2005 is presented in Table 7.1 below:

Table 7.1 Resource Estimate for Bestobe (June 2005)

	B				C_1				C_2			
	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Underground	1,857	4.10	7.6	244.8	3,717	9.01	33.5	1,076				
Open Pit (Central)	3,077	2.97	9.1	293.7	16,017	2.09	33.5	1,078				
Tailings	—	—	—	—	6,300	1.00	6.3	203				
Waste Dumps	—	—	—	—	3,548	1.02	3.6	116				
Total	**4,934**	**3.39**	**16.7**	**538.5**	**29,582**	**2.60**	**76.9**	**2,472**	**9,162**	**12.90**	**118.2**	**3,801**

The total geological resource for categories B, C_1 and C_2 is 43,678 thousand tonnes of ore containing 211.9 thousand kilograms (6,811 thousand ounces) of gold (average grade 4.85 grams per tonne).

7.7 WAI's Review Summary

The following table indicates a comparison between Kazakhaltyn's stated B and C_1 resources and WAI's review. This table does not include a review of Kazakhaltyn's stated C_2 resources.

Table 7.2 Comparison between Kazakhaltyn's B and C_1 Resources and WAI's Review

	Kazakhaltyn				WAI Review			
	Ore	Grade	Gold	Gold	Ore	Gold	Gold	WAI Comments
	(million tonnes)	(grams per tonne)	(thousand kilograms)	(thousand ounces)	(million tonnes)	(thousand kilograms)	(thousand ounces)	
Underground								
Bestobe Veins (Upper Horizons)	0.51	27.09	13.7	440	0.50	13.5	435	Derived from underground production and development drives; with supplemental drill holes - C_1
Bestobe Veins (Deep Horizons)	2.70	6.65	17.9	577	2.70	17.9	577	Derived from drill data only - C_1, more likely C_2
Dalnaya Zone	2.37	3.99	9.5	304	2.50	10.0	321	Derived mainly from underground drives supplemented with drill holes
Total underground	**5.57**	**7.37**	**41.1**	**1,321**	**5.70**	**41.5**	**1,334**	
Open pit								
Central Zone 1008-1	1.67	2.12	3.5	114	1.70	3.6	116	Derived from underground development drives with supplement drill holes - B and C_1
Central Zone 1008-2	4.77	1.96	9.3	301	4.80	9.4	302	Derived from underground development drives with supplement drill holes - C_1 only, possibly little B
Central Zone 1009	9.99	2.31	23.1	742	10.70	24.7	795	Derived from underground development drives with supplement drill holes - C_1, more likely C_2
Central Zone 1022	2.68	2.51	6.7	215	3.00	7.5	242	Derived from underground development drives with supplement drill holes - C_1, more likely C_2
Total open pit	**19.09**	**2.23**	**42.7**	**1,371**	**20.20**	**45.3**	**1,455**	
Tailings dam	6.30	1.00	6.3	203	6.30	6.3	203	60% of dam drilled on grid/ profile for C_1 reserves (30 drill holes)
Waste dumps	3.55	1.02	3.6	116	2.80	2.8	91	See section 7.9 below (maximum value attributed)
Total Bestobe	**34.52**	**2.71**	**93.6**	**3,011**	**35.00**	**95.9**	**3,083**	

Note: Grade and tonnages are in-situ values with no account for mining dilution and loses.

The overall classification of the deposit in terms of B and C_1 resources appears to have been calculated correctly. However, WAI considers that more investigation is required to confirm the resource in its entirety as some of the C_1 resources are likely to require reclassification. WAI has not undertaken such a reclassification.

WAI is unable to confirm the classification of B grade resources within the Central Zone, as well as the majority of the resources from the underground developments. Drill profiles of between 50 metres and 150 metres for Zones 1008-2, 1009 and 1022 and between 15 metres and 30 metres for Zone 1008-1 with hole spacing of less than 10 metres to 50 metres have been identified from plans provided. However further more detailed investigation and modelling is required to confirm any reclassification requirements but generally the figures stated appear reasonably accurate.

7.7.1 Bestobe Undergrond Veins

The underground resources at Bestobe mine are spatially split into two sectors, namely, the Western and the Central Sectors.

7.7.1.1 Western Sector Resources

Within the Western Sector, the resources have been split up into two zones, an upper and a lower zone. They have historically been accessed from Shafts Novaya; Kapitalnaya; Zapadnaya; blind sub-vertical Shaft Nos. 1, 2 and 3; and Ventilation Shaft.

- The upper zone is located between the 610 metre and 740 metre level horizons and resources have been blocked out within it that can be ratified by the presence of drive development and historical stoping. A small amount of additional ore tied up in rib and crown pillars has been identified above the 610 metre level as a result of past stoping.
- The second, lower zone resource is located between the 740 metre and 1,100 metre level horizons and is supported by drill data only. No on-lode development extends down to the 1,100 metre level.

Kazakhaltyn's stated resources for the upper and lower zones within the Western Sector are given in Table 7.3 below.

Table 7.3 Total Resources—Western Sector

Horizon Interval	Tonnage (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Above 740 metre level	393	24.21	9.5	306
Between 740 metre and 1,110 metre levels	1,442	6.60	9.5	306
Total	**1,835**	**10.37**	**19.0**	**612**

7.7.1.2 Upper Western Sector Resource

The resources identified above the 740 metre level have been classified by Kazakhaltyn as C_1 resources. After inspection of the data made available, WAI considers that these resources are robust and the classification applied to them is justifiable, given the amount of development and historical production data that is available and where the resource envelopes are located in juxtaposition to it.

Under the JORC Code WAI would consider that such resources would be classified as "Indicated Mineral Resources".

7.7.1.3 Lower Western Sector Resource

The resources below the 740 metre level represent 50% of the total resource of the sector and some 29.7% of the total resources of the underground veins at Bestobe mine.

The resources that have been identified by Kazakhaltyn to lie between the 740 metre and 1,100 metre levels have been estimated utilising a methodology that makes reference to those overlying C_1 resources (i.e. above the 740 metre level).

The method of calculation employed for the lower zone resources is as follows:

- For each vein in the Western Sector, a resource tonnage per one vertical metre has been calculated between the 610 metre and 710 metre level horizons of the upper resource zone;
- Thereafter, a summation is made for the total tonnage per one vertical metre i.e. for the combined veins.

The tonnes per vertical metre value for each vein is summarised in Table 7.4 below:

Table 7.4 Table Comparison of Vein and Tonnes of Ore per Vertical Metre

Vein Name	Tonnes per vertical metre
Ruslan	1,128.6
65	287.1
South 4	1,419.0
South 9	254.3
41/b	685.0
Polyus	289.0
Total	**4,062.6**

- A total of 4,062.6 tonnes per vertical metre has been established for the 610 metre to 740 metre upper resource interval;
- The vertical tonnage per metre factor of 4,062.6 tonnes per vertical metre is thereafter extrapolated down to the lower level resource where on-lode development does not exist; and
- The lower zone resource lying between the 740 metre and 1,100 metre level horizons has a total vertical interval of 355 metres. The resultant stated resource is calculated as 355 metres by 4,062.6 tonnes per vertical metre which equates to 1,442 thousand tonnes.

Similarly, the grade estimation was established by utilising the arithmetic average of a total of 39 drillhole intersections. The average grade is stated as 6.6 grams per tonne of gold. WAI has noted that the drillhole database contains only 12 drillholes and that each hole contains multiple intersections that probably equate with the down-dip extensions of at least the six named veins which have been exposed on or above the 740 metre level horizon.

Of these 39 drill hole intersections, only seven intersections have a metal accumulation value (grade by width) of greater than four grams per tonne.

WAI Comment:

WAI consider that the method utilised to calculate the Lower Western Sector resources is acceptable given the very limited drill data available. Extrapolation of data from the upper horizons, (where the density and confidence in the data is high), down-dip into areas where the data are more limited is an acceptable western practice. However, under such circumstances the degree of confidence in the resource is lower and subsequently the resource classification would be lower. Consequently, normal FSU (and JORC) practice would be to downgrade and attribute such resources to a C_2 category.

WAI has noted that a considerable difference in the estimate of grade exists between the two resources above and below the 740 metre level.

Within the lower zone resource, WAI considers that there are only seven payable intersections present, out of a total of 39 (or approximately 19% of the total), and these are illustrated in Table 7.5 below.

Table 7.5 Payable Mineral Intersections in the Lower Western Sector Bestobe

Drill Hole No.	Width (metres)	Grade (grams per tonne)
C-358	0.9	11.6
C-358	0.5	8.6
C327	1.3	9.4
C-327	1.9	8.3
C-245	0.6	27.2
C-361	0.2	42.6
C-342	0.6	12.6
Weighted Average	**0.86**	**12.52**

It is notable that the payable intersections from drill holes C-245 and C-361 lie above the 740 metre level horizon and therefore should be utilised in the calculation of the upper and not lower zone resources.

Given that for each vein, the pay-shoot plunge, orientation and morphology are not well understood below the 740 metre level as a consequence of lack of development, WAI would recommend that the grade and widths of only the payable intersections be attributed to the Lower Western Sector resource, but proportionately for a smaller area. However, an estimated resource utilising this methodology would still remain as "Inferred Mineral Resources" under the JORC Code. With further exploration work, WAI is of the opinion that this resource could be upgraded to a higher resource category under the JORC Code. For the purposes of the financial appraisal, the resources have been included.

WAI has also noted that approximately one-third of the area within the lower zone ore resource boundary envelope has no borehole data in it to substantiate the resources. Under such circumstances, it would be difficult to allocate it to any higher than C_2 category.

7.7.1.4 Central Sector Resources

Within the Central Sector the resources have been split up into two zones, an upper and a lower zone. Historically these resources have been accessed from Shaft Nos. 2 and 50 and blind sub-vertical Shaft Nos. 1 and 3.

- The upper zone is located above the 520 metre level horizon and resources have been blocked out within it which can be ratified by the presence of drive development and surrounding stoping. A small amount of additional ore tied up in rib and crown pillars has been identified as a result of past stoping.
- The second, lower zone resource is located between the 520 metre and 790 metre level horizons and is supported by drillhole data only. No on-lode development extends down to the 1,100 metre level

Kazakhaltyn's stated resources for the upper and lower zones within the Central Sector are given in Table 7.6 below.

Table 7.6 Total Resources—Central Sector

Horizon Interval	Tonnage (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Above the 520 metre level	115	37.95	4.4	140
Between 520 metre and 790 metre levels	1,260	6.90	8.7	279
Total	**1,374**	**9.49**	**13.0**	**419**

7.7.1.5 Upper Central Sector Resource

The resources identified above the 520 metre level have been classified by Kazakhaltyn as C_1 resources. After inspection of the data made available, WAI considers that these resources are robust and the

classification applied to them is justifiable, given the amount of development and historical production data that is available and where the resource envelopes are located in juxtaposition to it.

Under the JORC code WAI would consider that such resources would be classified as "Indicated Mineral Resources".

7.7.1.6 Lower Central Sector Resources

The resources below the 520 metre level represent 67% of the total resources of the sector and some 27% of the total resources of the underground veins at the Bestobe mine.

The method of calculation of resources by Kazakhaltyn is as follows (based on 10 boreholes containing a total of 55 intersections):

- Planimetred long section area is 270,000 square metres
- Established a "Coefficient of Payability" based on the number of payable to non payable boreholes (factor = 0.67)
- Hence payable area is 270,000 square metres × 0.67 (payability factor) = 180,900 square metres
- Established the arithmetic average true width from all intersections (average 2.56 metres from 10 holes). Individual intersection widths in this computation varied from 0.03 to 3.23 metres;
- Applying a specific gravity of 2.72 tonnes per cubic metre computed total tonnage is 1,260 thousand tonnes
- For grade, an arithmetic mean was taken based on all 55 intersections within the 10 boreholes
- Arithmetic average grade established at 6.99 grams per tonne of gold.

WAI Comment:

The resource estimate is based on a small number of intersections within a limited number of boreholes. Given the above methodology and the deficiency in the amount of drill data, WAI considers that there is insufficient confidence to classify these resources higher than C_2 category. The amount of drill data, combined with the method of calculation (which nominally should include comprehensive top-cutting, application of a lower cut-off limit; the use of weighted average grades rather than arithmetic averages and exclusion of very narrow veins (less than 0.1 metre) is insufficient to warrant inclusion in C_1 resources. However, WAI has not undertaken to reclassify these resources.

WAI considers that these resources would be classified as "Inferred Mineral Resources" under the JORC code. With further exploration work, WAI is of the opinion that this resource could be upgraded to a higher resource category under the JORC Code. For the purposes of the financial appraisal, the resources have been included.

7.7.2 GKZ Approved Resources for Bestobe

The last Bestobe mine resource estimate, which includes a calculation for Bestobe Deep Horizons, was approved by GKZ USSR ("**GKZ**") and issued in mid-1976 entitled "Research of the geological structure of the Bestobe deposit and an investigation into the C_1 reserves calculation method for Deep Horizons of the deposit". This document was written by Malechkin N. A. and Shavkin G. N. and included 265 pages of text, 840 pages of appendices and 1,020 drawings.

The GKZ decree of 3 December 1976 amended the C_1 category resources between the 70 metre level and the 1,100 metre level in the Western Sector, and between the 75 metre and 790 metre levels in the Central Sector of the deposit by removing those areas which were mined out between 1972 and 1975 and excluded

high category blocks prepared for mining. The GKZ approved C_1 resources in 1976 are shown in Table 7.7 below.

Table 7.7 GKZ Approved C_1 Resources for Bestobe Mine Western & Central Sectors (1976)

	Western Sector (70 to 1,100 metre levels)	Central Sector (75 to 790 metre levels)	Total for the deposit
Ore Tonnage (thousand tonnes)	2,275	1,403	3,679
Grade (grams per tonne)	25.50	24.43	25.09
Gold Metal (thousand kilograms)	58.0	34.3	92.3
Gold Metal (thousand ounces)	1,865	1,102	2,968

The decree contains the following additional comments:

A caveat by GKZ that the approval is "exceptional", being based on the "geologic-statistical" method (variant 3, method 2) employed in calculation of the resources.

GKZ comments that the contents of the report presented to them are unusual for normal resource calculation reporting, and recommending Mintsvetmet Kazakh SSR (local government department) and "Kazzoloto" to send all necessary Bestobe geology, hydrogeology and geotechnical information into a design institute for feasibility study preparation.

GKZ points out to Mintsvetmet Kazakh SSR and the design institute that there is a possibility of change in estimation for some of the reserve blocks. Timely exploration on each new developed level will be a necessity in order to generate the local mining plans.

WAI Comment:

WAI remains concerned that GKZ approval had reservations about the method of the resource calculation technique, referring to them as "exceptional". GKZ was concerned that block tonnage and grade may dramatically alter and as such would expect exploration development to be maintained well ahead of production. It is understood that Kazakhaltyn believes that the concerns of GKZ still remain real and that considerably more exploration and development are required in order to prove-up these resources. WAI considers that further studies are required on the exploration programme and proposed capital expenditures for Bestobe Deep Horizons. Although exploitation may have exhausted higher grade blocks and recent exploration drilling intersected poorer grade material at depth, by back calculation the overall depletion of reserves is of the order of 469 thousand tonnes at a grade of 128 grams per tonne containing 60 tonnes of gold.

WAI is also concerned that Kazakhaltyn's stated C_1 resources remaining in both the Western (745 metre to 1,110 metre levels) and Central Sectors (565 metre to 790 metre levels) in Bestobe have significantly decreased in grade from approximately 25 grams per tonne (1976) down to 6.6 grams per tonne to 6.9 grams per tonne.

WAI considers that the change in grade in resource blocks at depth may be attributed to:

- Use of narrow intersections in the irregular form of compositing technique, which have a grade less than 4.0 grams per tonne and thereby reduce the overall ore zone grade; and
- Grade reducing with depth (as borne out by drill hole intersections).

The irregular technique of "compositing" of all intersections in a borehole does not provide the essential information such as the average thickness of individual ore bodies, nor does it provide limits of structural continuity such as strike length, dip and plunge which are normal attributes required for C_1 category under the FSU Classification. WAI remains unclear as to what justification GKZ has used to approve these resources to C_1 category.

For the purposes of the financial appraisal, these resources have been included. These could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken.

WAI would recommend that such resources be treated with considerable caution as the level of confidence placed on them cannot be accurately defined.

7.8 Tailings Dam Resources

The old tailings dam at the Bestobe mine has an estimated resource (C_1 category) of 6,300 thousand tonnes grading at 1.00 grams per tonne for a potential gold content of 6.3 thousand kilograms (203 thousand ounces). A process has been developed whereby the old tailings are mixed on site with water to form a slurry that will then be pumped (2.5 kilometres) to provide an initial 70% feed, reducing to 40% in year 2, of the processing plant throughput. Where tailings are removed an area will consequently be made available for the deposition of new tailings material from the processing plant. This operation is already underway, old tailings are being stockpiled, and made ready for processing, and an area being made ready to accept new tailings from the processing plant.

The area of the dam is in the order of 950 metres by 1,400 metres and approximately 5.0 metres thick on average. The total area is in the region of 1.0 million square metres, with an approximate volume of 5.0 million cubic metres. The dam appears to have been drilled on a grid and profile format of 200 metre spacing with drill holes at less than 100 metre centres, although this is not continuous across the entire dam. One area, about a third of the dam, is absent of any drill holes. In total there appears to be 30 drill holes across the entire tailings dam proving a thickness of between 0.5 metres and 7.5 metres with a relatively consistent grade.

WAI Comment:

The proving of the available resource within the tailings dam can be considered as incomplete due to the irregularity of sampling. However the uniformity of grade and grain size throughout the drill hole samples suggest that consistency should be stable across the dam with no anomalous high or low grade areas. It can therefore be assumed with some confidence that the figures stated are acceptable for use in resource estimation.

It appears that only the area which has been drilled is included in the resource statement, that is an area of 665,000 square metres, for a calculated volume of 3.3 million cubic metres.

7.9 Waste Dumps Resources

Kazakhaltyn states that a total of 3,548 thousand tonnes at 1.02 grams per tonne of gold (C_1 category) is contained in the on-site waste dumps.

Data has been presented in the form of tables detailing assay results from 30 kilograms "grab samples" from shallow trenches along with a basic topographic plan of the actual dumps. However the source of the dumps is from underground as well as old open pit operations and WAI believe there are both low grade dumps as well as waste dumps.

The two waste dumps have been formed by material from the old open pit and also the hand pre-concentration from the old processing plant.

Average grade is based on old bench sampling trenches for grade control within old open pit (Dalnaya) where the largest source of waste material has derived. The result of this data is a simple average grade of 1.025 grams per tonne, no top cut was applied, and consequently does not provide an accurate representation of the grade distribution.

Further "grab samples" from the actual surface of waste dumps have been taken, 25 from Dalnaya source and 22 from the plant dump. Resultant grade calculations have combined both results to achieve 1.27 grams per tonne these samples do however show high coefficient of variation (150%) and outliers are suspected.

WAI has calculated the volume of the dumps from the basic topographic maps provided at 1.16 million cubic metres. At a specific gravity of 1.84 tonnes per cubic metre a tonnage of 2.13 million tonnes is achieved, and for a specific gravity of 2.4 tonnes per cubic metre a value of 2.8 million tonnes is achieved, both significantly below Kazakhaltyn figures.

WAI Comment

The dumps observed during the site visit were substantial and showed a considerable variation in colour, particle size and constituents. Inevitably these dumps consist of both surface oxide material from the open pits (pure barren waste and low grade ore), together with product from underground mine development (also pure waste and low grade ore) and have been built up over a considerable period of time.

As approximately 40% of the source material for the dumps is from the plant, and 60% from open pit Dalnaya, they should be assessed separately. The number of samples from the dumps is also insufficient to form a representative indication of the grade, specific gravity and ore type for waste dumps.

No details for specific gravity of the waste dump material, which is suspected to be variable, have been presented.

Clearly, the waste dumps contain a gold resource that requires validation. Until such time that the volumes, bulk densities and grade distribution are clearly defined by drilling, pitting and trenches, this resource should remain unclassified.

It will be an expensive and time consuming process to investigate the waste dumps as a resource and delimit the various ore types, grade distribution and tonnages.

For the purposes of the financial appraisal the waste dumps have been included as it is not unreasonable to assign them as "Inferred Mineral Resources" under the JORC Code. These could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken.

8. MINING

8.1 Introduction

At each of the three mining locations, there is an underground mine consisting of several ore bodies and shaft systems which exploit the richer veins and stockworks. The company will continue to mine and explore these deposits.

Some mining has also been carried out in the past using open pit methods for the richer shallow veins. The company now plans to exploit the lower grade veins nearer surface, by means of a new, larger open pit at each location.

8.2 Mining Methods

8.2.1 Open Pit

The open pit planning and design is based upon the geological and technical aspects of the ore body and its projection to surface. The pit outline is subsequently determined according to local "Standards for Technological Design of Non-ferrous Mines by Open Pit".

The initial 10 metres to 20 metres depth below ground level are free-digging, allowing for the use of hydraulic excavators and ripping dozers to excavate the subsoil. Thereafter drilling and blasting is required to free the rock allowing subsequent extraction by hydraulic shovels and trucks. Standard bench height is 5 metres, however this is reduced to 2.5 metres in complex ore zones (thin veins), or increased to 10 metres where practical.

Current excavators have a bucket capacity of 1.6 cubic metres, but this is planned to increase relative to production, when bucket capacity of five cubic metres (ore) and eight cubic metres (waste) are to be introduced. Cleaning up of benches and shovel areas is done with heavy bulldozers (TD-25-01, AE-25, and DET-250 models). Material haulage to heap leach pads is undertaken with Belaz-7540 (30 tonne) trucks. Larger 55 tonne trucks will be introduced to handle the increased production. Haul roads are maintained using DZ-98 and C-120 graders and KrAz watering trucks. Equipment maintenance and repairs are to be carried out in the central mechanical workshops, with one located at each mine site and manned by dedicated personnel.

8.2.2 Drilling & Blasting

Initial "hardness" of the subsoil is designated as IV on the Protodyakonov scale but increased "hardness" in depth requires drilling and blasting.

Currently the mines operate BTS-150 rotary percussion drilling units that will drill holes of 150mm diameter up to 32 metres deep, and total drilling will amount to around 300,000 metres per month. To maintain efficiency and production, it is proposed that Atlas Copco L-8 drilling rigs be introduced.

When the Aksu, Bestobe and Zholymbet open pits are at full production this equates to a current available blast production figure of around 3.6 million tonnes per month, based on 11 cubic metres per metre drilled. This is sufficient for Kazakhaltyn's first year of proposed production but output will have to be increased in subsequent years to meet the production schedule. Blasting is done using electric delay detonators and detonating cord with the final design of blasts depending on detailed on site investigation.

8.2.3 Underground

At Aksu, Bestobe and Zholymbet, the rock strength in the hanging wall, the ore and the footwall appears to be generally good to very good. Apart from some timber sets and grouted dowels where horizontal tunnels cross fault zones, the only support used is timber props in the stopes and the leaving of pillar remnants. The current stoping methods have evolved over many years, taking this factor into account.

Two main mining methods are in use underground, and the company plans to continue to use them for currently planned production.

8.2.3.1 Overhand open stoping or flat panels

This is the stoping method used for the majority of the underground ore bodies at Aksu, Zholymbet and Bestobe. It is a labour intensive method using hand held drilling machines, small electric slushers, and

timber stulls. It is well suited to the mining of narrow veins, although where veins are thinner than the minimum practical operating width, waste dilution is an integral problem.

Stopes are prepared by mining a raise (or drive, in the case of flat veins) from the bottom to the top of the 40 metres by 40 metres panel. This provides through ventilation and access for men and materials in separate ladderway and open compartments. In flatter veins, the materials compartment is also used for slushing the ore to the collecting drive at the base of the stope.

Steeply dipping veins (greater than 60^{o}) are mined by hand, using telescopic stoper drills working from timber platforms rigged between timber stulls and drilling 40mm diameter holes. Explosives used are Ammonit-6ZhV and Ammonal, top primed for firing with electric detonators. Holes are drilled in the roof in a panel of 40 metres long, mining in one metre lifts to a vertical height of 40 metres, with rib pillars 5 metres thick left between panels. Ore is gathered at the base of the stope by means of a small 0.3 cubic metres scoop, drawn by an electric scraper to the nearest ore pass raise, whence it is drawn into mine cars via a manually operated chute box. Pillars are later robbed, leaving small square pillars in place.

Flatter dipping veins are mined in similar fashion, except that the panels are generally 40 metres by 40 metres square, and irregular pillars are left for support. The ore is scraped both down-dip and along strike to the nearest ore pass raise.

Both methods have a minimum mining width of 70 centimetres and a maximum mining width of three metres, and stope veins are exploited from as thin as 5 centimetres. The thinner the veins the richer they are, and some thin veins run at grades of up to 600 grams of gold per tonne. Dilution of the ore by the addition of adjacent waste rock is a dominating feature of this method of mining, and dilutions can rise to 300% or 400%, (e.g. adopting a mining width of one metre to exploit a 20 centimetres vein incurs a waste dilution of 400%). However, where possible, a form of "resuing" is adopted, whereby in each lift, the waste portion is drilled and blasted separately and disposed as waste, prior to the mining of narrower ore seam.

WAI believes that although this method is slow and labour intensive, with a low productivity and relatively high cost, it is the correct method for these particular ore bodies. It allows close following of the veins with restrained dilution, has evolved over many years, and is well understood by the labour force.

8.2.3.2 Sub-level open stoping

This method is used where the ore body is in the form of stockwork and is generally thicker than 10 metres. These zones include the Kapitalnaya (Quartzite Hills) Zone at Aksu, the Dalnaya Zone at Bestobe and the Diorite Dyke at Zholymbet.

In this method (locally known as the "**Swedish method**") sub-levels are mined at 15 metre vertical intervals between 60 metre spaced main levels. Panels are 15 metres wide along strike, with 5 metre rib pillars between each panel. 15 metre high slot raises are hand mined (using telescopic stoper drills) and thereafter fans of 105mm holes are drilled using bar-mounted, compressed air powered drifters, charged with Granulite AC-8 and top primed for firing with electric detonators. Mucking out is via drawpoints, which are 10 metres to 12 metres long and spaced at 10 metre intervals along strike.

In the Dalnaya Zone at Bestobe, which underlies the old open pit, it is planned to backfill the open stopes with waste rock to mitigate the effects of possible failure of the sill pillar in the future.

8.2.3.3 Development

Development headings, along with ventilation and slot raises, are advanced using compressed air jackhammers, drilling 1.8 metre long holes of 45mm diameter, producing advance rates of around 1.0 metre per blast.

Tracked ends are cleaned using overshoot compressed air loaders, whilst trackless ends and stope drawpoints are lashed with LHDs.

8.2.3.4 Developed reserves

It is a requirement of the local mining regulations that each underground production area maintains at all times at least six months of fully developed reserves. Kazakhaltyn has stated that this is the minimum current state of development in all underground zones except for the Vera Zone at Aksu, which will not start production until 2008, and the Deep Horizons at Zholymbet which are currently being developed.

8.2.4 Ventilation

At Aksu, Zholymbet and Bestobe, fresh air is downcast in operating shafts and is heated in the winter by coal-fired boilers to a minimum of +2° Centigrade. Exhausted air is drawn to surface by large fans situated on top of dedicated ventilation shafts. Each mine area has such a system, as described later for each mine. WAI has not reviewed the ventilation circuit calculations, but where observed during underground visits there was a good air flow in all areas.

8.2.5 Mine Pumping

Current and estimated future inflows of ground water are indicated in the descriptions of each mine, and refer to the highest flow period in the spring. The location and capacities of current and future underground pump stations are also indicated.

8.3 Safety and Accident Prevention

Under item 314-11 (3 April 2002) of the laws of Kazakhstan, the mining operations of Kazakhaltyn are designated as a "Hazardous Industrial Operation" under the relevant laws concerning industrial safety. Law No. 528-11 (28 February 2004) concerning labour safety also applies to Kazakhaltyn operations. Under this law, the Safety and Environmental departments of Kazakhaltyn report directly to the President of the company.

Kazakhaltyn is committed to safety in the work place, and provides labour with protective clothing and pre-employment and regular medical examinations. All workers are insured against injury and health hazards, and a compensation system is in place.

Accident statistics for the years 2000 to 2004 are shown in Table 8.1 below:

Table 8.1 Kazakhaltyn Accident Statistics

Item	2000	2001	2002	2003	2004
Number working	2,566	2,757	2,959	2,799	2,086
Number of incidents	3	10	13	7	8
Factor of frequency per 1,000	1.17	3.63	4.39	2.5	3.8
Serious injuries	—	—	—	—	2
Fatalities	—	1	—	—	1
Fatalities per 1,000	—	0.36	—	—	0.48
Number of group accidents	—	—	—	—	1
Casualties in group accident	—	—	—	—	3

Observations of safety practices made during the WAI visit indicated a lower standard than is generally acceptable in western mining operations. However, the table indicates a generally low accident frequency for underground mining. There were more accidents and a higher frequency rate in 2004, when there has been an enhanced activity rate in development and operations.

There is an Inspector of Mines from the regional Government Mine Safety department resident at each mine, who visits underground operations weekly and reports advice and observed problems to mine management, and where required to the department head office.

9. AKSU MINE

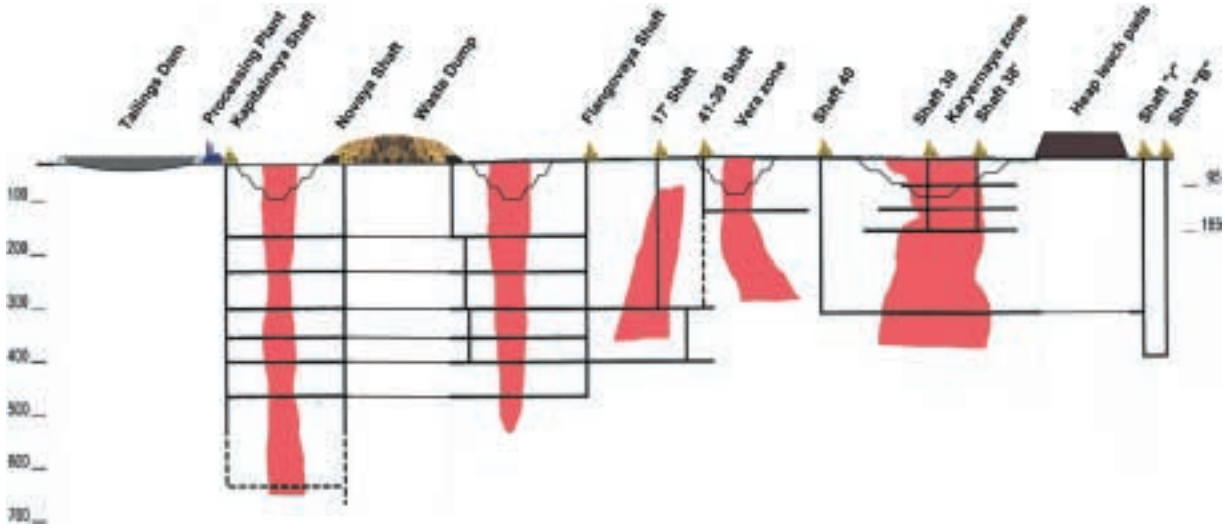
9.1 Introduction

The existing underground mine at Aksu consists of shaft systems and development for the ongoing exploitation of three main mining zones:

- the Quartzite Hills Zone, consisting of ore bodies No. I and No. IV, which are mined through the Kapitalnaya shaft system;
- the Central and Budenovskaya ore zones of veins, which are mined through the shallow No.39 and No.41 shaft systems; and
- the Northern Zone, consisting of the October ore bodies, which are exploited through the No.38 and No.40 shafts systems.

The company has explored and evaluated a fourth zone of rich flat-lying veins below the Central Zone, namely the Vera Zone, and this is scheduled to be brought into production from late 2008. A schematic section through the Aksu ore field is shown in Figure 9.1 below.

Figure 9.1: Schematic Section Through The Aksu Ore Field



The company has also explored and evaluated a number of lower grade, shallow veins in the northern part of the licence area, namely the Kariernaya, Krutaya and Kotenka ore bodies, and these have been scheduled to be exploited by a single large open pit, initially to 100 metre depth.

Additionally, it is planned to recover all the old flotation tailings and all the existing rock dumps at Aksu for re-treatment in the new process plants.

9.2 Mining Resource

In order to demonstrate the additional in situ resources evaluated by the company, Table 9.1 shows a comparison between Kazakhaltyn's stated A, B and C_1 resources at the Aksu and Quartzite Hills deposits in 1995, 2001 and June 2005.

Table 9.1: Aksu and Quartzite Hills In-Situ A, B and C_1 Resources

Area	1995				2001				June 2005			
	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Underground												
Vera	—	—	—	—	—	—	—	—	5.67	10.66	60.5	1,945
Veins	0.56	14.02	7.8	252	0.12	26.85	3.2	104	0.11	25.99	2.9	94
Quartzite Hills	2.40	5.94	14.3	458	2.40	5.96	14.3	459	4.42	5.04	22.3	717
Total Underground	**2.96**	**7.47**	**22.1**	**711**	**2.52**	**6.95**	**17.5**	**563**	**10.21**	**8.40**	**85.7**	**2,756**
Open Pit	—	—	—	—	—	—	—	—	32.70	2.06	67.3	2,162
Total	**2.96**	**7.47**	**22.1**	**711**	**2.52**	**6.95**	**17.5**	**563**	**42.91**	**3.57**	**153.0**	**4,919**

Since 2001, Kazakhaltyn has increased in-situ gold resources significantly by 135 thousand kilograms (4.4 million ounces) or nearly 9 fold (and the ore tonnage 17 fold) by adding the following:

- new underground resources at the Vera ore body;
- additional 2.0 million tonnes to the Quartzite Hills resource; and
- large tonnage of low grade new resources from new open pits.

This has been achieved through exploration and geological interpretation by Kazakhaltyn during the past five years. There has also been some depletion of reserves due to limited ongoing mining in the intervening years.

9.3 Underground Production Rates

Historically, the Aksu mine concentrator treated a combined total, from all ore bodies, of 308 thousand tonnes of ore in 1994 and 319 thousand tonnes of ore in 1995, compared to a declared capacity of 350 thousand tonnes. Production had ceased at some point in 1996, and was not apparently re-started until after the mines were purchased in 1999.

Underground ore production and development from the Aksu mine from 2000 are indicated in Table 9.2 below:

Table 9.2: Underground Ore Production And Development

Year	Production Tonnage	Development
	(thousand tonnes)	(metres)
2000	46	770
2001	98	1,000
2002	114	730
2003	98	800
2004	74	330
2005 (Jan to Jun)	Nil	Nil

Current mine hoisting capacity per annum is stated as 160 thousand tonnes for the Kapitalnaya Shaft, hoisting ore from the Quartzite Hills ore bodies; 40 thousand tonnes from the Budenovskaya and Tsentralnya areas (up Shaft No. 39) and 100 thousand tonnes per annum from the October & Starateskaya Zones, hoisted up the Shaft No. 40, for a mine total of 300 thousand tonnes. A capital expenditure programme is in place for the deepening and equipping of Shaft No. 39 shaft and the additional development and equipment required to bring the Vera Zone into production, which will increase total mine hoisting capacity to the level required under Kazakhaltyn's business plan by 2010.

9.3.1 Short Term Production

Kazakhaltyn's business plan, as reviewed by WAI, provides for production to rise from 2006 until 2010 and then to remain fairly steady until 2024 before declining rapidly until exhaustion in 2032. This rapid build up of production is ambitious, but is achievable given the capital programme and current hoisting capacities and mining and tramming equipment.

9.3.2 Medium And Longer Term Production

Under Kazakhaltyn's business plan, production from the Kapitalnaya Shaft (Quartzite Hills ore bodies) is forecast to remain constant for the next 27 years, whilst production from the October and Staratelskaya ore bodies will vary for the next seven years, until reserves are exhausted.

Production from the Vera Zone is to be commenced in 2008, ramping up by 2010, and sustaining that rate for a further 15 years.

9.3.3 Description of Mining Zones

Ore from the more massive Quartzite Hills ore bodies (Nos. I, IV and V) is mined by the sub-level method, in stopes 15 metres high, and extracted by LHD trackless mining methods. Ore body thickness averages 45 metres and is near vertical in dip. Stopes are post-filled with development waste rock. Adopting a 360-day year, the required production of 160.0 thousand tonnes per annum equates to about 445 tonnes

per day. Assuming a production level of 500 tonnes per day, only one stope would be required in operation at any time in order to sustain production, with a second on standby, ready prepared and drilled. Ore is hoisted up the Kapitalnaya Shaft using twin skips each with a capacity of two cubic metres.

WAI believe that these production levels are achievable given that the level of resources required appear to be in place.

Fresh air for ventilation is provided down the Kapitalnaya Shaft, and is exhausted via the Flangovaya Shaft.

Natural water make is of the order of 120 cubic metres per hour and is pumped to surface from a pump station on the 430 metre level which is equipped with three pumps, each of 300 cubic metres per hour capacity.

Ore from the other vein-type ore bodies (39-41 and 38-40) is mined by the underhand open stoping method with timber stulls (steep veins) and scraper-assisted face advance, with irregular pillars for the flatter zones. Both types are mined in 40 metres by 40 metres panels, leaving 5 metre ribs, and are supported where necessary with timber props. These stoping methods are slow and labour-intensive, with low productivities. 140 thousand tonnes per annum equates to approximately 380 tonnes per day. At the average current production rate of 30 tonnes per stope per day, at least 14 stopes are required to be in production simultaneously to achieve the planned production.

WAI believe that daily production targets are achievable, however, the rate of stope development required to maintain this level of production is challenging. For this level of development detailed planning, scheduling and execution will be required to attain the targets set under Kazakhaltyn's plan.

As stated above, all three of these ore bodies (Quartzite Hills, 39-41 and 38-40) currently have in excess of six months of reserves at the forecast rate of production.

Major development for the new Vera Zone has already commenced, by opening up the 135 metre level and starting to deepen Shaft No. 39. An additional three lower levels remain to be developed, and an existing cage will be installed in Shaft No. 41 for movement of men and materials. Veins at Vera average one metre in thickness, and are flat-lying, with dips varying between horizontal and 30°. Stopes will be mined by the standard open stoping method, with panels of 40 metres by 40 metres and 5 metre rib pillars which will later be partially robbed. Although final stoping plans have not yet been drawn, ore reserve sections of the ore bodies indicate that veins are far enough apart for mining not to be mutually hazardous from mining induced stresses.

WAI would consider geotechnical due diligence during the extraction of ore from the Vera Zone.

Water inflows are anticipated to be of the order of 50 cubic metres per hour to 60 cubic metres per hour, and a new main pump station is to be installed at the 340 metre level. Ventilation air will be drawn to the surface by the fan on Shaft No. 41, pulling fresh air down the Shaft No. 39.

In order to mitigate the possibility of sudden failure of the hanging wall in the upper stopes as mining of successive veins progresses in depth, which might cause an air blast, the company state that it will continue to monitor the situation over time. This will be by underground observation as well as the ongoing statutory monitoring of surface subsidence. If required, the company will drill and blast stress-relieving holes in the hanging wall of the upper level.

9.3.4 Aksu Open Pit

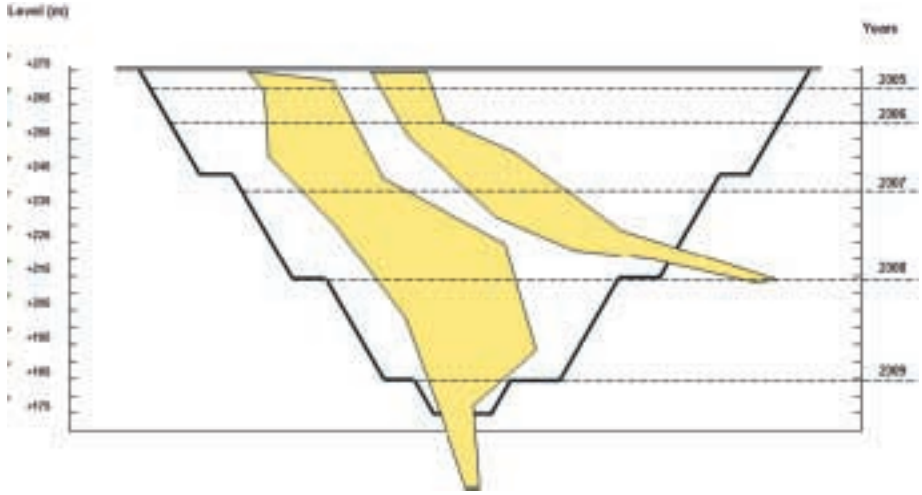
The design for the new Aksu open pit incorporates the reserves of three ore zones, namely Kariernaya, Krutaya and Kotenko into one large pit. Pre-stripping work is well in hand and was observed by WAI during its visit to site.

A conceptual mining plan has been generated with an overall pit angle of 39° with an initial bench height of 5 metres. This is reduced to 2.5 metres within the more complex ore body, based on the technical limits of the current plant and equipment. Where possible, and within waste, the bench height will be increased to 10 metres. Kazakhaltyn plan to renew existing plant which will then allow the bench height to increase to between 10 metres and 15 metres.

WAI has reviewed the calculations used by the company to assess slope angle, and they accord with the standard FSU pit design methodology and are conservative compared to observed slopes in nearby old completed pits.

A schematic cross-section of the conceptual open pit is shown in Figure 9.2 below;

Figure 9.2: Conceptual Cross-Section of Aksu Open Pit (Stage 1)



The conceptual mining reserves taking into account losses of 3.5% and dilution of 9.0% are given in Table 9.3 below.

Table 9.3: Mining Reserves for Aksu Open Pit

Pit	Mineable Resources		Loss	Dilution	Mined			
	Ore (thousand tonnes)	Grade (grams per tonne)	(%)	(%)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Kariernaya	7,650	1.79	3.5	9.0	8,112	1.63	13.2	426
Krutaya	12,800	1.98	3.5	9.0	13,574	1.80	24.4	786
Kotenko	12,248	2.30	3.5	9.0	12,988	2.10	27.2	876
Total	**32,698**	**2.06**	**3.5**	**9.0**	**34,674**	**1.87**	**64.9**	**2,087**

WAI Comment:

WAI consider that the fundamental method of extraction put forward for the conceptual pit model is justifiable, given the size, morphology and rock conditions anticipated for this type of deposit.

9.3.5 Open Pit Production

Within the Aksu mine site there are three main open pits currently planned (Kariernaya/Diagonalnaya, Krutaya and Kotenko) and all are to be mined successively into a single pit during Stage 1, to a depth of 100 metres. The Kazakhaltyn's business plan projects the open pit to 205 metre depth and, subject to further successful exploration drilling, it has been stated by Kazakhaltyn that it is projected to deepen these pits to 300 metres at a later stage.

Under Kazakhaltyn's business plan, as reviewed by WAI, production of ore is planned to commence from the Kariernaya/Diagonalnaya pit in 2006 before being replaced on completion by the Krutaya pit during 2008/9. Production of ore is estimated to be completed at Krutaya in 2013. Meanwhile, the Kotenko pit has been scheduled to start producing in 2013, until depletion in 2019.

The pit has been scheduled to operate 316 days per year (utilising two of 11 hour shifts per day), however ore production will only take place over 240 days due to climatic restrictions of the processing operation. Kazakhaltyn has predicted a working fleet requirement of 14 tonne by 55 tonne trucks. Total open pit production peaks in 2007 but drops dramatically until 2014 before gradually declining in its final year 2019.

WAI Comment:

WAI raised with Kazakhaltyn their concern that the short term earthmoving capacity required for such a short period is so much higher than the ongoing average, resulting in high costs for equipment and manpower, much of which will become redundant in two or three years time. Kazakhaltyn has stated that it has other uses for this manpower and equipment after this period, at other assets belonging to the company, which are not within the scope of WAI's report.

Given that only 30 tonne trucks and 1.6 cubic metre excavators are currently on site (doing pre-strip and tailings dump preparation work), WAI is concerned as to whether such a rapid build-up in pit output can be achieved, with the attendant maintenance facilities and skills that will need to be applied. Having been provided with more information by Kazakhaltyn about the purchasing of more and larger equipment, WAI feels that the present production forecast is broadly achievable.

Kazakhaltyn's business plan, as reviewed by WAI, provides for output from the open pit to peak during August to October before dropping through December and January during the coldest months of the year. This is as a direct consequence of climatic restrictions within the heap leach operation whereupon the efficiency and performance are curtailed forcing production from the open pits to be reduced into effectively stockpiling mode.

However ore is still produced and stockpiled and more work is undertaken on stripping waste, as well as the time being used for maintenance and repairs to plant and equipment within sheltered workshops.

The cold weather also has a negative impact on blasting as explosive efficiency is reduced. This period also receives the strongest winds, combined with vast and open topography, resulting in an increase in dust from the haulage operation and reduced visibility. It is expected that up to ten days' production is lost during January and February as a result of this.

9.4 Underground Mine Access and Primary Development

9.4.1 Existing Development, Initial Access and Shaft Systems

Horizontal levels have generally been developed at 60 metre vertical intervals, with sub-levels at 15 metre spacing. Main haulages have been opened up down to the 480 metre level from the Kapitalnaya Shaft system in the south and from the "G" Shaft system in the north. In the past, the "G" Shaft serviced the lower levels of the now redundant adjacent uranium mine, and is said to be capable of hoisting up to 500 thousands of tonnes per year, in 2.5 cubic metre cars using twin double-decked cages.

In the Quartzite Hills mine, the Ore body I is exploited through the Novaya Shaft. Kazakhaltyn proposes that the Kapitalnaya and Novaya Shafts will eventually be deepened to the 780 metre level. WAI considers that further studies of this shaft deepening project should be undertaken. Ore zones IV and V are exploited via the Kapitalnaya and Flangovaya Shafts, down to the 480 metre level.

In the Aksu veins mine, the Western ore zone is exploited down to the 420 metre level via the Shaft Nos. 17 and 17a, whilst men and materials are handled in the Flangovaya Shaft. The Central and Vera Zones are served down to the 320 metre level by Shaft Nos. 39 and 41.

9.4.2 Ore and Waste Movement

All ore is collected on tracked haulages on the shaft loading levels, and trammed to the nearest hoisting shaft for hoisting either in cages or in skips. The Kapitalnaya Shaft is fitted with twin skips, which hoist ore from the Quartzite Hills mine.

Development waste is generally hoisted and tipped separately, with the exception of some waste used to backfill stopes in the Quartzite Hills ore body. All ore and waste are hoisted uncrushed, there being no crusher installed underground.

9.4.3 Primary Ventilation

At the Quartzite Hills mine, fresh air is downcast through the Kapitalnaya and Flangovaya Shafts, and used air is exhausted up the Ventilatsionaya Shaft by a surface mounted main fan.

In the western and central mine areas, used air is upcast from the Aksu veins area via Shaft No. 17a (bis), which is equipped with a main surface fan, fresh air being drawn down Shaft Nos. 39 and 41.

In the October and Staratelskiy Zone, fresh air is drawn down Shaft No. 40 shaft and upcast in the Shaft Nos. 38 and 38a (bis).

9.4.4 Mine Drainage

In the Quartzite Hills mine, water is currently pumped by portable pumps to the 420 metre level, from where it is pumped to the 300 metre level for re-pumping to surface up the Kapitalnaya Shaft. Pumps used are model TsNs-300h360 on the 420 metre level and TsNs-180h320 on the 300 metre level.

In the Central Zone, water is pumped to the surface from the 130 metre level via the Shaft No. 39, using three number model TsNs-180h212 pumps.

From the October Zone, water is pumped from the 450m level using model TsNs-300h480 pumps.

Water inflow to the underground workings is given as:

- Oktyabrskaya II (Shaft Nos. 38, 38-bis and 40) 150 cubic metres per hour; and
- Budennovskaya (Shaft Nos. 39-41) 180 cubic metres per hour.

9.5 Mining Methods

9.5.1 Mining Sequence and Production Schedule

A production schedule and the sequence of mining by ore body are presented as part of the financial model. Drawings showing the location and sequencing of individual stoping blocks have been studied by WAI for one stoping vein area. Although the drawing and planning method used is manual, it has been prepared with care and with close reference to the geological resources and the mining plan.

9.5.2 Ore Handling and Compressed Air

Underground mining operations are conducted from five shafts including Kapitalnaya, Flangovaya, Shaft Nos. 39, 41, 38 and 40. Production ore zones are served by the Kapitalnaya Shaft for the Quartzite Hills ore body, Shaft No. 39 for the Vera Zone, and Shaft No. 38 for the October and Staratelskaya ore zones. All are equipped with the necessary winding gear but only the Kapitalnaya Shaft provides skip haulage.

In the Quartzite Hills Zone, Polish and Finnish LHDs are employed for trackless mining and ore handling. Elsewhere underground, all equipment used is made in other CIS countries. It is a conscious decision of the company to continue to use CIS-made equipment. Although the technology is older and simpler than current western items, CIS-made items are cheap to buy, reasonably strong and reliable with ready availability of spares, and are particularly suited to the labour intensive stoping method used for the bulk of the production.

The transport and haulage equipment for Aksu underground operations as detailed by Kazakhaltyn in Table 9.4 below.

Table 9.4: Ore Handling Arrangements for Aksu Underground Mines

Shaft	Machine	No.	Power (kilowatts)
Shaft Nos. 38 and 39	Locomotive AK-2u	5	4
Shaft No. 38	Locomotive Am-8d	2	2x12
	Locomotive KR-10	2	2x13
Kapitalnaya Shaft and Shaft Nos. 38-39	Scraper winches LS-17	7	17
	Scraper winches LS-30	4	30
	Scraper winches LS-55	3	55
Kapitalnaya Shaft and Shaft Nos. 38-39	Loading PPN-1c	4	
	LHD TORO-151	1	60
Kapitalnaya Shaft	LHD TORO-200	1	60
	LHD LK-1	1	60

Compressed air arrangements for Aksu underground operations are detailed in Table 9.5 below.

Table 9.5: Compressor Arrangements for Aksu Underground Mines

Shaft	Machine	No.	Power (kilowatts)
Flangovaya Shaft	4VM10-12/9]	1	800
	2VM10-50/8	1	320
	VP-50/8	1	300
Shaft No. 39	VP-20/8	2	132
Shaft Nos. 38-40	2Vm10-63	1	400
	VP-50/8	1	300
Shaft No.41	VP-20/8	2	132

9.6 Open Pit Equipment

As for underground mining, it is the company's policy to use CIS-manufactured equipment for open pit mining where appropriate, and for similar reasons.

Initial pre-stripping of the open pit is carried out using a variety of hydraulic shovels, including 1.6 cubic metres Komatsu (made in Kazakhstan) and Russian equivalents, and Belaz (30 tonne) dump trucks. Within the first 15 metres to 20 metres of the pit, the rock has a strength equal to IV on the Protodyakonov scale, but this increases to between XII and XVI for the remainder of the open pit and therefore requires drilling and blasting.

Drilling, up to 12 metres in depth, is carried out using rotary percussive BTS-150 drilling rigs. These have the capacity to drill holes up to 150mm in diameter and 32 metres deep and include a hydrocyclone sampling system to be used in conjunction with drilling. This not only reduces dust but also allows sampling by geologists for assay purposes.

Currently hydraulic excavators with a capacity of 1.6 cubic metres are employed for both waste stripping and ore removal. However as production increases larger capacity excavators will be introduced, with 5.0 cubic metres and 8.0 cubic metres machines being used for waste stripping and 5.0 cubic metres machines employed on ore extraction.

At present a fleet of BelAZ-7540 (30 tonnes capacity) dump trucks are employed for both waste stripping to the dumps and ore rock removal to the crushing facilities at the heap leach plant. However, at the first stage of increased productivity larger (55 tonnes capacity) trucks are proposed to be introduced, and are in the capital programme for purchase in 2006 and 2007.

Benches, haul roads within the open pits and waste dumps are kept orderly by a fleet of bulldozers including TD-25-01, ZH-25, DET-250. Haul roads and dumps are also maintained by DZ-98 and Z-120 graders along with purpose-built water trucks carrying out dust suppression duties during dry periods.

The proposed equipment to be used for waste and ore mining in the Aksu open pit is shown in Table 9.6 below:

Table 9.6: Equipment List for Open Pit at Aksu 2006

Type of Machine	Manufacturer	Capacity	No.
Dump Truck	BelAZ	30 tonnes	9
Dump Truck	BelAZ	55 tonnes	8
Dump truck	KrAz	14 tonnes	5
Excavator	5225	1.6 cubic metres	9
Excavator	V=5	5 cubic metres	4
Bulldozer	DZ-171		3
Bulldozer	DET-250		2
Drilling Rig	BTS-150		2
Auto Grader			1
Shovel Loader	L-34, MoAZ	2.2 cubic metres and 2.5 cubic metres	1

WAI Comment:

Good maintenance practices are obviously important for the achievement of high equipment availability. WAI has not had the opportunity of visiting the workshops or studying planned maintenance procedures, but understand from the manpower and other information provided that fully equipped and competently manned workshops for mobile and fixed plant and electrical items are in place.

9.7 Operating Manpower

9.7.1 Underground Operations

According to the Kazakhaltyn's business plan the underground mining operations will operate on a three shift per day, seven days per week, 365 days per year basis. Each employee will work on a four-shift system; three working shifts then one rest shift. Each shift has a duration of seven hours with five days worked per week per employee (35 hour working week per person). This equates to 250 days worked per year by each employee, and a monthly breakdown of between 140 hours and 154 hours depending on duties.

The underground operations are split into two parts:

1. stoping, that primarily involves miners, drillers and blasters; and
2. ore handling, utilising drivers and shaft operators.

Blasting work is carried out between shifts for a duration of one hour. Additional personnel include maintenance engineers responsible for the mineshaft equipment, locomotives and haulage machinery.

The total manpower requirements at Aksu underground will be 451 personnel.

Management of the underground operations are the responsibility of the Shaft Superintendent who designates a Mining Captain and Chief of Department to directly coordinate operations.

Reporting to the four Superintendents are three Mine Captains (Senior Engineers), 17 Chief of Departments and 20 specialists covering the service departments.

The operational personnel for the underground mine is detailed in Table 9.7 below.

Table 9.7: Underground Mining Personnel at Aksu

	Underground Team		Surface Team		
Duties	**Blasting, drilling, loco drivers**	**Underground drivers**	**Shaft operators**	**Millers at crusher**	**Maintenance**
Extraction & haulage	87	—	—	—	—
Concentration of ore	—	—	—	47	47
Other underground services	—	31	—	—	23
Other surface services	—	—	30	—	28

The processing and concentration of ore (107), laboratory (21) and other technical, administrative and workshop operators (80) make up a further 208 employed on the mine site.

Mine planning and control is carried out by a technical team of two mine planning engineers. Each shaft has its own team of mining engineers (including blasting engineers), geologists, mechanical and electrical engineers, ventilation engineers, surveyors and samplers.

9.7.2 Open Pit Operations

It is planned to operate the open pit for two 11 hour shifts per day. Employees with the responsibilities of drilling, blasting and ore/waste transportation will work on a rota system for 15 days on/15 days off. Other duties associated with the open pit, such as the heap leach operation, are detached from this rota system. Allowing ten days for holidays, this arrangement equates to a 355 day working year for the pit. However, due to the effect of cold weather on production from the open pit, only 240 days are allocated to ore extraction. Each worker within the open pit works for 180 days per year for a total of 1,980 hours.

The manpower requirements at Aksu open pit total 409, with 218 involved directly with the open pit operations on day shift. During the night shift this reduces to 164.

Reporting to the Open Pit Operations Chief Manager are the Chief Engineer, Chief Manager and Technical Manager for the Heap Leach Plant and the Laboratory Chief Manager.

The operational personnel for the open pit is detailed in Table 9.8, Table 9.9, Table 9.10 and Table 9.11 below:

Table 9.8: Open Pit Management

Position	Number
Shift Manager	4
Divisional Geologist	4
Sampling Geologist	2
Divisional Surveyor	2
Mining Craftsman	4
Mining Engineer	2
Electromechanic	2
Technologist	4
Craftsman	2
Total	**24**

The processing plant (88), heap leach operation (24), absorption operation (24) laboratory (8) and other administrative and domestic personnel (18) make up a further 162 personnel employed on the open pit operation.

Table 9.9: Mining Plant

Position	Number
Excavator operator EE05225	44
Dump truck operators (BelAZ and KrAZ)	80
Bulldozer operators T-25, DET-250	4
Bulldozer operator T-170	8
Drill rig operator BTS-3	4
Drill rig assistant	4
Loader operator L-34	8
Autograder operator	4
Tractor operator K-701	2
Truck crane operator KC-4534	2
Ural “Vahtovka” driver	4
Bus driver KAVZ	2
Bowser driver KaMAZ	2
Sampling technicians	16
Total	**184**

Table 9.10: Mechanical Repair Group

Position	Number
Engine overhaul mechanic	4
Aggregate mechanic	2
Mining transmission mechanic	2
Hydraulics mechanic	2
Autoelectrician	2
Electro-gas welding engineer	4
Turner	2
Total	**18**

Table 9.11: General Maintenance

Position	Number
Electrician	4
Substation electrician	2
Electromechanic	4
Sanitary technician	2
Boiler maintenance engineer	4
Total	**16**

9.8 Existing Tailings Dam

9.8.1 Tailing Reserves

Total mineable reserves for the old flotation tailings at Aksu are stated as 7,651 thousands of tonnes at 0.97 grams of gold per tonne, in the C_1 category, taking into account a loss of 2%.

9.8.1.1 Method of mining

The old tailings material to be re-processed by heap leaching is reclaimed by hydraulic excavators (EO-5126) loading (BelAZ) dump trucks. Initial preparation of the tailings material for removal is carried out by bulldozers (DET-250 and ZH-170) and shovel loaders (MoAZ). The material is transported to an area near the pumping station where the material is fed (either by loader or by slusher) into the mixing tank, where water is added to form a "slurry' that is pumped to the plant.

9.8.1.2 Production

Kazakhaltyn's business plan, as reviewed by WAI, provides for scheduled production from old flotation tailings material to build up from 2006 to 2008 before stabilising until its depletion. The plant is expected to totally reprocess the tailings by 2018. The effects of cold weather in winter on heap leaching operations are described in Section 13.2.5 below.

9.8.2 Waste Dumps

It is planned to reclaim and process waste material from the old mine dumps from 2007, with production increasing until 2015. The material consists of oxide ore from old pits, and waste material from both underground and pits. It will be moved by the same equipment as is used in the new open pit.

10. BESTOBE MINE

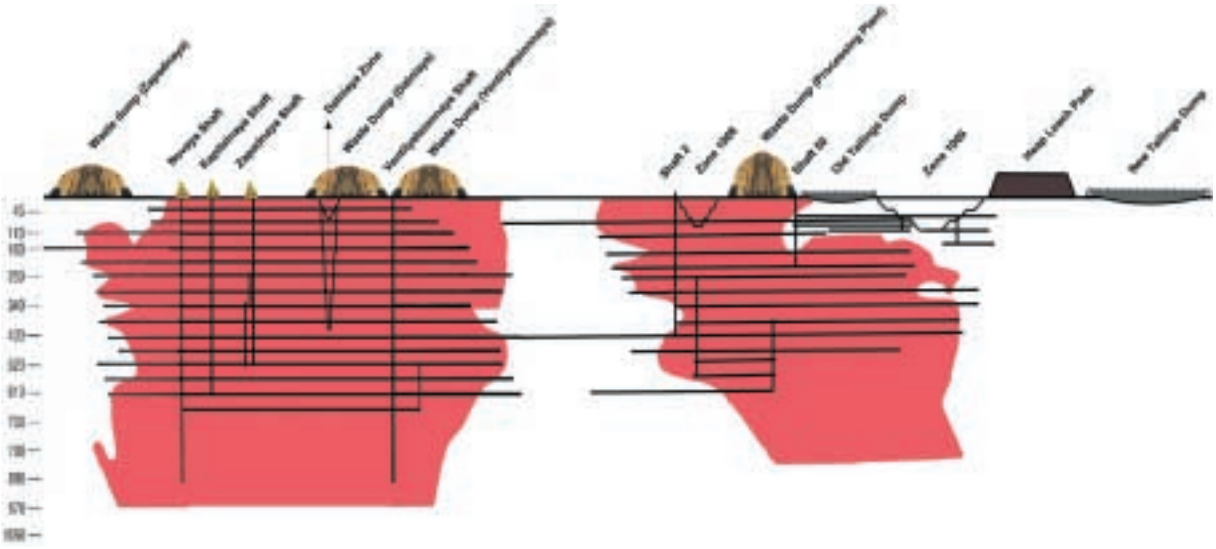
10.1 Introduction

The existing underground mine at Bestobe consists of development and shafts systems for the ongoing exploitation of four main mining zones:

- the Western (Zapadnaya) Zone, centred on Novaya and Kapitalnaya Shafts;
- the Shaft No. 2 Zone;
- the Shaft No. 50 Zone; and
- the Dalnaya Zone.

The company has also explored and evaluated a number of lower grade, shallow veins in the 1008 and 1009 ore zones in the eastern part of the licence area, and these are scheduled to be exploited by a new open pit. A schematic section through the Bestobe ore field is shown in Figure 10.1 below.

Figure 10.1: Schematic section through the Bestobe Ore Field



Additionally, it is planned to recover all the old flotation tailings and all the existing rock dumps at Bestobe for re-treatment in the new processing plants.

10.2 Mining Resource

In order to demonstrate the additional in-situ resources evaluated by the company, Table 10.1 shows a comparison between Kazakhaltyn's stated A, B and C_1 resources at the Bestobe deposit mine in 1995, 2001 and June 2005.

Table 10.1 Bestobe In-situ A, B and C_1 Resources

Area	1995				2001				2005			
	Ore (millions of tonnes)	Grade (grams per tonne)	Gold (thousand kilo-grams)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilo-grams)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilo-grams)	Gold (thousand ounces)
Underground												
Veins	0.33	25.25	8.3	268	0.30	38.09	11.4	367	3.20	9.87	31.6	1,017
Dalnaya	2.04	6.56	13.4	430	2.04	4.08	8.3	267	2.37	3.99	9.5	304
Total Underground	**2.37**	**9.16**	**21.7**	**698**	**2.34**	**8.44**	**19.7**	**635**	**5.57**	**7.37**	**41.1**	**1,321**
Open Pit (1008/9)	—	—	—	—	—	—	—	—	19.09	2.23	42.7	1,371
Total	**2.37**	**9.16**	**21.7**	**698**	**2.34**	**8.44**	**19.7**	**635**	**24.67**	**3.39**	**83.7**	**2,692**

There has been little change in the brecciated zone resources (Dalnaya) over the ten year period.

Resources in the veins of the Bestobe Zones (Western, Central and Eastern), have been increased tenfold in tonnage and threefold in gold content since 2001, by further geological work, mainly below the 700 metre level in the Western Zone.

The main increase in Bestobe's in situ resources is the addition in 2005 of the 1008 and 1009 open pits, which together doubled the mine's in situ gold content, while increasing the ore tonnage some fourfold.

10.2.1 Underground Production Rate

Historically, the Bestobe plant treated a combined total, from all ore bodies, of 122.6 thousand tonnes ore in 1994 and 125.6 thousands of tonnes ore in 1995, compared to a declared capacity of 250 thousands of tonnes. All production had ceased at some point in 1996, and was not re-started until after the purchase of the mine in 1991.

Since the year 2000 underground ore production and development at Bestobe have been as indicated in Table 10.2 below.

Table 10.2 Underground Ore Production and Development

Year	Production Tonnage (thousand tonnes)	Development (metres)
2000	36	585
2001	67	1,580
2002	64	2,060
2003	56	2,080
2004	78	1,800
2005 (Jan to Jun)	42	1,400

Current mine hoisting capacity per annum stated as 120 thousands of tonnes for the Zapadnaya Shaft, 100 thousands of tonnes from the Dalnaya Shaft, 108 thousands of tonnes from the Shaft No. 2 Zone, and 36 thousands of tonnes from Shaft No. 50, for a mine total of 364 thousand tonnes. The capital programme provides for upgrading the cage hoisting facilities at Zapadnaya Shaft and Shaft Nos. 2 and 50, which will increase the hoisting capacity necessary to meet the production tonnage from 2007 to 2009.

Kazakhaltyn's business plan, as reviewed by WAI, provides for production from the Zapadnaya Shaft over 21 years of extraction (2006 to 2026), production from Shaft No. 2 over 5 years (2006 to 2010), production from Shaft No. 50 over 2 years of extraction (2006 and 2007), and production from the Dalnaya ore zone over 18 years of extraction (2006 to 2023).

Kazakhaltyn's current business plan is for the Zapadnaya Shaft to be up-graded to increase its present stated hoisting capacity. The Dalnaya production is also to be increased from 2007 onwards. In addition, Shaft Nos. 50 and 2 are being expanded until the ore is exhausted in 2010.

The result of these plans is that total underground production from Bestobe builds rapidly to a peak by the second year (2007), retaining that level of production for only three years before dropping back to a lower but steady production rate for the succeeding 14 years.

WAI Comment:

It would seem more rational to utilise the four years of remaining mining reserves at at Shaft Nos. 2 and 50 to allow for a slower build up at Zapadnaya and Dalnaya Shafts, thus maintaining a steady total mine production rate from 2007 onwards.

10.2.1.1 Zapadnaya Zone

The Zapadnaya Zone is a vein type ore body consisting of many rich veins (up to 15 or 18 on a given level) with an average width of about 60 centimetres and dips ranging from 10° to 80°, and averaging about 65°. Miners do try to minimise mining widths to 1 metre or less, but actual stopes vary from 1.2 metres to 1.4 metres wide, with a consequent effect on dilution. Veins are well spaced, being from 50 metres to 200 metres apart in plan view.

Current developed reserves are about 100 thousands of tonnes, and each of 15 stopes will produce an average of 30 tonnes per day to achieve the planned production rate of 170 thousands of tonnes per annum. The standard Kazakhaltyn open stoping mining method is used here, and the ground conditions in this area are good. Little support is required in haulages, apart from a few isolated spots.

After mining moves down to a lower level (40 metre level intervals), the rib and sill pillars are partially robbed. WAI queried the long term effect of this on hanging wall stresses, and was assured that no caving

had taken place so far, over a period of over 70 years. However, WAI believes that for this level of development detailed planning, scheduling and execution will be required to attain the targets set under Kazakhaltyn's plan.

Ore and waste are currently hoisted to surface in the cage of the Novaya Shaft, which hold two 1.2 cubic metre rail tubs at a time. The capital expenditure programme allows for this shaft to be fitted with twin 2 cubic metre skips in 2007, which will increase shaft capacity. Ore is trammed to the hoisting shaft on the 700 metre level, using battery locomotives and 1.2 cubic metre cars (tubs).

Ventilation is powered by an extraction fan on the surface at the ventilation shaft, which draws fresh air down the Novaya Shaft. In-stope ventilation is provided by small auxiliary fans.

The water inflow in the zone is about 200 cubic metres per hour in spring, and is pumped to surface in three stages from the 700 metre level, each station having three pumps of 300 cubic metres per hour capacity each.

Kazakhaltyn is currently planning the deep extraction of the inferred mineral resources below the 700 metre level and there is a capital expenditure programme in place which allows for the:

1. deepening of Novaya and Ventilation Shafts;
2. development of new main levels ex the Novaya Shaft, below the 700 metre level, and the equipment required to accomplish this work; and
3. mining and equipping of a new pump station on the bottom level (970 metres), and the development and installation of ore and waste passes and loading pockets in the shaft.

10.2.1.2 Dalnaya Zone

This ore body is in the western part of Bestobe, above and separate to the Zapadnaya Zone, lying above the 340 metre level.

The ore body consists of a steeply dipping wide stockwork, and is mined using sub-level open stoping. However, the area is not equipped for trackless mining and so the ore is moved from the drawpoints to the ore pass using 55 kilowatt slushers (scrapers), which is less productive than trackless mining, averaging about 300 tonnes per day per stope. Sub levels are mined at 20 metre intervals. There are currently over six months of developed reserves, including more than a month fully drilled off.

As this mining is taking place directly below an old pit, a 30 metre sill pillar has been left below the pit. However, the mining zone is wide, so in order to protect against a possible traumatic failure of the sill in the future, (with consequent risks of an air blast), the stopes will be post-filled with run of mine waste rock. This will be hoisted to the upper level in tubs via the Novaya Shaft, trammed and tipped into the top of the stope. Ore will be hoisted by tub in the cage of the Zapadnaya Shaft.

Mine water drainage is gravitated to the 700 metre level in the Western Zone.

10.2.1.3 Shaft Nos. 2 and 50

Both of these ore bodies are in the Bestobe Central Zone, and are a series of thin high grade veins, ranging in thickness from 60 centimetres to one metre.

The area served by Shaft No. 2 lies between the 610 metre and the 430 metre levels, while the Shaft No. 50 Zone consists chiefly of remnants which lie above the 250 metre level.

These zones have a planned productive life of five and four years respectively, and both are mined using manual narrow vein open stoping with timber stulls, with each stope producing an average of 30 tonnes per day.

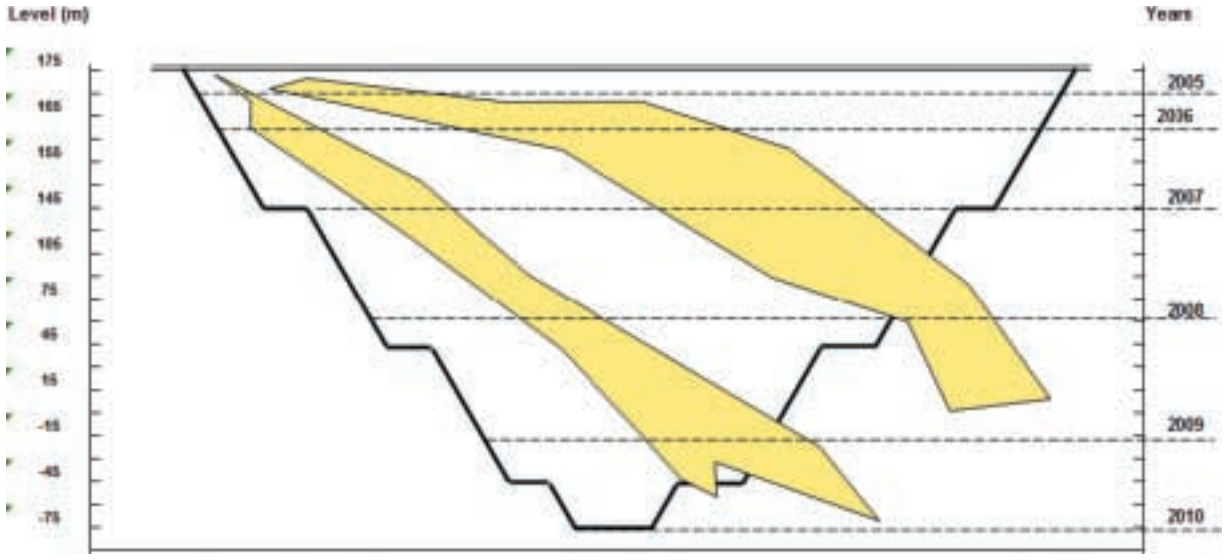
Ore is hoisted in single 1.2 cubic metre tubs in the cages of Shaft Nos. 2 and 50 respectively. Both these shafts downcast fresh air, which is upcast in the ventilation shaft. Water is allowed to gravitate to the 700 metre level pumps, whence it is pumped up the Novaya Shaft.

10.3 Bestobe Open Pit

A conceptual mine plan and mining reserve has been generated for an overall pit angle of 40° with an initial bench height of five metres, reduced to three metres within the ore body, based on the technical limits of the current plant and equipment. Kazakhaltyn plan to renew the existing plant which will then

allow the bench height to increase to between 10 metres and 15 metres. A schematic cross-section of the conceptual open pit is shown in Figure 10.2 below.

Figure 10.2 Conceptual Cross-Section of Bestobe Open Pit (Stage 1)



The conceptual mining reserves taking into account losses (3.50%) and dilution (4.80%) are given in Table 10.3 below.

Table 10.3 Mining Reserves for Bestobe Open Pit

	Mineable Resources				Mined			
Pit	Ore (thousand tonnes)	Grade (grams per tonne)	Loss (%)	Dilution (%)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
1008-1	1,671	2.12	3.5	4.8	1,694	2.02	3.4	110
1008-2	4,769	1.96	3.5	4.8	4,834	1.87	9.0	290
1009	9,991	2.31	3.5	4.8	10,127	2.20	22.3	716
1022	2,663	2.51	3.5	4.8	2,699	2.39	6.4	207
Total	**19,094**	**2.23**	**3.5**	**4.8**	**19,355**	**2.13**	**41.2**	**1,323**

WAI Comment:

WAI consider that the fundamental method of extraction put forward for the conceptual model is justifiable, given the size, morphology and rock conditions anticipated for this type of deposit.

10.3.1 Open Pit Production

Production from the Central open pit during Stage 1 will be to a depth of 110 metres and this is accounted for in the reserve figures presented in Table 10.3 above. Subject to further successful exploration drilling, Kazakhaltyn states that they plan to deepen the open pit at a later stage.

Production of ore from the open pit is defined by the demand from the processing plant and feed required for the heap leach operation. Kazakhaltyn's business plan, as reviewed by WAI, provides for open pit production to commence in 2006, with production rising from 2007 to 2011 before depletion of current reserves in 2012.

The pit has been scheduled to operate 365 days per year (utilising two 11 hour shifts per day), however ore production will only take place over 240 days due to climatic resrictions on the processing operation. Kazakhaltyn has predicted a working fleet requirement of seven 30 tonne dump trucks and six 55 tonne dump trucks, supplemented with eight 14 tonne trucks.

Given that only 30 tonne trucks and 1.6 cubic metre excavators are currently on site (doing pre-strip and tailings dump preparation work), WAI has the same concerns as for the Aksu pit, as to the successful achievement of such a rapid build up in pit output, with the attendant maintenance facilities and skills that

will need to be applied. The company has explained that the new, larger equipment to be purchased in 2006 and 2007 will enable these levels of output to be achieved, and WAI agree that the size and number of trucks and excavators envisaged is capable of achieving such a tonnage, given the short haul.

Kazakhaltyn's business plan, as reviewed by WAI, provides for output from the open pit to peak during May to September before dropping through December and January during the coldest months of the year. This is as a direct consequence of climatic restrictions within the heap leach operation whereupon the efficiency, and performance, is curtailed forcing production from the open pits to be reduced into effectively stockpiling purposes.

Although production from the open pit is reduced ore is still produced and stockpiled and work is maintained on stripping waste, as well as the time being used for maintenance and repairs to plant and equipment within sheltered workshops.

The cold weather also has a negative impact on blasting as explosive efficiency is reduced. This period also receives the strongest winds, combined with vast and open topography, resulting in an increase in dust from the haulage operation and reduced visibility. It is expected that up to ten days production is lost during January and February as a result of this.

WAI Comment:

As observed at Aksu there is an initial, two-year, high waste stripping operation from the open pit at more than double the levels for the succeeding years. Consequently, plant and personnel requirements would be severely reduced from 2008.

Kazakhaltyn has stated that there will be a requirement for the excess manpower and equipment elsewhere in their operations, but outside of this Project, and that therefore the rate of growth in capacity can be justified.

10.4 Underground Mine Access and Primary Development

10.4.1 Western Zone

Initial exploitation was from Shaft No. 7 down to the 340 metre level. The Kapitalnaya Shaft services from the 385 metre to the 520 metre level, assisted by the Zapadnaya (Western) Shaft located 200 metres further south. Below the 520 metre level is serviced the Novaya Shaft.

10.4.2 Central Zone

This area was opened up from Shaft No. 2 down to the 610 metre level, and from the 250 metre to the 475 metre levels by the Sepaya No. 1 Shaft.

Earlier exploration of the lower levels was carried out from Shafts Kapitalnaya and Novaya. Exploration below the 600 metre level is incomplete. There are 25 boreholes down to the 800 metre level and three below, and the ore body is therefore assumed to be open at depth.

10.4.3 General

The western and Central ore bodies are interconnected on the 430 metre, 610 metre and 655 metre levels. Ore haulage underground is on rail track, using electric locomotives pulling side-tipping cars.

10.4.4 Primary Ventilation

Fresh air is downcast through the Novaya and Zapadnaya Shafts, and exhausted up Shafts No. 3 and No. 5.

Winter heating of the mine is provided by coal fired boilers which pre-heat the downcast air, as for Aksu.

10.4.5 Mine Drainage

Water is pumped up both the Novaya and Zapadnaya Shafts from pump stations on the 610 metre and 700 metre levels. A future pump station is planned on the 790 metre level.

10.5 Underground Ore Handling

Underground mining operations are conducted from five shafts including Novaya, Zapadnaya, Shaft No. 2, Shaft No. 50 and Ventilation Shaft. However, it is the Novaya and Zapadnaya Shafts that act as primary arteries for the underground operations including ventilation and mine drainage.

The transport and haulage equipment and the compressor arrangements for Bestobe underground operations are detailed in Table 10.4 and Table 10.5, respectively.

Table 10.4 Ore Handling Arrangements for Bestobe Underground Mines

Shaft	Machine	No.	Power (kilowatts)
Shaft No. 2	Locomotive AK-2u	4	4
	Locomotive 4,5ARP	3	2x7
	Locomotive Am-8d	2	2x12
Shaft No. 50	Locomotive AK-2u	4	4
Zapadnaya Shaft	Locomotive 4,5ARP	1	2x7
	Locomotive Am-8d	2	2x12
	Scraper winches LS-17	3	17
	Scraper winches LS-30	2	30
Shaft No. 2	Scraper winches LS-17	4	17
	Scraper winches LS-30	1	30
Shaft No. 50	Scraper winches LS-17	3	17
	Scraper winches LS-10	2	10
Zapadnaya Shaft	LHD PPN-1c	3	
Shaft No. 2	LHD PPN-1c	3	
Shaft No. 50	LHD PPN-1c	3	

Table 10.5 Compressor Arrangements for Bestobe Underground Mines

Shaft	Machine	No.	Power (kilowatts)
Zapadnaya Shaft	4VM10 10/9	1	630
	2VM10 12/8	2	800
Shaft No. 2	2VM10 63/8	1	400
	2Vm20/8	2	132

10.6 Open Pit Mining

Bench development within the waste rock utilises 10 metre benches reducing to a height of 5 metres in ore, although where there is structural complexities and/or the ore requires it this is reduced to 2.5 metres. This also reduces ore loss and dilution during ore extraction to an optimum 3.5% and 4.8% respectively.

Where possible, within waste rock, the bench height is increased to 10 metres, although a working platform of between 40 metres and 50 metres will be maintained along with 5 metre safety beams. Bench angles are maintained at between 35° and 39° in both waste and ore rock making the resultant downward advance of production to be in the order of 13 metres per year. Haul roads will maintain a minimum passing width of 17 metres.

The resultant open pit excavation will have a width of 350 metres and length of 680 metres.

WAI Comment:

The slope angles and stability observed in old abandoned open pits are consistent with stated predictions.

10.7 Open Pit Equipment

As for Aksu, initial pre-stripping stage of the open pit is being carried out with a variety of hydraulic shovels, including 1.6 cubic metre Komatsu and Russian equivalents, and Belaz (30 tonne) dump trucks. Within the first 15 metres to 20 metres the rock has a strength equal to IV on the Protodyakonov scale, this increases to between XII and XVI for the remainder of the open pit and thus requires initial drill and blast techniques.

Preliminary drilling, up to a depth of 12 metres, is carried out using rotary percussive techniques of a BTS-150 drilling rig. These have the necessary capacity to undertake the operation and also include a hydrocyclone sampling system to be used in conjunction with drilling. This not only reduces dust but allows sampling by geologists for assay purposes.

Currently hydraulic excavators with a capacity of 1.6 cubic metres are employed for both waste stripping and ore removal. However as production increases, larger capacity excavators will be introduced with 5.0 cubic metre and 8.0 cubic metre machines used for waste stripping and 5.0 cubic metre machines employed on ore extraction.

At present a fleet of BelAZ-7540 (30 tonne capacity) dump trucks are employed for both waste stripping to the dumps and ore rock removal to the crushing facilities at the heap leach plant. However at the first stage of increased productivity, larger (55 tonne capacity) trucks are proposed to be introduced.

Benches, haul roads within the open pits and waste dumps are kept orderly by a fleet of bulldozers including TD-25-01, ZH-25, DET-250. Haul roads and dumps are also maintained by DZ-98 and Z-120 graders along with purpose built watering trucks carrying out dust suppression duties during dry periods.

The proposed equipment to be used for waste and ore mining in the Bestobe open pit is shown in Table 10.6 below.

Table 10.6 Equipment List for Open Pit at Bestobe 2006

Type of Machine	Manufacturer	Capacity	No.
Dump Truck	BelAZ 7540	30 tonnes	7
Dump Truck	BelAZ	55 tonnes	6
Dump truck	KrAz 6510	14 tonnes	8
Excavator	EO-5225, 5124, 5126	1.6 cubic metres	8
Excavator	V=5	5 cubic metres	3
Excavator	2503		1
Bulldozer	DZ-171		3
Bulldozer	DET-250		2
Drilling Rig	BTS-150		2
Auto Grader			1
Shovel Loader	L-34, MoAZ	2.2 cubic metres and 2.5 cubic metres	2

10.8 Operating Manpower

10.8.1 Underground Operations

The working arrangements are the same as outlined for the Aksu mine. According to the Kazakhaltyn's business plan the manpower requirements at Bestobe underground total 845 personnel.

Management of the underground operations are the responsibility of the Shaft Superintendent who designates a Mining Captain and Chief of Department to directly coordinate operations.

Reporting to the four Superintendents are four Mine Captains (Senior Engineers), 31 Chief of Departments and 35 specialists covering the service departments.

The operational personnel for the underground mine is detailed in Table 10.7 below.

Table 10.7 Underground Mining Personnel at Bestobe

	Underground Team		Surface Team		
Duties	Blasting, drilling, loco drivers	Underground drivers	Shaft operators	Millers at crusher	Maintenance
Extraction & haulage	167	—	—	—	57
Concentration of ore	—	—	—	90	39
Other underground services	—	78	—	—	28
Other surface services	—	—	106	—	51

The processing and concentration of ore (143), laboratory (27) and other technical, administrative and workshop operators (171) make up a further 341 employed on the mine site.

10.8.2 Open Pit Operations

Again, working arrangements for the open pit are the same as for the Aksu pit. According to the Kazakhaltyn Business Plan the manpower requirements at Bestobe open pit total 389 personnel, with 206 involved directly with day shift operations. During the night shift this reduces further to 156.

Reporting to the Open Pit Operations Chief Manager are the Chief Engineer, Chief Manager and Technical Manager for the Heap Leach Plant and the Laboratory Chief Manager.

The operational personnel for the open pit is detailed in Table 10.8; Table 10.9, Table 10.10; and Table 10.11 and below:

Table 10.8 Open Pit Management

Position	Number
Shift Manager	2
Divisional Geologist	4
Sampling Geologist	2
Divisional Surveyor	2
Mining Craftsman	4
Mining Engineer	2
Electromechanic	2
Technologist	4
Craftsman	2
Total	**24**

Table 10.9 Mining Plant

Position	Number
Excavator operator EE05225	32
Excavator operator E-2503	4
Operators Assistant E02503	4
Dump truck operators (BelAZ and KrAZ)	80
Bulldozer operators T-25, DET-250	4
Bulldozer operator T-170	8
Drilling Rig operator BTS-3	4
Drill Rig assistant	4
Loader operator L-34	4
Autograder operator	4
Tractor operator K-701	2
Truck crane operator KC-4534	2
Ural “Vahtovka” driver	4
Bus driver KAVZ	2
Bowser driver KaMAZ	2
Sampling Technicians	12
Total	**172**

Table 10.10 Mechanical Repair Group

Position	Number
Engine Overhaul Mechanic	4
Aggregate Mechanic	2
Mining Transmission Mechanic	2
Hydraulics Mechanic	2
Autoelectrician	2
Electro-gas Welding Engineer	4
Turner	2
Total	**18**

Table 10.11 Maintenance

Position	Number
Electrician	4
Substation Electrician	2
Electromechanic	4
Sanitary Technician	2
Boiler Maintenance Engineer	4
Total	**16**

The processing plant (88), heap leach operation (24), absorption operation (16) laboratory (8) and other administrative and domestic personnel (18) make up a further 183 personnel employed on the open pit operation.

10.9 Existing Tailings Dam

10.9.1 Tailing Reserves

Total mineable reserves for the old flotation tailings at Bestobe are stated as being 6,174 thousands of tonnes at 1.00 grams of gold per tonne, C_1 category, taking into account a loss of 2%.

10.9.2 Method of mining

The old tailings material to be re-processed by heap leaching is reclaimed by hydraulic excavators (EO-5126) loading (BelAZ) dump trucks. Initial preparation of the tailings material for removal is carried out by bulldozers (DET-250 and ZH-170) and shovel loaders (MoAZ). The material is transported to an area near the pumping station where the material is fed (either by loader or by slusher) into the mixer, where water is added to form a "slurry" that is pumped to the plant.

The plant is expected to totally reprocess the tailings in 2013, one year later than the current open pit mine life.

10.9.3 Waste Dumps

It is planned to reclaim and process waste material from the old mine dumps in 2007 with production increasing from 2008. The material consists of oxide ore from old pits, and waste material from both underground and pits. It will be moved by the same equipment as is used in the new open pit.

11. ZHOLYMBET MINE

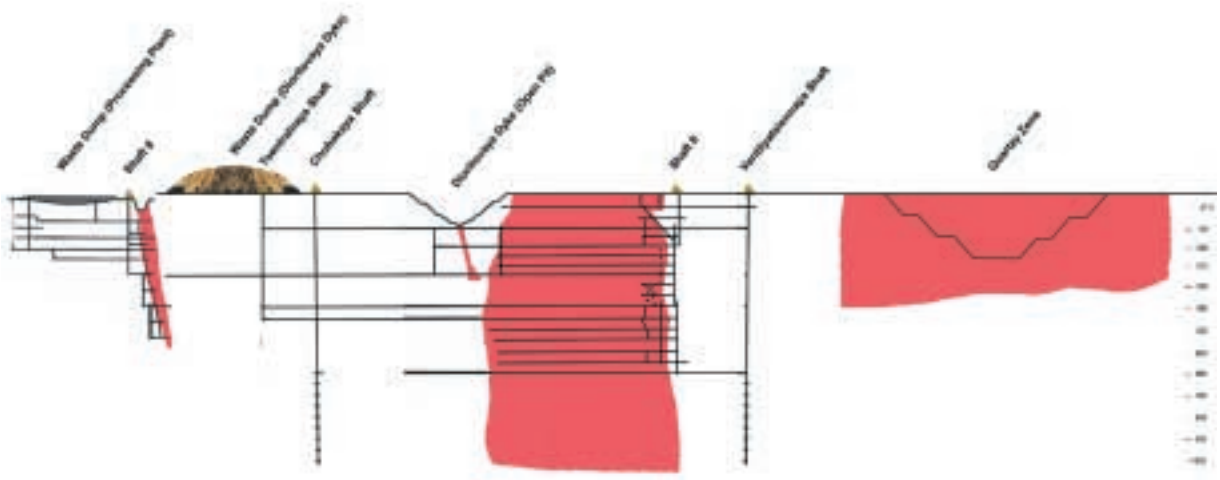
11.1 Introduction

The existing underground mine at Zholymbet consists of shafts systems and development for the ongoing exploitation of two main mining zones:

- the Diorite Dyke, or the Northern Zone; and
- the Deep Horizons of Vein No.2 in the Central ore zone.

The company has also explored and evaluated a number of lower grade, shallow veins in the central part of the licence area to the west of the underground mine, namely the Quartzite Zone, and this has been scheduled to be exploited by open pit. A schematic section through the Zholymbet ore field is shown in Figure 11.1 below.

Figure 11.1: Schematic section through the Zholymbet ore field



Additionally, it is planned to recover all the old flotation tailings and all the existing rock dumps at Zholymbet for re-treatment in the new processing plants.

11.1.1 Mineable Resource

In order to demonstrate the extent of recent exploration and evaluation by the company, Table 11.1 shows a comparison Kazakhaltyn's stated A, B and C_1 resources at the Zholymbet deposit in 1995, 2001 and June 2005.

Table 11.1 Zholymbet In-situ A, B and C_1 Resources

Area	1995				2001				2005			
	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)
Underground	1.24	6.19	7.7	247	1.05	5.93	6.2	200	2.51	21.15	53.1	1,708
Open Pit (Quartzite Zone)	—	—	—	—	—	—	—	—	31.71	1.87	59.3	1,906
Total	**1.24**	**6.19**	**7.7**	**247**	**1.05**	**5.93**	**6.2**	**200**	**34.22**	**3.29**	**112.4**	**3,615**

Over the past four years, exploration and resource calculations carried out by Kazakhaltyn has increased both the tonnes and grade of underground reserves and resources, leading to an almost ninefold increase in contained gold. This increase has been mainly in the deeper levels of the Central Zone, which has yet to be developed and equipped.

In addition, a large low grade open pit resource has been established in the long and narrow Quartzite Zone ore body, down to a 100 metre depth.

11.1.2 Underground Production Rate

Historically, the Zholymbet plant treated 203 thousand tonnes in 1994 and 230 thousand tonnes in 1995, compared to a stated design capacity of 350 thousand tonnes per annum.

Underground ore production and development achieved at Zholymbet since 2000 are indicated in Table 11. 2 below.

Table 11. 2 Underground Ore Production and Development

Year	Production Tonnage (thousand tonnes)	Development (metres)
2000	69	750
2001	65	980
2002	91	1,100
2003	96	940
2004	54	540
2005 (Jan to Jun)	Nil	Nil

Kazakhaltyn's business plan, as reviewed by WAI, provides for over 34 years of extraction (2006 to 2040) at Diorite Dyke and Shaft No. 2.

Production at Zholymbet is dominated by Shaft No. 2, which is projected to produce more than three quarters of the ore mined and more than 85% of the gold.

From 2006 Kazakhaltyn's business plan outlines production from the Diorite Dyke and Shaft No. 2. In year two (2007), the Diorite Dyke production increases significantly until reserves are exhausted just four years later (2010).

Ore grade from the Deep Horizons (Vein No. 2) is relatively low for the first 5 years (2006 to 2010) before increasing by 2011, with a reduction in tonnage producing more gold. Production from 2011 sees variable ore mined, grade and resultant quantity of gold. This will be hoisted up the Central Shaft which has been sunk down to the 1,000 metre level and has a stated capacity, well above the proposed production levels.

11.1.3 Underground Mining

11.1.3.1 Diorite Dyke

The Diorite Dyke ore body lies above the 200 metre level and below the old Zholymbet open pit. It dips close to the vertical and its thickness varies from 35 metres to 70 metres. Sub levels are mined at 20 metre vertical intervals, and ore is collected at the 300 metre level below.

The stoping method used is sub-level open stoping with trackless extraction, and the levels are interconnected by an inclined spiral ramp system.

As stated by Kazakhaltyn the area has almost three years of fully developed reserves, and the ore body contains some 300 thousands of tonnes per sub-level.

Each stope can produce an average 500 tonnes per day, so the call of 680 tonnes per day (250 thousands of tonnes per annum) can be achieved with just two stopes in operation. All production and development are lashed using two 2 cubic metre LHDs, with a third one on standby.

The ore is hoisted up the Central Shaft in twin 2 cubic metre skips, the shaft capacity being 0.5 million tonnes per annum.

Water inflow is about 170 cubic metres per hour in the spring, and it is pumped to surface from pump stations on the 300 metre and 400 metre levels, each equipped with three 300 cubic metre pumps.

11.1.3.2 Deep Horizons

The Deep Horizons of Vein No. 2 lie in the Central ore zone above the 1,200 metre level. Veins are well spaced, and occupy different horizons. For example, four veins show on the 430 metre level and on the 480 metre level, whereas on the 560 metre level below there is only one vein. Veins vary in thickness from 50 centimetres to 2 metres, averaging about one metre, and they dip at between 55^{o} and 70^{o} .

The veins are mined (as at Aksu and Bestobe) using open stopes with timber stulls. Panels are 40 metres long by 40 metres high, and sublevel intervals are generally 40 metres vertical. Each stope produces about 20 tonnes to 25 tonnes per day, and between 22 and 25 stopes are required to be in simultaneous operation to produce the target 200 thousands of tonnes per annum, requiring a complement of over 600 men.

WAI is concerned that although the production targets are achievable the rate of stope development required is challenging. Detail planning, scheduling and execution will be required to achieve the targets set under Kazakhaltyn's plan.

Ore is currently hoisted up the sub-vertical Shaft Nos. 3 and 4 to the 430 metre level, where it is trammed to the Central Shaft for hoisting to surface in twin two cubic metre skips. The Central Shaft also hoists about 100 thousand tonnes per annum of waste, and has a capacity of 0.5 million tonnes per annum. In order for mining to extend below the 680 metre level, by 2008, a programme of capital development has been planned such that during the next two years:

- the Glubokaya and Ventilation Shafts will be equipped with the necessary conveyances for hoisting rock;
- the main haulage levels below the 680 metre level will be developed between the two shafts and to the ore body;
- the development and equipping of a new pump station on the 1200 metre level; and
- the installation of ore and waste pass system and loading pockets.

This is provided for in Kazakhaltyn's business plan as reviewed by WAI.

Planning of this area has only recently been finalised, and mine development is being pushed in order to try to achieve six months of developed reserves by January 2006. Development requirements are 250 metres per month, reserves in the zone being created at about 80 tonnes per month of development.

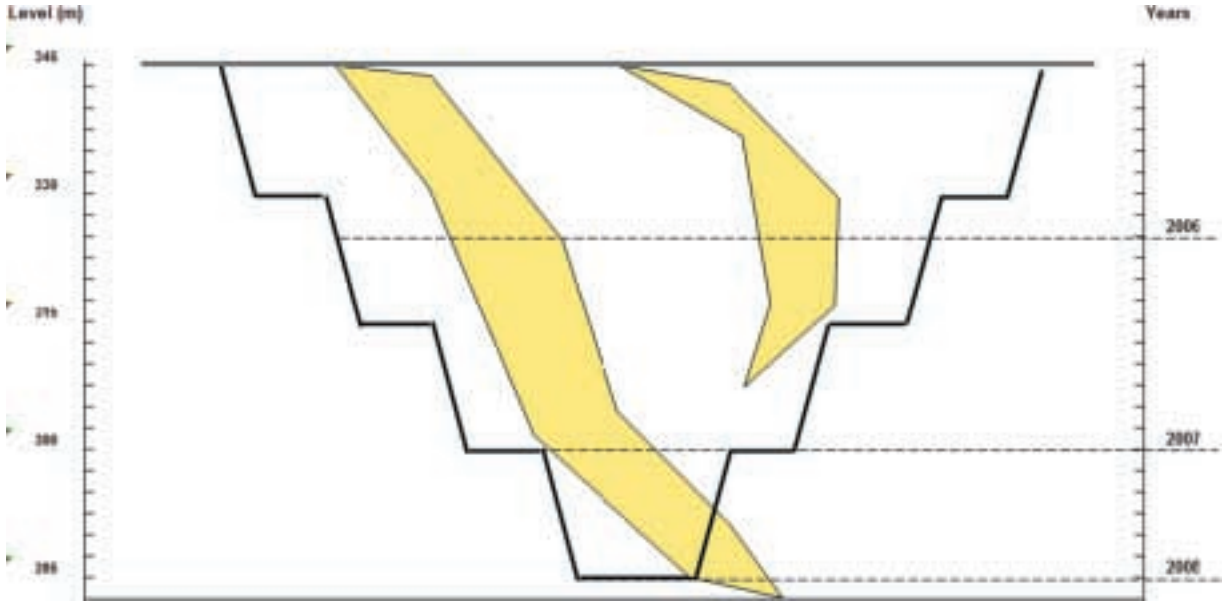
Fresh air downcasts to the area via the Central Shaft to the 480 metre level and thence to the 680 metre level via the two sub-vertical shafts. Used air is exhausted up the ventilation shaft, which is equipped with a large fan.

Water inflow maximises at about 200 cubic metres per hour in the spring (50 cubic metres per hour in the dry seasons), and is collected on the 680 metre level, whence it is pumped to the 430 metre level. The Glubokaya (Deep) Shaft, which is also sunk to the 680 metre level has a winder, but no skips or cages, as it is not required during the life of Kazakhaltyn's current business plan.

11.1.4 Zholymbet "Quartzite" Open Pit

A conceptual mine plan and mining reserve has been generated for an overall pit angle of 39° with an initial bench height of five metres, reduced to three metres within ore body, based on the technical limits of the current plant and equipment. Kazakhaltyn plan to renew existing plant which will then allow the bench height to increase to between 10 metres and 15 metres. The strip ratio for the initial 50 metres depth will be three to one, this will reduce to between 2 and 2.1 with depth. A simplistic cross-section of the conceptual open pit is shown in Figure 11.2 overleaf.

Figure 11.2: Conceptual Cross-Section of Zholymbet Open Pit (Stage 1)



The conceptual mining reserves taking into account losses (3.50%) and dilution (9.00%) are given in Table 11.3 below.

Table 11.3 Mining Reserves for Zholymbet Open Pit

	Mineable Resource				Mined			
	Ore	Grade	Loss	Dilution	Ore	Grade	Gold	Gold
	(thousand tonnes)	(grams per tonne)	(%)	(%)	(thousand tonnes)	(grams per tonne)	(thousand kilograms)	(thousand ounces)
Silicified Zone .	31,710	1.87	3.5	9.0	33,627	1.70	57.2	1,840
Total . . .	**31,710**	**1.87**	**3.5**	**4.8**	**33,627**	**1.70**	**57.2**	**1,840**

WAI Comment:

WAI considers that the fundamental method of extraction put forward for the conceptual model is justifiable, given the size, morphology and rock conditions anticipated for this type of deposit.

11.1.5 Open Pit Production

As opposed to both Aksu and Bestobe, the open pit at Zholymbet has a scheduled Stage 1 depth of only 50 metres. However from the mine models provided by Kazakhaltyn in the business plan, the pit has been planned to a depth of 270 metres.

As with the open pit at Bestobe, under Kazakhaltyn's business plan the Quartzite Zone pit at Zholymbet is scheduled to start production in 2006, and build up over the next two years to a steady rate between 2008 to 2016, before mine's depletion in 2018.

The pit has been scheduled to operate 316 days per year (utilising two 11 hour shifts per day), however ore production will only take place over 240 days due to climatic restrictions of the processing operation. Kazakhaltyn has predicted a working fleet requirement of ten 30 tonne dump trucks and five 55 tonne dump trucks, supplemented with five 14 tonne trucks. As with the other open pits the year for highest production is immediately followed by a dramatic drop in total rock mined.

WAI Comment:

As for the Aksu and Bestobe pits, the quantities to be stripped in the first four years are high. Production of ore from the open pit will build steadily in year 1. This continues into year 2.

Kazakhaltyn's business plan, as reviewed by WAI, provides for output from the open pit to peak during March to October, before dropping through December and January during the coldest months of the year. This is as a direct consequence of climatic restrictions within the heap leach operation whereupon the

efficiency, and performance, is curtailed forcing production from the open pits to be reduced to effectively stockpiling purposes.

Although production from the open pit is reduced, ore is still produced and stockpiled and work is maintained on stripping waste, as well at the time being used for maintenance and repairs to plant and equipment within sheltered workshops.

The cold weather also has a negative impact on blasting as explosive efficiency is reduced. This period also receives the strongest winds, combined with vast and open topography, resulting in an increase in dust from the haulage operation and reduced visibility. It is expected that up to ten days production is lost during January and February as a result of this.

11.1.6 Open Pit Mining

Bench development is initially constructed at 5 metre heights, except in ore or where there is structural complexities where this is reduced to 2.5 metres. This also reduces ore loss and dilution during ore extraction to an optimum 3.5% and 9.0% respectively.

Where possible, within waste rock, bench height is increased to 10 metres although a working platform of between 40 metres and 50 metres is maintained along with 5 metre safety beams. Bench angles are maintained at between 35° and 39° in both waste and ore rock making the resultant downward advance of production to be in the order of 20 metres per year. Haul roads maintain a minimum passing width of 17 metres.

The initial bench is formed from the hanging wall of the ore body, ore rock is then removed before the remainder of the bench is completed. This is believed to provide the most efficient extraction of the ore and minimise both losses and ore dilution.

The open pit excavation will result in a width of 220 metres and length of 430 metres.

WAI Comment:

The slope angles and stability observed in old abandoned open pits are consistent with stated predictions.

11.2 Underground Mining Equipment

Underground mining operations are conducted from three main shafts including Central, Shaft No.6 and Ventilation. It is the Central Shaft that acts as the primary artery for the underground operations including ventilation and mine drainage.

The transport and haulage equipment for Zholymbet underground operations are detailed in Table 11.4 below.

Table 11.4 Ore Handling Arrangements for Zholymbet Underground Mines

Shaft	Machine	No.	Power (kilowatts)
Central	Locomotive AK-2u	4	4
	Locomotive 4,5ARP	1	2x7
Central	Scraper winches LS-17	4	17
	Scraper winches LS-30	1	30
Central	Loading machine PPN-1c	2	
Central	LHD PPN-1c	3	
	LHD PPN-1c	3	

Compressed air arrangements for Zholymbet underground operations are detailed in Table 11.5 below.

Table 11.5 Compressor Arrangements for Zholymbet Underground Mines

Shaft	Machine	No.	Power (kilowatts)
Central	2VM10-63/9	1	400
	4VM10-12/8	1	800
	VP-30/8	1	160
Shaft No. 2	2VM4-24-9	1	160
	LW-20/ZA	2	75

11.2.1 Open Pit Equipment

As for the pits at Aksu and Bestobe, initial pre-stripping of the open pit is carried out with a variety of hydraulic shovels, including 1.6 cubic metres Komatsu and Russian equivalents, and Belaz (30 tonne) dump trucks. Within the first 15 metres to 20 metres the rock has a strength equal to IV on the Protodyakonov scale, this increases to between XII and XVI for the remainder of the open pit and thus requires initial drill and blast techniques.

Once required preliminary drilling, up to 12 metres in depth, is carried out using rotary percussive techniques of a BTS-150 drilling rig. These have the necessary capacity to undertake the operation and also include a hydrocyclone sampling system to be used in conjunction with drilling. This not only reduces dust but allows sampling by geologists for assay purposes.

Currently hydraulic excavators with a capacity of 1.6 cubic metres are employed for both waste stripping and ore removal. However as production increases larger capacity excavators will be introduced with 5.0 cubic metre and 8.0 cubic metre machines used for waste stripping and 5.0 cubic metre machines employed on ore extraction.

At present a fleet of BelAZ-7540 (30 tonne capacity) dump trucks are employed for both waste stripping to the dumps and ore rock removal to the crushing facilities at the heap leach plant. However at the first stage of increased productivity larger (55 tonne capacity) trucks are proposed to be introduced.

Benches, haul roads within the open pits and waste dumps are kept orderly by a fleet of bulldozers including DZ-171 and DET-250. Haul roads and dumps are also maintained by DZ-98 and Z-120 graders along with purpose built watering trucks carrying out dust suppression duties during dry periods.

The proposed equipment to be used for waste and ore mining in the Zholymbet open pit is shown in Table 11.6 below.

Table 11.6 Equipment List for Open Pit at Zholymbet (2006)

Type of Machine	Manufacturer	Capacity	No.
Dump truck	BelAZ	30 tonnes	10
Dump truck	BelAZ	55 tonnes	5
Dump truck	KrAz 6510	14 tonnes	5
Excavator	5225	1.6 cubic metres	3
Excavator	V=5	5 cubic metres	2
Bulldozer	DZ-171		2
Bulldozer	DET-250		2
Drilling rig	BTS-150		2
Auto grader	Z-120		1
Shovel loader	L-34	2.2 cubic metres	1

11.3 Operating Manpower

11.3.1 Underground Operations

Underground working arrangements are the same as for Aksu and Bestobe underground mines.

Blasting work is carried out between shifts for a duration of one hour. Additional personnel include maintenance engineers responsible for the mine shaft equipment, locomotives and haulage machinery.

According to the Kazakhaltyn's business plan the manpower requirements at Zholymbet underground total 637 personnel.

Management of the underground operations are the responsibility of the Shaft Superintendent who designates a Mining Captain and Chief of Department to directly co-ordinate operations.

Reporting to the two Superintendents are two Mine Captains (Senior Engineers), 28 Chief of Departments and 28 specialists covering the service departments.

The operational personnel for the underground mine is detailed in Table 11.7 below.

Table 11.7 Underground Mining Personnel at Zholymbet

	Underground Team		Surface Team		
Duties	**Blasting, drilling, loco drivers**	**Underground drivers**	**Shaft operators**	**Millers at crusher**	**Maintenance**
Extraction & haulage	84	—	—	—	57
Concentration of ore	—	—	—	95	36
Other underground services	—	76	—	—	28
Other surface services	—	—	57	—	51

The processing and concentration of ore (144), laboratory (20) and other technical, administrative and workshop operators (139) make up a further 303 employed on the mine site.

11.3.2 Open pit operations

Working arrangements for the pit are the same as for Aksu and Bestobe.

According to the Kazakhaltyn's business plan the manpower requirements at Zholymbet total 295, with 186 involved directly with the open pit operations. During the night shift this reduces further to 118.

Reporting to the Open Pit Operations Chief Manager are the Chief Engineer, Chief Manager and Technical Manager for the Heap Leach Plant and the Laboratory Chief Manager.

The operational personnel for the open pit are detailed in Table 11.8, Table 11.9; Table 11.10 and Table 11.11 below.

Table 11.8 Open Pit Management

Position	**Number**
Shift manager	2
Divisional geologist	4
Sampling geologist	2
Divisional surveyor	2
Mining foreman	4
Mining engineer	2
Electromechanic	2
Technologist	4
Craftsman	2
Total	**24**

Table 11.9 Mining Plant

Position	Number
Excavator operator EE05225	28
Dump truck operators (BelAZ and KrAZ)	76
Bulldozer operators T-25, DET-250	4
Bulldozer operator T-170	4
Drilling rig operator BTS-3	4
Drill rig assistant	4
Loader operator L-34	4
Autograder operator	4
Tractor operator K-701	2
Truck crane operator KC-4534	2
Ural "Vahtovka" driver	4
Bus driver KAVZ	2
Bowser driver KaMAZ	2
Sampling technicians	12
Total	**152**

Table 11.10 Mechanical Repair Group

Position	Number
Engine overhaul mechanic	4
Aggregate mechanic	2
Mining transmission mechanic	2
Hydraulics mechanic	2
Autoelectrician	2
Electro-gas welding engineer	4
Turner	2
Total	**18**

Table 11.11 Maintenance

Position	Number
Electrician	4
Substation Electrician	2
Electromechanic	4
Plumber	2
Boiler Maintenance Engineer	4
Total	**16**

The processing plant (36), heap leach operation (12), absorption operation (10), laboratory (6) and other administrative and domestic personnel (16) make up a further 109 personnel employed on the open pit operation.

11.4 Existing Tailings Dam

11.4.1 Tailing Reserves

Total mineable reserves for the tailings at Zholymbet are stated as 9,083 thousand tonnes at approximately 1.00 grams of gold per tonne C_1 category, taking into account a loss of 2%.

Extraction of the old flotation tailings material is carried out by hydraulic excavators, loading into dump trucks for transportation to an area adjacent to the pumping station. Either a loader or an electric "slusher" is then used to convey the material into the mixing tank where water is added to form a tailings "slurry" that is pumped directly to the plant.

Scheduled extraction of tailings material is planned to build up by the second year and the plant is expected to totally reprocess the tailings by 2016.

11.4.2 Waste Dumps

It is planned to reclaim and process waste material from the old mine dumps from 2007 onwards. The material consists of oxide ore from old pits, and waste material from both underground and pits. It will be moved by the same equipment as is used in the new open pit.

12 COMMENTS APPLICABLE TO ALL MINE SITES

12.1 General Overview

Geological exploration and analysis over the past five years have identified large, relatively low grade shallow resources at each of the Aksu, Zholymbet and Bestobe mine sites, and have also enhanced some of the underground resources.

WAI believe that exploration and analysis, allied to previous investigatory work, and knowledge and experience of Kazakhaltyn's technical staff, results in a thorough understanding of the structural, geological and mineralogical setting of each of the three mine sites.

In view of the size and quality of the stated resources, and the current and forecasted price of gold, the decision to exploit the ore deposits by both new open pits and to reopen the higher grade underground resources is fully supported by WAI.

The underground mines have previously been in production for many years, and generally (with the exception of Zholymbet) at similar rates of production to those forecast in the plan. Therefore many shafts and much useable underground development still exists. There is a local pool of experienced labour available at each mine site, many of whom are second and third generation employees.

Good surface infrastructure is already in place at each mine, including road access, electricity, water, nearby rail heads, mine buildings and townships.

There appears to exist a considerable degree of technical and operational expertise among the Kazakhaltyn staff. All of the mine management and senior technical personnel introduced to WAI gave a strong impression of enthusiasm and energy. The company has recently (over the past six months) hired a core number (51 to date) of qualified and experienced engineers and technicians from the large open pit gold operations in the Zarafshan region of Uzbekistan. These range from director level engineers with over 25 years experience to mining, geological, mechanical and electrical engineers and technicians with from four to 15 years of relevant experience. This action gives WAI some comfort in the ability of Kazakhaltyn to achieves its ambitious rate of build up, particularly in the open pits.

Kazakhaltyn has borrowed in excess of $40 million locally, and invested in key areas of the operations. As a result, new exploration drilling has expanded and improved confidence in resources and reserves. Kazakhaltyn has acquired new LHD equipment for underground, and new trucks and excavators to pre-strip the open pits and stockpile both oxide ore and tailings for plant feed. Two new heap leach facilities and two new CIP plants have been constructed and have commenced operations. These investments will lead to immediate improved cash flow as is seen in the current production and processing activities.

WAI was not able to view any workshops for the repair and maintenance of mine equipment in the time available for the site visits. However an allowance for their provision is evident in Kazakhaltyn's business plan. These are vital facilities for large earthmoving operations.

Similarily WAI has not seen the arrangements Kazakhaltyn has made for workshop designs and maintenance plans for the areas of the underground trackless mining proposed for Quartzite Hills (at Aksu) and the Diorite Dyke ore body at Zholymbet.

WAI believes that these are in place, but would wish to emphasise the importance of high maintenance capabilities on these operations.

12.2 Ore Body and Block Modelling

Kazakhaltyn has introduced Surpac© computer modelling software into their offices that can be used to produce accurate and detailed ore body models for improved interpretation and calculation of undiluted ore reserves. These can then be developed into mining block models that will provide detailed mining reserves, based on the ore body models, for use in mine planning.

WAI believes that Kazakhaltyn has yet to fully utilise this software and apply it to produce accurate and detailed models. This is reflected in the review by WAI of six individual models (four covering Aksu and one each for Bestobe and Zholymbet).

WAI was not able to fully check and verify the statistics and raw data used in producing the models but from discussions with Kazakhaltyn technical staff the raw data was examined for the presence of "outliers"

by the use of the Soviet "Kogan" method, i.e. a sample is considered an outlier if its metal content is greater than 10% of the total block content, and as a result no outliers were discovered.

Grade interpolation was undertaken using the "inverse power of distance" method and applied cell parameters vary depending on the deposit, as shown in Table 12.1 below.

Table 12.1 Surpac© Model Parameters

Model	Cell size			Data field entries	
	X	Y	Z	Grade	Density
	(metres)				
Aksu					
Kotenko	30	30	30	gold	Sg
Krutaya	30	30	30	gold	Sg
Diagonalnaya	10	10	10	gold	Sg
Kariernaya	10	10	5	gold	Sg
Bestobe	30	30	20	gold	Sg
Zholymbet	40	40	40	gold	Sg

However, in general all models examined by WAI corresponded well to the other method of section estimation, as can be seen in Table 12.2 below. However the bench by bench model data does not correlate with this method and therefore confirms that the original planning undertaken by Kazakhaltyn was based on less accurate section estimation.

Table 12.2 Comparison Between Surpac© Model and Section Method Estimation for Ore Resources

	Surpac model				Section method estimation				Difference %			
	Ore	Grade	Gold	Gold	Ore	Grade	Gold	Gold	Ore	Grade	Gold	Gold
	(thousand tonnes)	(grams per tonne)	(thousand kilograms)	(thousand ounces)	(thousand tonnes)	(grams per tonne)	(thousand kilograms)	(thousand ounces)	(thousand tonnes)	(grams per tonne)	(thousand kilograms)	(thousand ounces)
Aksu	33,997	2.06	70.0	2,252	32,698	2.06	67.3	2,162	4.0%	0.1%	4.1%	4.1%
Bestobe	18,763	2.23	41.9	1,348	19,094	2.23	42.7	1,371	-1.7%	0.0%	-1.7%	-1.7%
Zholymbet	29,870	1.86	55.6	1,789	31,710	1.87	59.3	1,906	-5.8%	-0.4%	-6.2%	-6.2%
Total	**82,630**	**2.03**	**167.6**	**5,388**	**83,502**	**2.03**	**169.2**	**5,440**	**-1.0%**	**0.1%**	**-1.0%**	**-1.0%**

12.3 Open Pit Planning

Basic manually produced open pit plans have been developed by Kazakhaltyn for both Bestobe and Zholymbet. WAI considers that these plans do not show the level of detail normally expected for projects of this nature. In the example for Bestobe Southern Zone, the open pit plan on the south-west and north-east flanks of the pit design indicates excess waste being unnecessarily stripped. This is likely to be the result of inner pit road location, however it may be possible to realign the routes to achieve optimum pit design.

Examples gleaned from review of block models by WAI include:

- waste model is of insufficient size to contain "ultimate" pit design, models should be extended before mining optimisation is undertaken;
- it is poor practice to separate ore bodies and open pits, as for Aksu, as one open pit model should be used to contain all ore bodies;
- the cell sizes do not correlate with the chosen bench dimensions in the vertical plane and corresponding XY plane, and not less than the average drill spacing;
- although topography is considered flat no cut-off has been used resulting in waste cells lying above ground level. Again no pit optimisation should be carried out until this is rectified; and
- additional key fields could be introduced into models to identify ore and waste material, as well as ore types, instead of using negative grade values for waste cells.

12.4 Underground Mining

Mine planning, both for underground and open pits is centred on the company's head office in Stepnogorsk, where a team of eight senior engineers work under the Technical Director, alongside the financial and economic planning office under the Financial Director.

WAI was informed that future mine plans are sent to each mine, where the senior engineers and geologists on site confer with their counterparts at shaft level to apply the detailed design work and logistic forecasts to match the plan. This information is then returned to head office for compilation and approval.

It is important to note also that many aspects of mining design and operations require prior and ongoing state approval, as prevailed in the past under the Soviet system. These include surface subsidence monitoring, ventilation monitoring, shaft access designs, open pit designs, electric power reticulation, and many more. This ensures that all plans and technical designs receive scrutiny from several sources.

In some areas of narrow veins WAI considers that Kazakhaltyn has underestimated the mining dilution. A vein of 0.5 metres in width mined in a 1.0 metre wide stope incurs a dilution of 100%, similarly a vein 0.3 metres wide will incur a dilution of 200%.

Mining losses have generally been estimated by Kazakhaltyn at 5% for all underground mining.

WAI are led to believe that a five metre pillar will be left between 40 metre wide open stope panels, and also between 15 metre wide "Swedish" stopes. These figures alone represent losses of 11% and 25% respectively. Additionally no allowance has been made for sill pillars. Although these pillars are later partially robbed, WAI considers therefore that mining recoveries have been overstated.

WAI has reservations that some of the underground schedules are optimistic given the level of planning and development required.

While underground mining production represents only 26% of the ore tonnage treated at the plant, the contained gold represents 43% of the total gold to be produced from in-situ resources (excluding tailings and waste dumps). This fact indicates strongly that at least as much emphasis must be placed on the design and rehabilitation of the underground mines as for the open pits, in order for the overall plan to succeed. In this regard, WAI considers that the capital expenditure allowances for the underground mines have been underestimated by Kazakhaltyn, and has reflected this in WAI's financial appraisal.

From observation during the visit, general standards of safety and housekeeping, particularly underground, are a matter of some concern to WAI in comparison with other regional and western mining operations. However, the accident record for the mines, since 2000, does show a low accident rate, albeit at much lower production than that proposed over the coming years.

12.5 Waste Dumps

The waste dumps clearly contain a gold resource. However, until the volumes, bulk densities and grade distribution are clearly defined this resource should remain unclassified. In the opinion of WAI no truly representative sampling has been conducted in terms of grade distribution and volume measurements. In order to investigate the waste dumps as a resource and delimit the various ore types, grade distribution and tonnages, a costly and time consuming exercise will have to be implemented.

12.6 Operating Costs

WAI is concerned that when the operating costs presented in Kazakhaltyn's business plan are broken down and expressed in the more conventional manner of "costs per tonne of ore" (underground) and "per tonne of rock moved" (open pits, tailings and dumps), they appear too optimistic. Even acknowledging the cogent reasons why costs should be and are lower than many mining regions elsewhere (for example local labour, CIS-made equipment, short hauls, low fuel and power costs) the costs for both underground mining methods and for surface operations appear optimistic. It is accepted that a tremendous amount of detail has gone into preparing all the basic logistics and schedules to build up these costs, but the result does not look correct.

The chief underground mining method used (open stoping with stulls and slushers) is inherently labour intensive and has a low productivity. WAI concurs that it is the correct method to use in these particular circumstances, ie. narrow veins of high grade in very strong rock, and with a labour force with a history of success in doing it. However, at 30 tonnes per day per stope operated by 24 men per stope, costs are not expected to be low.

WAI considers that the open pit costs presented by Kazakhaltyn to be low and has reflected this in its financial appraisal.

12.7 Capital Costs

WAI has reviewed Kazakhaltyn's capital expenditure plans for 2006 and 2007 for the Vera project, the Zholymbet Deep Horizons deepening, the deepening of the Bestobe West Zone, other underground mines and the open pits. WAI has also reviewed the breakdown of the $4.3 million spent over the past four years on new mining equipment.

WAI still believes however, that these provisions are on the low side and no provision has been made for contingencies. In addition, the Kazakhaltyn's provision for ongoing maintenance capital expenditure is very low, even taking into account the lower costs of Chinese and CIS-made items. WAI has thus factored increased capital expenditure costs into its financial appraisal.

13. PROCESSING

13.1 General

The processing plants at Aksu, Zholymbet and Bestobe have historically used gravity and flotation technologies to treat the higher-grade underground sulphide ores. The exploration effort of Kazakhaltyn has centred on developing the near-surface oxidised ores and tailings resources, which are amenable to cyanidation processing technologies.

The existing plants at Aksu and Zholymbet are being modified to incorporate CIP technology and a new CIP plant is planned for Bestobe in 2006. Heap leach plants were under construction at Aksu and Bestobe during WAI's visit in July 2005, and these are now in operation. A further heap leach plant is planned for Zholymbet in the first quarter of 2007.

13.2 Aksu Processing Plant

13.2.1 General

Ore from Aksu will be processed using both CIP and heap leach technology and Kazakhaltyn was constructing both plants during WAI's site visit in July 2005. The existing processing plant at Aksu, which incorporated flotation technology was being modified during the WAI's site visit in July 2005 to CIP technology.

Since the WAI's visit, Kazakhaltyn reported that the production of gold from the Aksu heap leach operation commenced in August 2005. In August and September 2005, 86 kilograms of gold had been produced in the form of cathode sludge of which 71 kilograms were produced in September 2005.

In August and September 2005, a total of 182 kilograms of gold was also produced from the Aksu concentrator in the form of flotation concentrates and in the form of doré from the startup of the CIP plant.

13.2.2 Testwork

Programmes of laboratory testwork have been undertaken by the Irgiredmet Institute and by "Centergeolanalit CJS" at Karaganda between March and June 2005.

13.2.2.1 Oxide ore

It was found that the gold was amenable to cyanidation by either column leaching (heap leach technology) or by grinding and agitation leaching (CIP technology). Grinding the material to a size of 70% passing 74 microns gave a leach recovery of 95.4% at a low cyanide consumption of 0.4 kilograms per tonne. The addition of carbon in the test did not improve leach recovery, indicating that the sample was free of "preg-robbing" material.

Cyanidation tests on samples from the Vera ore body gave a gold recovery of 89%.

13.2.2.2 Tailings

Samples of Aksu tailings gave gold recoveries ranging between 61% (as received) to 66.1% after regrinding to a size of 89% passing 74 microns. Cyanide consumptions were 0.3 kilograms per tonne to 0.4 kilograms per tonne. A sample of Kapitalnaya Shaft tailings gave recoveries ranging from 66.3% (as received) to 72.5% after grinding to 92.6% passing 74 microns.

13.2.2.3 Underground ore

A sample from Shaft No. 38 area gave gold recoveries of between 94.1% and 96.6% at grind sizes of between 43% and 89% passing 74 microns.

13.2.3 "Centergeolanalit" Tests.

The tests covered a range of Aksu ores including oxidised ores, sulphide zone ores and tailings. Tests undertaken on Aksu ores included chemical analysis, mineralogical analysis, as well as agitation leach and column leach tests.

13.2.3.1 Oxide ore

A 400 kilogram sample from the Kariernaya deposit gave column leach recoveries of 84% to 89% after 30 days and 90% to 91% after 59 days. At the finer crush size of 13mm the leach recoveries were 89% to 90% after 23 days and 91% after 59 days.

Gold leach recovery after fine grinding was 97%.

13.2.3.2 Tailings

Tests undertaken on a 300 kilogram sample of Aksu tailings demonstrated that heap leach technology could be used to recover 52% to 57% of the gold present, depending on the concentration of cyanide used in the tests. After grinding the material to 80% passing 74 microns the gold recovery increased to between 72% and 74%. The gold that was not recovered was either locked in sulphide minerals or present in concretions.

13.2.3.3 Sulphide zone ore

Heap leach tests recoveries ranged from 43% to 54%, depending on cyanide concentration, at a crush size of −25mm. At a crush size of 13mm the recoveries increased to only 44% to 56% depending on cyanide concentration.

After grinding the material of 80% passing 74 microns, gold recovery increased to 88% suggesting that CIP technology could also be used to treat the sulphide ores.

The results from the laboratory tests were used by the Irgiredmet Insitute to develop flowsheets and design for the CIP and heap leach plants at Aksu.

13.2.4 CIP plant description

The crushing and grinding sections of the existing process plant at Aksu are being upgraded and a new CIP leach-adsorption-electrowinning plant installed with a production capacity of 1.2 million tonnes per annum.

13.2.4.1 Crushing

Ore from the mine (−500mm) will be fed directly into a hopper where it will pass via a primary jaw crusher (600mm by 900mm) fitted with a 75 kilowatt motor. The crushed product, nominally −100mm, is then fed to a double deck screen fitted with 40mm and 10mm decks. The +40mm material passes to a medium cone crusher (KSD-1200) fitted with a 75 kilowatt motor and the crushed product is returned to the screen.

The +10mm screen oversize passes to a KMD157T fine cone crusher fitted with a 160 kilowatt motor. The feed conveyors are fitted with metal detectors. The final crushed product is −10mm which passes to the fine ore bins.

Tailings will also be treated in the plant and will be fed directly into a separate 30 cubic metre hopper from where they will be conveyed to a vibrating screen to remove trash oversize. The screen undersize will be pumped to two cyclone rigs each fitted with three hydrocyclones. The cyclone overflows pass to leaching and the underflows pass to the secondary ball milling stage. The vibrating screen oversize is either dumped or fed back into the main ore receiving hopper.

13.2.4.2 Grinding

Grinding of the ores will take place in two stages of ball milling. The first stage will consist of the existing three 2.7 metre by 2.1 metre units and one 1.7 metre by 3.6 metre unit each fitted with 400 kilowatt motors. Classification will be achieved using spiral classifiers and cyclones secondary grinding will be undertaken in two new 3.6 metre by 4.6 metre units each fitted with 1,000 kilowatt motors.

The final product size is 80% passing 74 microns.

The cyclone overflows pass to a conventional thickener stage.

13.2.4.3 Leaching

Leaching takes place in ten tanks each of 572 cubic metre capacity and fitted with 45 kilowatt drives. The first three tanks are used for leaching, with carbon being added in the fourth tank where leaching and adsorption takes place. Carbon is moved counter-currently to the pulp flow using air-lift pumps.

The residual cyanide in the plant tailings will be neutralised using a conventional hypochlorite system. Plant tailings will be returned to the tailings impoundment area.

The carbon is treated with hydrochloric acid to remove calcium salts and a furnace operating at 650°C to 700°C is used for carbon reactivation.

Carbon stripping and electrolysis takes place simultaneously. Stripping the gold from the carbon takes place at elevated temperature after treatment with sodium hydroxide. Electrolysis takes place at 150°C using 16 anodes and 15 cathodes. On completion of the stripping/electrolysis cycle the cathodes are washed to remove gold sludge which is filtered and then smelted on site to produce a doré product.

The capacity of the desorption unit is three tonnes of carbon per day.

WAI Comment:

The majority of the equipment in the CIP plant has been supplied by China Gold. The level of instrumentation and control is limited and this may impact on operational efficiencies. WAI understand that Kazakhaltyn is planning to improve the levels of process control and automation in all of their plants.

The planned feed rate of 800,000 tonnes per annum of hard rock ore is likely to exceed the capacity of the Aksu crushing circuit and larger jaw crusher may be required which WAI believe will be available.

13.2.5 Heap Leach

The Aksu heap leach plant is designed to operate at a rate of 500,000 tonnes per annum for between 230 and 250 days per year.

Ore is transported by truck at a nominal size of −400mm and dumped directly into a hopper. Ore passes via a feeder to a 900mm by 600mm jaw crusher and the crushed product is conveyed to a double deck screen. The two screen oversize products are conveyed to two cone crushers (medium and fine) and the crushed products are screened at 15mm. The oversize is returned to the crushers and the undersize is conveyed to the agglomeration drum.

Since the oxidised ore samples are known to contain fine material, which would hinder percolation, the crushed ore is agglomerated with cement (seven kilograms per tonne) and water.

The agglomerated material is then transferred, via a series of portable conveyors, to the heap leach pads where it is deposited using a Radial Stacker.

The heap leach pads are formed as follows: After stripping of the top soil and levelling the leach area, a 500mm layer of clay is laid down and compacted. A 1mm thick sheet of welded plastic liner is placed onto the clay and 100mm of sand placed on top of the liner followed by 400mm of crushed rock. The agglomerated ore is stacked onto the crushed rock to a height of 8 metres. A total of three lifts per heap leach pad is planned. To reduce downtime through freezing in winter months it is planned to heat the leach solution and to allow a capping of ice to form under which percolation can take place.

Cyanide solution is spayed onto the heap leach pads through a system of pipework fitted with spray heads. The solution percolates through the ore, dissolving the gold. Gold bearing solutions are collected in drainage pipes located above the sand layer and the solutions gravitate to a pregnant liquor pond.

Solution from the pond is pumped through four carbon adsorption columns in series where gold is recovered and the stripped solution is pumped to a barren solution pond. Cyanide and alkali is added and the solution is pumped back to the heap leach pad.

Loaded carbon is transported to the Aksu CIP plant for gold recovery.

According to the Kazakhaltyn's business plan the processing operations at Aksu will employ a total of 106 personnel.

WAI Comment:

The processing plants were being constructed during the site visit and WAI has been informed by Kazakhaltyn that the equipment installed was as specified by the various design institutes.

13.3 Zholymbet Processing Plant

13.3.1 General

The original processing plant at Zholymbet was designed to treat sulphide ores using gravity and flotation technologies. The crushing plant and milling sections will remain in operation but the flotation sections are being scrapped and new CIP tanks, carbon stripping and electrowinning plant is being installed. The front end of the plant has also been modified to accept tailings.

The newly constructed Zholymbet CIP plant commenced operations in August 2005 with a production capacity of 250,000 tonnes per annum. Production will be increased in the second year by the addition of a heap leach facility.

Kazakhaltyn report that production of gold from the Zholymbet CIP plant operation commenced in August 2005. By the end of September, 128 kilograms of gold had been produced in the form of doré.

13.3.2 Testwork

13.3.2.1 Tailings

Samples of tailings from the main Zholymbet TMF were subjected to standard cyanide leach tests. Gold recovery ranged from 71% on the "as received" material (59% passing 74 microns) to 73.8% on material which had been ground to 95% passing 74 microns.

Tailings from the Central Shaft area gave recoveries of 81% to 83%, depending on grind size.

Tests undertaken on a composite sample of equal amounts of underground ore (Central Shaft) and tailings gave a leach recovery of 87%.

Test work undertaken on Quartzite Hills material gave a 67% recovery rate by heap leaching and 72% recovery rate by agitated leaching.

13.3.3 Process Description

13.3.3.1 Crushing

Ore from the mine, nominally sized at 300mm, is hoisted into three 100 cubic metre bunkers from where it is fed into a jaw crusher which reduces the material to between 80mm and 100mm in size. The primary crushed ore is conveyed to a secondary cone crusher and the crushed product discharges onto a double deck screen fitted with 25mm and 10mm decks. The +25mm product is returned to the secondary crusher and the −25mm + 10mm product passes to a third stage of crushing. The −10mm material is conveyed to fine ore bins of 1400 tonnes capacity.

13.3.3.2 Feeding of old tailings

(i) Plant feed system during startup

Tailings will initially be trucked to the plant and fed directly into a hopper from which they are conveyed to a 5mm vibrating screen with the screen undersize being slurred and pumped to three 250mm cyclones.

(ii) Normal operations

Tailings will be trucked to a station at the tailings dam where they will be screened at 5mm and slurried before being pumped directly to the plant, a distance of 1 kilometre. The pulp will be fed directly to the hydrocyclones within the grinding circuit.

13.3.3.3 Grinding

The crushed underground ore and the cyclone underflow from the tailings classification are ground using two stages of ball milling. Primary milling takes place in a 2.7 metre by 3.6 metre ball mill and secondary milling takes place in two mills sized at 2.7 metres by 3.6 metres and a 2.7 metres by 2.1 metres. The ground products are classified in 10mm by 250mm diameter cyclones with the underflow products being

returned to the mill and the overflows passing via a trash screen to six thickeners where flocculant is added and the pulp thickened ahead of leaching.

The final product grind size is 80% passing 74 microns.

13.3.3.4 Leaching

The thickened pulp, at 40% to 45% solids, is pumped to 10 leach tanks each with a capacity of 350 cubic metres fitted with 22 kilowatts drives. The first three tanks are used for leaching only and activated carbon is to be added in tanks 4-10. Cyanide is added to achieve a concentration of 1 gram per litre and lime added at a rate of between 0.15 grams per litre and 0.3 grams per litre.

The total leach time is approximately 24 hours.

Carbon is transferred counter currently to the pulp flow using air-lift pumps. Loaded carbon from the leach tanks is screened and washed ahead of stripping.

The method of recovering gold from carbon is as described for the Aksu plant. Gold is stripped from the carbon using a sodium hydroxide pretreatment at elevated temperature and the gold-rich solutions are recovered using electrolysis. The capacity of the desorption unit is two tonnes of carbon per day.

The gold-rich sludge from electrolysis is dried and smelted in silicon carbide crucibles using borax, lime and quartz as fluxes.

The tailings from the plant are subjected to a detoxification process using calcium hypochlorite before being pumped to the existing TMF.

According to the Kazakhaltyn's business plan the processing operations at Zholymbet will employ a total of 138 personnel.

WAI Comment:

The majority of the equipment in the CIP plant has been supplied by China Gold. The level of instrumentation and control is limited and may impact on operational efficiencies. WAI understands that Kazakhaltyn is planning to improve the levels of process control and automation in all of their plants.

The process plants were being constructed during the site visit and WAI has been assured by Kazakhaltyn that the processing equipment installed is as specified by the various design institutes.

13.4 Bestobe Processing Plant

13.4.1 General

The existing processing plant at Bestobe was built in 1932 and was still operating in July 2005, treating both underground ore and some oxidised material using gravity and flotation technologies. Gold recovered from the gravity circuit is amalgamated to produce a final saleable product. A gold bearing flotation concentrate is also produced and sold to a smelter in Russia. Overall recovery of gold to the two products is reported to be 92%.

It is planned to cease operations in either 2006 or 2007 as the plant is very old and the equipment is in a poor state of repair. Kazakhaltyn is planning to dismantle the plant and recover gold lost by spillage throughout its working life by direct smelting.

A significant proportion of gold at Bestobe (unlike the Aksu and Zholymbet deposits) is present as coarse grains which enable gravity recoveries of up to 50% to be achieved.

A heap leach plant was under construction during the WAI's site visit which will treat a combination of tailings and oxide ore. WAI understand that this plant commenced operations in August 2005. In August and September 2005, 182,000 tonnes of ore were stacked on the heap leach pads. The construction of a CIP plant is also planned for 2007.

13.4.2 Existing Plant Description

Ore is dumped into a hopper from where it is conveyed to a two stage crushing circuit consisting of a jaw crusher followed by a cone crusher. Oxidised ore can be treated through a separate circuit which involves the use of a scrubbing drum to remove clay ahead of crushing.

The crushed ore is fed to one of six ball mills with five being used during normal operations and one on standby/maintenance.

Ore is ground to 80% passing 75 microns with classification taking place using spiral classifiers and cyclones. Within each grinding circuit a jig is used to recover free gold. The jig concentrates are cleaned using a shaking table and the final gravity concentrate is amalgamated with mercury.

The cyclone overflows are combined and pass to rougher flotation where a bulk sulphide concentrate is produced. The flotation concentrate is thickened and filtered and the tailings are pumped to the TMF.

WAI Comment:

The poor state of this original equipment in the Bestobe plant is likely to give low availability for its remaining, limited life.

13.4.3 Process Testwork

13.4.3.1 Zone 1008 Tests

Leach tests undertaken on samples of low-grade Zone 1008 material, which had been ground to 90% passing 74 microns, gave gold recoveries of 94% to 96% with cyanide consumptions of 1.4 kilograms per tonne. Leach tests undertaken on samples of high-grade Zone 1008 material which had been ground to 90% passing 74 microns gave gold recoveries of 83% and cyanide consumptions of 1.4 kilograms per tonne.

Tests on the material from the southern area of Zone 1008 gave leach recoveries of 81% to 84% and cyanide consumptions of 1.2 kilograms per tonne.

13.4.3.2 Tailings

Tests on the Bestobe tailings gave leach recoveries of 45% to 47% on the "as received" material.

13.4.3.3 Mixture of Ore and Tailings

Heap leach tests undertaken on a mixture of fine tailings and "Bestobe Ore" gave a recovery of 51% at a crush size of 40mm and 65% at a crush size of 15mm. Cyanide consumptions were 0.7 kilograms per tonne in both tests. The duration of the test is unknown.

WAI Comment:

The amount of heap leach testwork undertaken on the Bestobe open pit ores and CIP testwork on underground ores is very limited and a programme of testwork is advisable to confirm recoveries.

13.4.4 Heap Leach Process

Ore and tailings are trucked to the heap leach site and dumped into a hopper from where it is fed by a conveyor to a 600mm by 900mm jaw crusher which reduces the material in size from -400mm to -80mm. The crushed product is sized on a double deck screen fitted with 40mm and 15mm decks. The two screen oversize products pass to two separate cone crushers (medium and fine) and the crushed products are screened at 15mm and the oversize returned to the fine crusher.

The crushing circuit is designed to operate 230 days per year on a two times ten hour shift basis.

The -15mm screen product is conveyed to an agglomeration drum where water and cement (three kilograms per tonne to seven kilograms per tonne) are added. The agglomerates are then transported by mobile conveyors to the heap leach site. The pad design is the same as described for Aksu. Cyanide consumptions and sodium hydroxide are estimated at 0.4 kilograms per tonne and 0.2 kilograms per tonne respectively. The height of each lift is eight metres. The total leach cycle is to be 80 days, with five days being used for water saturation, 60 days for leaching and 15 days for drainage.

The heap leach pads will be built as 300 metres by 90 metres modules each holding 250,000 tonnes of ore.

Leach liquors are collected via a system of drainage pipework and gravitate into a 6,700 cubic metres pregnant liquor pond. From here the solutions are pumped via a flowmeter into four carbon adsorption stages in series. Carbon is moved counter currently against the flow of leach solutions with the barren liquor passing to a 6,700 cubic metres barren solution pond. Sodium cyanide and alkali are added to the barren solutions and the liquor is then pumped back to the heap leach pads.

After completing the leach cycle, final neutralisation of the heap will be by using calcium hypochlorite. A facility will also exist to neutralise liquors within the circuit.

The loaded carbons will be stripped at Aksu until a desorption circuit is constructed at Bestobe as part of the planned CIP plant.

According to the Kazakhaltyn's business plan the processing operations at Bestobe will employ a total of 136 personnel.

WAI Comment:

The flat topography of the Bestobe site is ideal for a heap leach operation.

The heap plant was being constructed during the site visit and WAI has had confirmation from Kazakhaltyn that the processing equipment installed was as specified by various design institutes.

14 INFRASTRUCTURE OVERVIEW

14.1 General

Kazakhaltyn is a joint stock company and is one of the largest gold mining enterprises in Kazakhstan. The operations covered within WAI's report encompass exploration, mining, processing ore and sale of gold. The enterprise under review for the purposes of WAI's report comprises three mines, each with an ore treatment plant, namely:

- Aksu mine, situated 17 kilometres north-west of the town of Stepnogorsk;
- Bestobe mine, situated 100 kilometres north-east of Stepnogorsk, 220 kilometres north-east of Astana; and
- Zholymbet mine, located 90 kilometres north-east of Astana, 55 kilometres east of the rail station at Shortandy.

Figure 14.1 shows the location of Kazakhaltyn's three principal mines in relation to the capital Astana.

Figure 14.1: General Map of Operations

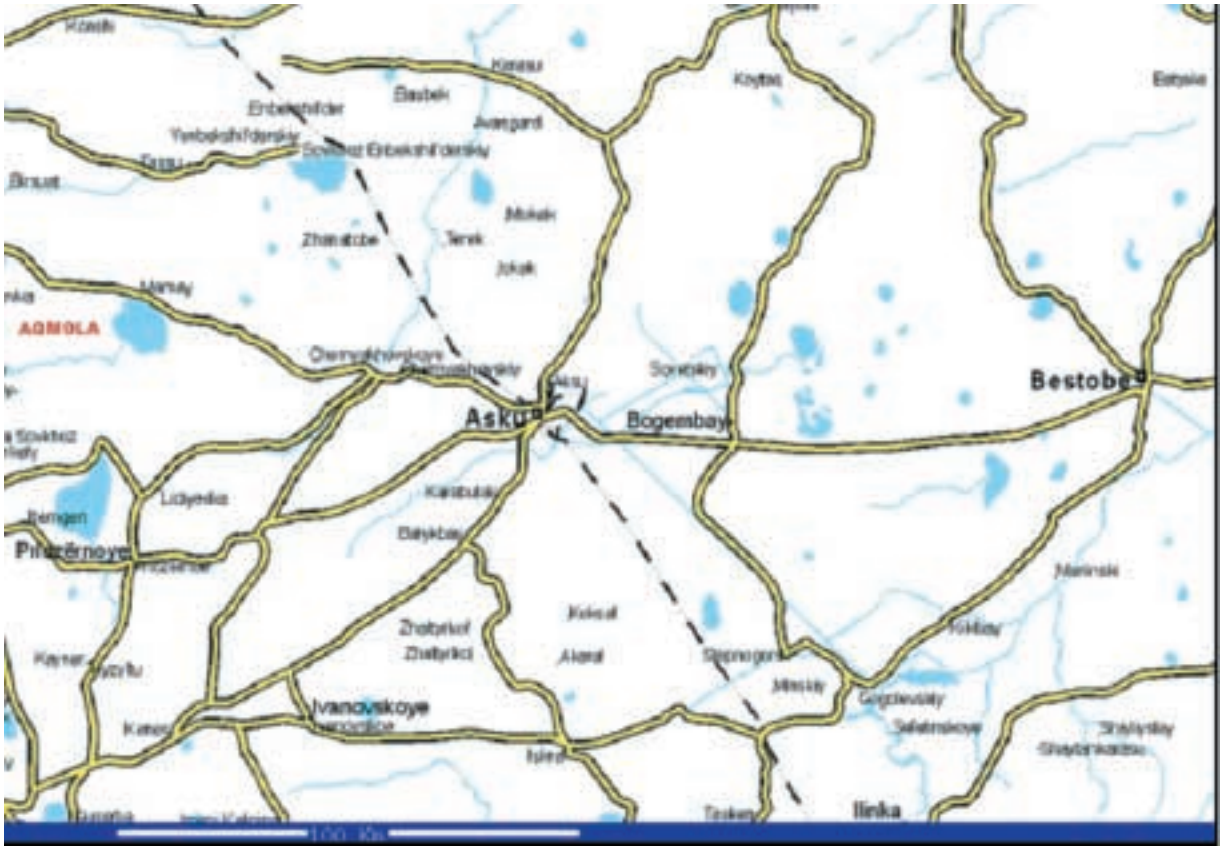
14.2 Access And Communication

14.2.1 Aksu Mine

The mine is connected to the rail station at Aksu by a three kilometre asphalt road. Within the mine complex there is a network of branch lines from Aksu station with a total length of 4.62 kilometres with a logistical function. The condition of the railway seems to be satisfactory as it is in regular use. The other nearest rail station is at Akkol, a distance of 112 kilometres by asphalt road. The nearest international airport is at Astana.

Figure 14.2 shows the location of the Aksu mine.

Figure 14.2: Map of Aksu Area

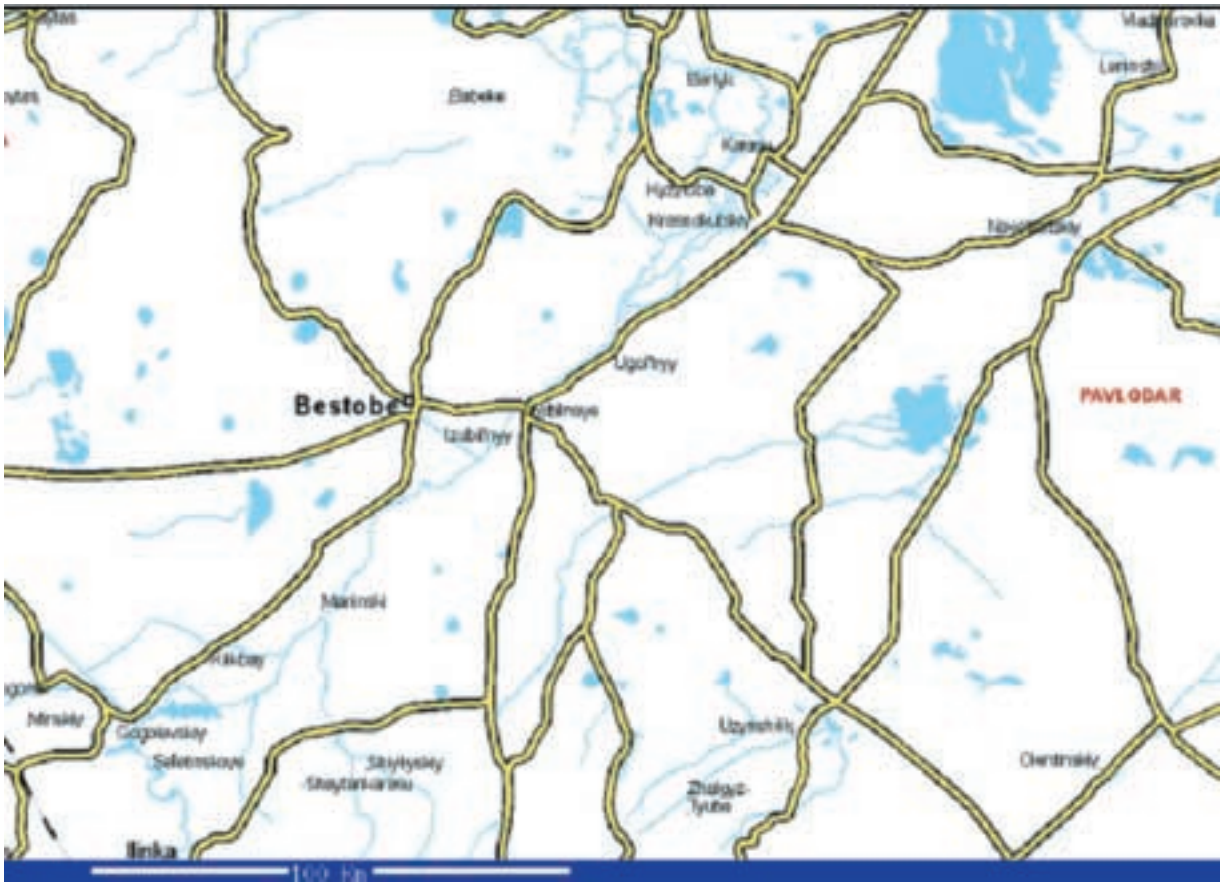


14.2.2 Bestobe Mine

The nearest rail station is at Aksu some 86 kilometres distant. There is a road connection to Aksu and the last 44 kilometres of the road is asphalt. The remaining 42 kilometres is a gravel road, maintained by a road-grader. This will require some capital expenditure to improve and upgrade. There is also a gravel road connection to Zholymbet Mine, 150 kilometres distant. This road is not usable in the heavy rains or during the winter. However there is an alternative link in a better condition to Zholymbet, via Aksu, Stepnogorsk and Shortandy with a total distance of 250 kilometres. The road connection to Astana is 300 kilometres in length with the first 42 kilometres of gravel road from Bestobe. The nearest international airport is Astana.

Figure 14.3 shows the location of the Bestobe mine.

Figure 14.3: Map of Bestobe Area



14.2.3 Zholymbet Mine

The nearest rail station is situated at Shortandy, a distance of 55 kilometres from the mine. However, this road requires some repairs. The road to the station at Shortandy is open all year, although local roads are impassable in winter and spring

Zholymbet has an asphalt road connection to Aksu, 204 kilometres away. The distance by road to Astana is 120 kilometres and Astana is the nearest international airport.

Figure 14.4 shows the location of the Zholymbet mine.

Figure 14.4: Map of Zholymbet Area

14.3 Communication

The mines are all associated with nearby settlements. Communications between settlements form part of a nation wide telephone network, connected world wide via Kaztelecom.

At each of the mining operations there is an automatic telephone exchange providing mine-wide communication. This includes long-distance facilities and direct communication with the company headquarters in Stepnogorsk. This system is supplemented by a mobile radio service based in Stepnogorsk linking the main facilities and key personnel.

14.4 Power Supply

Electrical power for all of the Kazakhaltyn operations is supplied under contract from regional supply companies. Power is provided to three substations as follows:

- Aksu 35/6 kV
- Bestobe 110/35/5 kV
- Zholymbet 220/110/35/6 kV

Each of the sub-stations is owned by AREK. Power is distributed from these substations to the local operations on networks owned by Kazakhaltyn.

Each of the three major sites has two independent main incoming supply feeds. This is normal for mines of this size. The local, mine-wide distribution networks at each of the three sites are owned and operated by Kazakhaltyn. This is generally beneficial for the operating company.

Compressed air power is also used at all sites. Aksu has three main compressor stations at Flangovaya Shaft; Shaft Nos. 38 to 40 and Shaft No. 39. Bestobe has two main compressor stations at Zapadnaya Shaft and Shaft No. 2. Zholymbet has one main compressor station.

WAI Comment:

WAI believe that there is a plentiful supply of both electricity and compressed air to supply the mine for the foreseeable demands that will need to be satisfied over the increased production expected of the mines.

14.4.1 Aksu Mine

Electrical power comes from the Stepnaya sub-station which has two independent connections to the trunk system. From the Aksu sub-station, power is distributed locally at 6 kV via dual circuits. There are 11 distribution points serving all the main operations.

14.4.2 Bestobe Mine

Electric power supply is by Cselinenergo. The electrical power system is similar to that at Aksu with two independent incoming feeds. Again, there are 11 distribution points serving all the main operations.

14.4.3 Zholymbet Mine

The electrical power system is similar to that at Aksu with two independent incoming feeds. At this site, there are seven distribution points serving all the main operations.

WAI Comment:

Each mining operational site has two independent electrical connections to the trunk supply systems and supply contracts are in place. Distribution networks at mine site level are owned and managed by the company and are adequate to supply current operations. It would be advisable that Kazakhaltyn ensures that the utility suppliers have the ability to meet the forecast demand, and of the upgrades required for the internal distribution system. As production increases, there will be a proportional increase in the demand for electricity. It is important that this demand is forecasted accurately and that provision for this increase is catered for by the supply utilities. Account will have to be taken of the increase in installed capacity of all the electrical equipment at the mines, balanced with the capabilities of the regional, national and cross-border suppliers.

However WAI believes that supply of electricity to each of the mine sites should not present a problem as the country is undergoing a phase of significant improvements both to infrastructure and power generation.

There is a significant use of compressed air power and this seems to be well managed and distributed throughout the operations. Many activities such as drilling, pumping and haulage rely on compressed air power.

It should be noted that, worldwide, there has been a steady move away from compressed air as a power supply. This has been based partly on a recognition of the relative inefficiency of such systems and their relatively high operating and maintenance costs, both for the compressors themselves and the reticulation systems required (pipes, etc).

For the foreseeable future Kazakhaltyn is proposing to continue to utilise its current equipment. Many mines now use compressed air power in a limited range of activities, and in localised areas. Usually, use is made of small, mobile compressors in such cases. Considerable savings have been made and management procedures have been simplified in this way.

14.5 Water Supply

Natural water sources are a scarce commodity at all the mines sites, even water inflow to underground and open operations is minimal.

14.5.1 Aksu Mine

Water supply for production purposes comes from a reservoir situated on the Aksu River where a purpose built lock system has been constructed for flood water collection.

14.5.2 Bestobe Mine

Water supply is via pipeline from the River Selety between eight kilometres and 10 kilometres to the south-east. There are also some water wells in the vicinity, equipped with heaters.

14.5.3 Zholymbet Mine

Existing wells and springs possess insufficient water and of poor quality. Industrial water supply is partially supplemented by collecting floodwater from the Ashilyayryk River, and partly from underground interstitial waters from the Ashilyayryk water supply point.

WAI Comment:

The water supply systems at the moment are adequate. However, water in the region is a scarce commodity. Arrangements are in place to utilise water from local boreholes and from nearby rivers. However, these sources are not infinite and there will be a limit on the actual source of supply and replenishment and on the capacity of the installed pumps and distribution network.

Facilities exist to provide the company's present modest needs at current levels of activity. There remains a risk to the business if adequate contingency plans are not in place to guarantee adequate supplies at the higher levels of demand forecast over the next few years. As with electrical supply, the demand for suitable water will increase proportionately as production increases of the next three years. The demand for this water must be accurately predicted and provision made for this to be sourced. It is advisable that Kazakhaltyn introduce a water management plan beyond that in place as required by environmental regulations and covering all aspects of external water supply, management, use, pumping/drainage and disposal. Adequate emergency supplies should be available to cater for unforeseen circumstances and unusual events, such as prolonged periods of drought.

Many mines operating in areas of scarce water supply adopt a comprehensive water management policy. The policy caters basically for the scarcity and value of water. Successful policies can also have the benefit of reducing costs and reducing the environmental impact of the operations. Such policies normally incorporate such features as:

- ensuring at least two sources of supply for each operation;
- providing for the capture and storage of seasonal rain in suitable areas within the catchment areas;
- the provision of emergency water storage facilities;
- the pumping, storage and settlement of industrial water with the inclusion of water treatment facilities, if necessary; and
- well planned and implemented policies can lead to figures of over 80% re-usage of all water brought onto site, with no water discharge off-site at all.

With respect to mine water drainage, most of the operations currently experience insignificant water makes from the strata. At present, these are collected, pumped and discharged adequately. However, water release is proportional to strata disturbance and excavation and, as such, water makes are likely to increase dramatically. Strategies should be in place to manage this increase. These strategies should be incorporated within the overall water management plan discussed previously.

Provision should be made for adequate pumps and discharge systems to cater for the increases. In order to reduce delays, these provisions should incorporate back-up equipment for emergencies linked to emergency power supplies (diesel generators, etc).

Whilst these provisions relate to all parts of the operations, both surface and underground, it is particularly important for the underground activities. By their nature, the underground mine situation is vulnerable to the effects of flooding in that there is generally a limited capacity for improving the reticulation system. Whereas on the surface, it is relatively simple to increase pumping capacity with more mobile pumps, underground is constrained by the capacity to transport water to the surface through the shaft mains. Until now, the installed systems have coped with modest volumes. The permanent installations must be matched

to future predictions with contingency plans as necessary. WAI has reviewed the current and projected inflows of water to the various underground sections, and in all areas the installed pumping capacity substantially exceeds Kazakhaltyn's estimated spring (wet season maximum) inflows.

14.6 Mining Management

14.6.1 Maintenance and Repairs

It is reported that at each operation there are a number of supporting departments covering:

- electrical/mechanical, including workshops, welding, electrical overhauls, capable of major overhauls of mining and surface equipment;
- power department, maintenance of boilers for the heating systems and water pumping systems;
- water drainage, discharge systems for industrial and mine water; and
- ventilation, dust control and ventilation systems, ventilation fans and construction (underground).

A successful maintenance strategy usually consists of an over-arching statement of the principles to be adopted, supported by both facilities and procedures.

With respect to the principles to be adopted, these fall simply into two main alternatives, summarised as "breakdown maintenance" and "preventative maintenance". The former is self-explanatory. Equipment is allowed to run until it breaks down and then it is fixed. This is not really considered to be the most efficient approach to adopt. However, it does have one main advantage over "preventative maintenance", and that is in terms of its of simplicity.

Preventative maintenance is a generic term that can describe a variety of approaches, based on preventing breakdowns occurring. This approach extends right from the design stage through manufacture, installation and operation. The latest methods use advanced computer based telemetry to monitor equipment and component condition and performance, usually in real time. To obtain the highest levels of efficiency, the monitoring processes are supplemented with detailed knowledge of component life (mean time to failure etc.) and effective maintenance procedures, both of which require a high degree of input from manufacturers.

In reality, actual maintenance strategies adopted at particular mines would be on a scale somewhere between the two extremes, although they would be expected to be closer to preventative maintenance than otherwise. To move closer to the "ideal" preventative approach requires substantial investment both in monitoring systems, analysis techniques and personnel. Nonetheless, this approach is cost-effective in the longer-term, and some companies have successfully chosen to move to this level in stages, making improvements based on experience.

Whichever approach is adopted, it is important that the mine facilities, personnel skills and spares management processes are in place. It is noted that the company has the facilities and personnel in place. It is also assumed that adequate spares management processes exist. What is not known is how suited these aspects are to the rapid increases in production that are planned at Aksu, Zholymet and Bestobe.

Workshops facilities are reported to be in place but it is important that they have the capability to repair and overhaul sophisticated components with a short turn-around time. Importantly, the standards and personnel must be available to make sure this is achieved to the required quality standards.

WAI considers that the company's maintenance approach needs to be more detailed in terms of strategy, facilities, personnel, procedures, spares management and materials supply. As much of the infrastructure, features are currently in place and operating but at much lower levels of activity than will be expected in the near future. Subsequently this area remains unproven. It is important that there is evidence that the risks have been recognised and procedures have been implemented to effectively manage those risks.

14.6.2 Equipment

In order to help reach high levels of equipment availability, many mines now also enter in to service type agreements with their major suppliers. These involve one or more elements of:

- extended warranties;
- insurance spares provisioning and vendor spares management systems;

- provision of vendor service personnel;
- contract maintenance;
- provision of on-site repair/overhaul facilities; and
- equipment availability and performance guarantees.

This list is not comprehensive but is indicative of modern practice. Major manufacturers around the world recognise the need to collaborate with their customers to ensure that the mines can operate at their lowest cost per tonne over the long-term.

WAI considers that the elements of modern maintenance practices outlined in the preceding paragraphs are in place, or are planned, but further detail is required in order to meet the future production requirements of Kazakhaltyn.

Kazakhaltyn's operations appear to be well organised and managed, although operating at production levels well below those planned to be achieved in the next four years.

14.6.3 Supply and Stores

Central stores systems have been observed during operation. It is reported that are 19 separate storehouses distributed throughout the operations. These are organised on a product basis and provide for the receipt, storage and distribution of items such as mine equipment, chemicals, building materials, cements, ropes, mobile equipment, timber, welding products and coal. Artificial lighting is provided to allow night operations when necessary.

Material supply is from the main warehouse of Kazakhaltyn situated at Aksu. Certain materials for construction purposes are situated near the deposit, such as sand, loam, clay, aggregate and limestone.

14.6.4 Population

The townships associated with the mines have the populations as shown in Table 14.1 (as provided by Kazakhaltyn) below:

Table 14.1: Township Population and Mine Employees

	Township Population
Aksu	4,500
Bestobe	6,500
Zholymbet	5,000
Total	**16,000**

It is reported that more than half of the adult population in the towns is employed either directly or indirectly by Kazakhaltyn. All the towns have several schools and social facilities. Until 1995, all the infrastructure and facilities of the towns was provided by the mining company.

WAI Comment:

This section has been based on the examination of documentation provided by Kazakhaltyn. This has been supplemented by information gathered during WAI's site visits and by presentations, questions to key personnel and observation.

The whole operation appears to be well organised and managed. With respect to the operation's infrastructure all of the immediate requirements seem to be in place.

14.6.5 Consequences of Increased Production

WAI has examined Kazakhaltyn's estimates of the ore planned to be mined, transported and treated in some way in 2005 up to 2014. It does not include overburden and other waste rock. It indicates a very rapid increase, over the initial four years (from 2005) to the end of 2008 when it levels off at the target output. This represents a very significant increase in material to be mined in the first four years. However from

2012 onwards ore production reduces markedly when the current open pit reserves at Bestobe are depleted.

Reference has been made of the proportionate increases on services that derive from increases in production. The same holds for all parts of the overall infrastructure. In other words, there is going to be a very significant increase in the duties related to, amongst others, surface transport, underground conveying, shaft capacities, mineral storage and stockpiling areas, reticulation systems, ventilation, maintenance facilities, materials systems and personnel.

The current operations are performing to plan and the infrastructure is functioning satisfactorily. However, it is doing so at a much reduced level compared to these forecast increases. A great deal of operational planning has been undertaken, completed and ongoing, although no detailed analysis has been provided with respect to the percentage capacities of all the major infrastructural components as currently utilised, what the future duties will be and how shortfalls or gaps will be filled.

It is worth noting that a significant increase in output as planned by Kazakhaltyn in such a short time period would severely tax the total resources of any mining operation anywhere in the world.

14.6.6 Capital expenditure

Kazakhaltyn's business plan provides for a short-term capital expenditure of approximately $40 million in 2006. Approximately 60% of the amounts relates to expenditure associated with surface ore treatment plants at various sites and 40% relates to new mining and transport equipment and infrastructural improvements.

WAI has reviewed Kazakhaltyn's short and long-term capital expenditure plans which indicate fairly significant sums being spent on new equipment, especially over the next two years. This is to be expected given the planned ramp-up in production. It is important that this new equipment is fully supported. This is normally achieved by the implementation of a comprehensive maintenance philosophy or strategy. Because all parts of the operation will have to contribute to the production growth, this strategy should be developed and implemented on a company-wide basis. The long-term capital expenditure plan does not include actual infrastructure (roads, electricity, water etc.). Kazakhaltyn believe that infrastructure does not require improvement, and therefore no capital expenditure has been included in Kazakhaltyn's business plan.

14.6.7 Working Patterns

All operations will be conducted on a seven day week, 365 day basis, except where winter conditions interrupt open pit or heap leaching activities. Underground will operate on three seven hour shifts per day, while the pits will use two 11 hour shifts per day.

Individual employees will work to various roster systems, eg. four days on and one day off for underground workers and 15 days on and 15 days off for the earth moving operations.

14.6.8 External Infrastructure

Given the proximity of rail and major road links, the operations are not considered to be remote. This comment is reinforced by the location of an international airport within 300 kilometres. Given that helicopters could be used as a last resort it is not considered that transport links constitute a risk to the operations.

14.6.9 Internal Infrastructure

All of the main internal infrastructure components remain unproven at high levels of production. This comment refers particularly to fixed plant such as winders, main pumping stations, ventilating fans, compressors, etc. It would have been unrealistic to expect old equipment, currently operating at very low duty levels, to operate at close to capacity for extended periods of time with the same reliability without some refurbishment and replacement of old items. WAI has reviewed the capital expenditure on internal infrastructure incurred by Kazakhaltyn in the past four years, and has been advised that all key installations have been repaired or refurbished.

It is understood that Kazakhaltyn is undertaking major refurbishment at many of the utilised shafts for underground operations, as well as compressor houses, ventilation facilities and actual maintenance workshop.

15 ENVIRONMENTAL AND SOCIAL ISSUES

It is beyond the scope of this report to provide a detailed analysis of the possible environmental and social impacts of the Kazakhaltyn projects. However this section will briefly review the existing baseline conditions and highlight any possible areas of concern.

The existing environmental and social conditions are already derogated to such an extent that any future development by a well structured operation would be unlikely to have a further negative effect. If realised, the reworking and processing of waste dumps and tailings material in addition to utilisation of waste as backfill in open pits, has the potential to bring about an environmental gain. Furthermore, the continuation and expansion of work in the locality is also likely to generate positive socio-economic circumstances in the short and medium term. However, development activities on "virgin" land would result in significant negative environmental impact.

15.1 Location and Environmental Setting

All of Kazakhaltyn's principal operations are located in the Akmola region as shown in Figure 1.1. Aksu mine is situated 17 kilometres north-west of the town of Stepnogorsk and lies adjacent to the village of Aksu and covers an operational area of some 268 hectares. Bestobe is located 100 kilometres north-east of Stepnogorsk and a settlement has grown up around the operation to service the mine. Bestobe has an operational area of 161 hectares. Zholymbet is sited 90 kilometres north of Astana, the capital city of Kazakhstan and 55 kilometres east of the Shortandy rail depot, in the district of the same name. Its operational area amounts to 150 hectares. Each of the sites are officially classified as industrial and occupy large areas. Consequently the sites are expansive and the operations have been relatively unrestrained in their use of land. This is typical of several mines in the region where little pressure exists on land utilisation, given the large size of the country.

The region has a sharp, dry, continental climate with extreme summer temperatures of $+40^0$C, and minimum winter temperatures of -50^0C. Typically the region exhibits a temperature range of $+30$°C to -30°C with an annual average temperature of $+4^0$C. Precipitation is low and varies between 180mm to 380mm per annum. As a result, water resources are scarce. The topography of the region is characterised by relatively flat open 'Steppe' at elevations of 150mm to 300m above sea level, with occasional small forests (birch, aspen or willow) and shallow brackish lakes are in evidence. Strong south-westerly and westerly winds, which vary from 6 metres per second to 20 metres per second, are also a feature of the area.

15.2 Existing Mine Areas

Each mine site includes:

- abandoned open pits and waste dumps;
- several working or abandoned shafts with associated infrastructure;
- large tailings dams; and
- adjacent dependent settlements (approximate population: 4500 at Aksu, 6500 at Bestobe and 5000 at Zholymbet).

15.3 Development Proposals

The proposed and completed developments for the operation includes, the following, details of which have already been explained in previous sections of this report:

- Commencing new open pits;
- Installation of new CIP plants;
- Construction of heap leach pads for treatment of low grade ore and reprocessing of existing waste dumps and tailings;
- Construction of new TMF tailings management facilities;
- Extension of underground workings; and
- Backfilling old open pits with de-toxified waste.

15.4 Environmental Status

15.4.1 Air Quality

The production of dust from the exposed areas of various surface operations has the potential to cause localised concern. As a result, sanitary protection zones have been stipulated by the government between dust generating activities/sites and neighbouring properties, in order to reduce the effect of airborne dust pollution. Calculations have been made of the potential dispersal of atmospheric pollution and maximum concentration limits have been set by the authorities. With careful monitoring of dust levels, the introduction of improved dust management systems and planned installation of new process equipment there is every reason to expect that dust levels could be significantly reduced.

Noise is not thought to be a significant issue at present although the proximity of properties to the expanded open pits may create concern in the long term.

15.4.2 Surface and Groundwater

Work has been conducted on defining the hydrogeological characteristics of each mine site in order to determine the adequacy of the supply of water for operational purposes. In the case of the Aksu mine, process water is abstracted direct from the Aksu River and transported by some four kilometres of pipeline to the site. Authorisation is provided by the Kazakh authorities on an annual basis. By contrast, Bestobe obtains the vast majority of its water supply from recirculated water captured in the underground workings. A small amount of water is also supplied by abstraction from the River Seleta. Similarly, Zholymbet obtains its process water requirements from water pumped from the underground mine and a reservoir fed by the Ashily River, two kilometres from the plant. All mines operate on a principle of zero discharge of water at the surface and all water is planned to operate in a closed circuit.

The old existing TMFs constructed prior to 1999 were not provided with impermeable barriers at the time of their construction and it is considered probable that seepage water passing through the tailings material has already contacted the groundwater.

Kazakhaltyn has stated that the design of the new tailings management facilities and heap leach pads incorporate measures to prevent contamination of ground and surface waters. This is effected by the placement of impermeable liners beneath the base of each new construction. In the case of HLPs this involved the establishment of compacted clay and polyethelyne liners beneath each pad, together with a ring-dyke to collect and trap run-off water. The TMFs will feature a compacted clay lined base with secondary water drainage and settlement/evaporation lagoon facilities incorporated adjacent to the outer edge of a TMF dam wall. Monitoring is planned in the form of inclined boreholes to be sunk beneath the base of each structure, which will be measured and tested at regular intervals. No results of these tests have been made available to WAI, however it is anticipated that regular monitoring will continue.

Spillage prevention measures, associated with the storage and use of potential contaminants and process reagents, are scheduled for improvement by Kazakhaltyn, by the introduction of new tanks, replacement of old pipework and the sealing of leaks in old infrastructure and plant.

Inflow of water into new open pits is not considered to be of significant concern in the short-term. However pumping, drainage and treatment of water will require specification and design when these pits exceed 60 metres to 100 metres depth below the surface.

All domestic and sewage discharge will be intercepted and transported to the central town authority for disposal.

WAI note that the existing background characteristics of surface and groundwater show elevated levels of pH, sodium and chlorides when measured against national values of maximum permissible concentrations.

15.4.3 Visual Impact of Waste Stockpiles

The requirement for disposal of waste rock at surface has resulted in the establishment of large dumps, with high visual impact. It is accepted that these are considered to be future stockpiles of low grade ore for later processing and as possible backfill material, so little attempt has been made to either locate, construct or revegetate them to reduce their visual impact or threat to groundwater pollution. However, since they are still being considered as a potential source of revenue a future disposal plan is currently being prepared that will reduce their impact.

A memorandum of understanding, referred to elsewhere in this document, is in place between Kazakhaltyn and the state authorities in respect of the disposal in the future of open pit waste into an abandoned uranium open pit at Aksu. It is considered that this will have a dual benefit of reducing the volume of surface tipping, whilst backfilling an otherwise potentially hazardous, orphaned site.

15.4.4 Flora and Fauna

Within the mine concession boundary, all unapportioned land comprises uncultivated "steppe" plains of meadow grasses, with localised areas of birch and aspen. Outside the mine, processing and populated areas, the lands are typically cultivated with wheat type crops.

The Project areas all lie within existing lands designated as industrial zones. The existing environmental background already suffers from environmental damage and pollution. There is little evidence of fauna and flora and it is almost entirely impacted by previous agricultural or industrial activity and WAI considers that it likely that the existing flora and fauna has adapted to the presence of mining activities and that any further development would have little effect. No protected species are considered to exist on land subject to future development. As mentioned previously the proposed operations are considered to constitute the potential for environmental benefit to the land. Clean-up of previously indiscriminate tipping of wastes and unregulated disposal of tailings at Bestobe should be realised as a result of the reprocessing activities.

15.4.5 Historical or Cultural Impacts

There are no reports of any historical or cultural monuments, zones or remains in the vicinity of the proposals.

15.5 Regulatory Permits and Approvals

Kazakhaltyn is in possession of the documents relating to protection of the environment at Aksu, Bestobe and Zholymbet, as described elsewhere in this document, including

- Kazakh State Ecological (SEE) approval of "normative projects" for Maximum Permissible Emissions (MPE) of potential pollutants released to the environment on an annual basis. All permits are said to be effective from 9 July 2001 and are valid until 2006 when they will be due for renewal. Permissible limits are established for periods of three years and are subject to reconsideration at the time of renewal, if environmental and process control circumstances change:
  - Aksu Permit N^{o} 04-08/762;
  - Bestobe Permit N^{o} 04-08/759; and
  - Zholymbet Permit N^{o} 04-08/760.
- Kazakh State Ecological (SEE) approval of "normative projects" for Maximum Permissible Discharge (MPD) of potentially polluting matter to land and water on an annual basis. All permits are stated to be effective from 15 March 2004 and are valid until 2007 when they will be due for renewal:
  - Aksu Permit N^{o} 05-08/500;
  - Bestobe Permit N^{o} 05-08/498; and
  - Zholymbet Permit N^{o} 05-08/499.
- Ecological passports, required by all Kazakh industries prior to operation, were issued by the Ministry of Nature Protection in 2001 and are not normally subject to review, providing the conditions in the above 'normative projects' are fulfilled:
  - Aksu N^{o} 04-08/763;
  - Bestobe N^{o} 04-08/764; and
  - Zholymbet for N^{o} 04-08/765.
- State approved "normative projects" for the location, formation, rate and volumes of waste production, issued 10 April 2003
  - Aksu N^{o} 04-08/688;

- Bestobe N° 04-08/687; and
- Zholymbet—N° 04-08/689.

- Environmental monitoring programme approval granted by Regional Authorities on 26 August 2002:
  - Aksu N° 03-08/1254;
  - Bestobe N° 03-08/1254; and
  - Zholymbet—N° 03-08/1254.
- State approval (N° 04-08/1089) dated 18 April 2005 of OVOS (Environmental Impact Assessment) for *'Equipment designs «Construction of trial installation of heap leaching of gold from preliminary pelletised transbalance ores on mine Aksu» and «Working off career by depth of 60 metres zone "Kariernaya" of mine Aksu'.*
- State approval (N° 04-08/1089) dated 15 June 2005 of OVOS (Environmental Impact Assessment) for *'Equipment design «Mine Zholymbet. Reconstruction of concentrating factory»'*

All mines are reported by Kazakhaltyn to have a satisfactory record of compliance with Kazakh limits and standards. WAI has no reason to believe that future 'normative project limits' cannot be negotiated to allow for the anticipated expansion at each of the mines. Emissions of substances deemed to be polluting to the environment attract an annual rate of payment, set by the regional authorities. A table of the current rates, payable per unit of polluting matter, has been presented to WAI. Total annual payments have varied from approx KZT 5 million, for 740 thousand tonnes of emissions, in 2002 to KZT 3.6 million, for 300 thousand tonnes, in 2004.

Volumes of emissions and discharges for each mine were granted by the Regional Ministry for Environmental Protection. Records show that total emissions from the combined operations totalled nearly three million tonnes per annum; dumping of polluting substances five million tonnes per annum and accommodation of waste products 340 thousands tonnes per annum.

The limit based approach to imposing and enforcing environmental conditions, with powers of prosecution for exceeding limits and power to impose taxes for emissions was traditionally adopted by 'command and control' systems of regulation. New policies on enforcement in the leading industrial countries have been directed towards the development of national environmental protection measures based on risk based and the adoption of best available technology approaches to assessment and control and away from the inflexible limit based approach. In particular, the protection measures for air and water consist of a combination of goals, standards, guidelines and protocols. Recently, there has been a sharp rise in awareness for regulatory reform to ensure that improvement in environmental performance and financial competitiveness are achieved. WAI considers that it is likely that changes in Kazakh environmental regulation will follow the same pattern, in order to introduce more flexible regimes relating to new technology, new approaches to environmental management, economic climate, social/community expectations and heightened environmental awareness and knowledge.

Integrated environmental management is being promoted within the worldwide mining industry and standards for international best practice will be expected to be adopted by mining companies irrespective of their geographic area of operation. Kazakhaltyn is aware of these trends and will take the initiative by firstly, familiarising themselves with and steadily moving towards the adoption of accepted standards of international best practice.

15.6 Environmental Monitoring

A programme for ecological monitoring has been developed and agreed between Kazakhaltyn and the Ministry of Environmental Protection (EP). WAI consider this to be a positive and proactive step towards ensuring environmental compliance and could form the basis for environmental improvement over time.

Water and air quality samples are taken at three monthly intervals and soil samples are taken and tested annually. Reports are issued by the company for analysis and verification by the regional EP on a quarterly basis. Site inspections of the facilities are made on a scheduled basis by the EP. It is understood that, at the date of the last meeting, 27 April 2005, infringements relating to the storage of scrap, oil and domestic waste were noted. These issues were duly corrected within the agreed period.

No fines or prosecutions are recorded to have been made by the EP against the company.

15.6.1 Compliance with International Standards

Compliance with any standards is difficult to assess as there is very little historical evidence of comprehensive monitoring for parameters undertaken on site.

When comparing the provided Kazakh annual liquid effluent limits, set by the Ministry for Environmental Protection, with World Bank limits, overall Kazakh acceptable levels are more stringent than World Bank standards. The rigorous nature of these standards is very encouraging, but it should be ensured that detection limits of available analyses are rigorous enough to meet these standards. Some discrepancy is also apparent, with particular determined standards, for example, copper, exceeding World Bank standards. It should also be noted that some parameters are not in the same measured form, for example sulphide as stated by the World Bank, versus sulphate for Kazakh standards. Comments refer to the supplied air, water and soil standards.

15.6.2 Environmental Management System

In order to fulfil the requirements of the environmental monitoring programme Kazakhaltyn has established an Environmental Department. The department is headed by a Chief Ecologist, supported by an engineer with one ecologist at each mine. Responsibilities and functions have been assigned relating to monitoring and analysis. The Environmental Department reports directly to the President of Kazakhaltyn.

Whilst there is currently no state requirement for the implementation of an Environmental Management System ("**EMS**"), WAI recommends that the introduction of an EMS could help Kazakhaltyn to:

- reduce costs;
- reduce energy and use of other resources and minimise waste;
- meet Government and Departmental targets for improved performance;
- ensure compliance with environmental legislation and regulations; and
- reduce unforeseen environmental risks.

Key elements of an EMS include the production of an Environmental Policy Statement, the identification of management responsibility and chain of command and allocation of resources. Kazakhaltyn is minded to introduce an EMS at an early stage.

15.7 Social Management Plan

The single largest positive impact that the proposed development is likely to make is socio-economic. The mines provide the main source of development of social infrastructure for some 16,000 people. Kazakhaltyn has supported social activities in the settlements neighbouring their activities by means of charitable donations to:

- support schools and orphanages;
- maintenance and repair of water supply lines;
- assist in the construction of a mosque; and
- assistance to invalids, pensioners and needy people.

It is reported that some KZT 6 million ($44,000) was spent in 2004 in support of the above activities, and Kazakhaltyn anticipates that similar amounts will be set aside for future annual periods. Whilst the philanthropy of the company is likely to be appreciated by the community, WAI believes that a formally adopted community development plan should be developed between the local communities, the authorities and the company. Properly structured, this would ensure that budgets can be allocated and agreed to finance sustainable activities in such a way that a drain is not made on financial, labour and management resources. Kazakhaltyn is considering the introduction of a community development plan.

In 2005, the company conducted a meeting with the regional authorities and community representatives to discuss environmental concerns and company proposals. WAI feels that public consultation must be an integral part of company policy to ensure that concerns of all stakeholders are heard and correctly addressed. A consultation programme held early on in the process enables concerns to be heard and acceptable solutions to be found and incorporated in the project development.

15.7.1 Resettlement and Relocation of People

There are no current provisions made for resettlement or relocation of any landowners or tenants likely to be affected by the expansion of surface activities. WAI consider that any resettlement is likely to affect few properties and will probably be conducted by agreement between the authorities, residents and the company. No agreements for compensation for loss of land or premises and no objections have yet been lodged.

15.8 Mine Closure and Rehabilitation Plan and Financial Provisions

No mine closure and rehabilitation plan (MCRP) has been prepared. Existing regulations in Kazakhstan refer only to the replacement of top soil and grass at end of mine life. Whereas, financial provision for the maintenance of a liquidation (closure) programme is required to be provided by the establishment of a trust fund in which up to 5% of book value assets are paid by the company each year. At present a balance of KZT 800,000 ($6,150) has accrued.

There is no statutory requirement to prepare or update a MCRP and financial provision is not related to a realistic cost estimate. Consequently provision for mine closure is inadequate by western standards. It is WAI's opinion that a properly developed and approved scheme to deal with mine closure will enable the timely allocation of funds and resources. It is understood that Biometpreparat Institute in Stepnogorsk have been approached to carry out studies leading to formulation of an MCRP.

This should include a detailed description of outcomes for mine closure. The plan should be an integral part of the mine life plan and should be undertaken with a view to a risk based approach. Closure planning will be required to ensure that closure is technically, economically and socially feasible.

In addition, a cost estimate for closure should be developed from the closure plan, and regularly reviewed to reflect changing circumstances. The financial provisions made for closure should reflect real costs and accepted accounting standards should be the basis for these provisions. Furthermore, adequate securities need to be put in place to protect the community from closure liabilities.

Financial provision for closure could be via an environmental trust fund, and environmental insurance policy, a reclamation fund or a reclamation bond.

15.9 Occupational Health and Safety Plan

A draft occupational health and safety plan has been prepared by Kazakhaltyn in which measures to improve health and safety of the workforce will be implemented progressively throughout 2006. However, the lack of any formal emergency, security or safety plans needs to be addressed, WAI believe that Kazakhaltyn are to implement this procedure. This should include an assessment of financial liability in the event of an emergency, to further define risks, and potential costs associated with those risks. Commonly, considered risks include substances and products, accidental releases, dusts, gases, fumes and vapours, noise and vibration, fibres and biological risks.

Health and safety management plans commonly enable the avoidance of human, political and economic consequences of unsatisfactory occupational health and safety standards. Furthermore, they enable compliance with Kazakh laws and regulations and IFC occupational health and safety guidelines. They also control risks and motivate all concerned to be positive and proactive about occupational health and safety.

It has been communicated to WAI that the Department for Health and Safety issues Environmental Protection, and Sanitation reports to the president of Kazakhaltyn. The department works on premises outlined in the Constitution of the Republic of Kazakhstan and the Law of the Republic of Kazakhstan regarding health and safety issues, production safety and collective agreements, and other legislative acts and documents.

The department acts in conjunction with a trade union 'Committee of Concern' where questions are raised regarding health and safety issues. There are also State inspection systems in place for hazardous substances and fire. These include the Ministry for Environmental Protection for Akmola region, the Department of Internal Affairs, the Fire Prevention Agency, and the Public Prosecutors Office. Employee representatives are also involved in the inspection process.

The Chief of Health and Safety, Environmental Protection and Sanitation for Kazakhaltyn is nominated by the State Ministry, and works independently of the company. The main responsibilities for this job are organising the functioning and workload of the department. His primary role is to ensure compliance with

the laws as stated by the Republic of Kazakhstan and its associated instructions and standards. This is achieved via a comprehensive work programme.

The Chief of Health and Safety, Environmental Protection and Sanitation for Kazakhaltyn also controls the organisation of training and retraining of workers. They are also responsible for health and safety documents and for coordinating standard operating procedures, seminars and other training programmes.

WAI is informed that in accordance with paragraph 13 in the document "Safety during Mining" as approved by the State Mining Technical Committee, 1971, Kazakhaltyn drafted an accident and emergency plan. This has been approved by the company's Chief Geologist after agreement with the Mining Safety Team. After agreement from all concerned the plan will be implemented. The Chief Geologist is responsible for appropriate action in the event of an accident, and the Mining Safety Service Emergency Response Team implement these actions.

16. FINANCIAL APPRAISAL

This section appraises the financial results of the development and operation of the three mines between 2006 and 2040. Kazakhaltyn has other assets that are outside the scope of WAI's report.

WAI's appraisal uses constant US dollars converted at a rate of KZT 130 = $1.00.

16.1 Kazakhaltyn's Business Plan

16.1.1 Description of the Kazakhaltyn's business plan

Kazakhaltyn has prepared a detailed business plan covering the years 2004 to 2040. Each of the three mines is treated individually and the spreadsheets translate the resource into a mining reserve applying factors of dilution and ore loss.

The plan takes the open pit reserve and provides a monthly production schedule for 2006 and 2007 and annually thereafter. Ore production is scheduled by elevation, with waste production also being given. The open pit schedule is collected into a comprehensive annual production schedule. The annual tonnage of ore from the underground mines is shown by shaft or ore zone as well as ore produced from the open pits, flotation tailings and dumps, to provide a total mine ore production.

The production plan calculates the gold recovery using two processes—CIP (some plants with ancillary flotation and gravity sections) and heap leaching. Basically, all the underground ore and tailings report to the flotation or CIP plants, with about half of the open pit ore. The remainder of the open pit ore and the dump ore will be treated in the heap leach plants. The estimated recovery for each ore source leads to the total gold production. The gold is reported in three forms: doré bullion, gravity concentrate and flotation concentrate.

The plan also calculates the cost of mining each underground ore zone as well as all the flotation/CIP treatment cost of the underground ore, tailings and some of the open pit ore. In addition, the costs of mining the open pits, dumps and tailings, including transport to the appropriate processing area are also calculated. The cost of preparing the heaps, leaching, and recovering the doré bullion from the leachate are also calculated.

Each sheet details:

- the labour element and cost, including salary overheads;
- material costs; and
- energy costs.

These estimates are based on a database of unit costs and are separated into fixed and variable costs. Operating costs include amortisation and depreciation which WAI has excluded to prepare comparative cash costs. Kazakhaltyn is currently installing a new management information system which will allow for cash cost analysis.

Kazakhaltyn has not included contingency provisions and is of the opinion that the cost estimates are adequate to cover unforeseen expenditures.

The operating cash costs for each mine are converted into US dollars at the fixed rate of KZT 130 to $1.00 and assembled into four categories (underground mining, CIP plant operation, open pit mining of ore to CIP and all remaining surface mining and heap leaching costs). A General and Administrative cost at each mine is also calculated, generally 70% of the 2005 General and Administrative estimate *pro-rata* to each annual gram of gold. These "prime" costs, directly attributable to each mine, are added together and a "Gross Income" calculated by deducting them from the gross revenue.

The revenue from gold sales is calculated using a fixed price of $425 per ounce from which is deducted 2% for the realisation cost of doré bullion and the gravity concentrate. Revenue from the flotation concentrate is taken as 70% of the gold price to provide for smelting, refining and associated costs.

The "Gross Income" is adjusted to "Net Income" by deducting:

- general and administrative overheads;
- the royalty payments on gold produced—2.3% of the gross value of the gold produced;
- the cost incurred in Kazakhstan to transport, insure the bullion and concentrate;

- a provision of 30% of exploration costs;
- interest costs (2004 and 2005 only); and
- income tax at 30% of operating profit after provision for depreciation (already included in the operating cost).

16.2 WAI's Model

16.2.1 Description of the WAI's Model

WAI has prepared a new model, which, although based on Kazakhaltyn production and cost data, simplifies the mining concepts and costs, to present them in a more suitable format. The WAI model is intended to evaluate the worth of the mining project from the years 2006 to 2040 and does not consider liabilities or assets brought forward from earlier years, gearing, the cost of debt/equity financing or small amounts of revenue derived from non-mining activities.

16.2.2 Valuation

WAI has reviewed the technical and cost estimates prepared by Kazakhaltyn and, where considered appropriate, has provided revised estimates. For example, WAI has made adjustments to reflect the grade of underground ore, some mining costs and processing recovering rates.

The most important assumptions and results of the appraisal, using the WAI parameters are shown in Table 16.1 below.

Using a 12% discount rate, WAI estimate a net present value for the project of $488 million recovery.

Table 16.1: WAI Valuation Results

Discount rate	Net present value
	($ millions)
8%	640
10%	557
12%	**488**
14%	432

16.3 Potential Risks

16.3.1 Introduction

A number of parameters, if adversely changed, present potential risks to the project. The parameters fall into several categories—financial, mining grade, process recovery, operating costs and capital expenditure.

16.3.2 Financial Factors

Several financial parameters impact the profitability of the project. Some, such as the tax and royalty rates are fixed by agreement with the Kazakh government (for example under Subsurface Use Contract No. 145). Others such as the discount rate used to establish the net present value are not true variables but can be changed at the discretion of the user. Interest rates are not included as WAI's model is "project only" and does not investigate interest or finance costs. WAI has considered the effect of two financial variables—the gold price and the Tenge to US dollar exchange rate.

16.3.2.1 Gold price

As with all mining projects any factor directly influencing the revenue is highly significant. Although ore grade and gold recovery also directly influence revenue their values are estimated from testwork and liable to fall in a limited and predictable range. However, metal price is not influenced by the skill or judgement of the miner, but by totally external influences. Further, the gold price is not directly related to the conventional industrial supply and demand scenario. As gold is the traditional store of wealth, it is highly influenced by external, political factors, with two important ones being international conflict and sales by central banks. In the last four years gold has ranged from $270 per ounce in early 2001 to over $470 per ounce in September 2005.

For the purpose of WAI's appraisal, it has used a value of $425 per ounce.

16.3.2.2 Tenge to US dollar exchange rate

WAI's analysis appraises the Project in US dollars. Revenue is created in US dollars whilst operating costs are principally incurred in Tenge. Therefore, a decrease in the Tenge to US dollar exchange rate has the effect of increasing the operating cost and thus decreasing the estimated net present value. Amongst the CIS countries Kazakhstan is considered to have a relatively stable economy with a good natural resource base, most particularly Kazakhstan is a major oil producer. The Tenge is fully convertible for current account transactions. The Kazakhstan authorities devalued the Tenge in 1998 following the Russian crisis and smaller devaluations occurred in 2001 and 2002. However, since then the Tenge has appreciated against the US dollar, a trend that is forecast to continue.

16.3.3 Ore Grade

The ability to supply ore from the various sources to the process plants at the estimated grade will be critical to the Project viability. The gold occurs principally in narrow veins, albeit sometimes grouped into zones. Some of these veins measure only a few centimetres in width, but may be extremely rich. In the past these veins have been mined mainly by underground methods, during which barren rock is also mined causing the ore grade to be diluted. Some dilution is unavoidable where ore veins are less than minimum practical mining widths, estimated by Kazakhaltyn to be 0.7 metres.

The reduction in grade caused by such dilution is estimated and reflected in the mining reserve. However, additional dilution may result from poor mining practices and will reduce the scheduled grade. This is most often noted in underground mining and has been a significant problem in the past at these mines. Kazakhaltyn uses "resuing" in narrow veins, a mining technique that allows the higher-grade portion of the vein to be removed before the waste or lower grade ore is blasted. However, WAI has reviewed the potential for dilution according to geological information on vein widths and has estimated the effect on grades on each section of each mine. This has reduced some grades by up to 40% on the narrowest veins.

It should be noted that dilution has a second effect—that of increasing tonnage, with a concomitant increase in mining and processing costs. Such an increase in tonnage has been disregarded in this study, as WAI suspects that ore loss in pillars may be higher than estimated by Kazakhaltyn, at least partly offsetting any increase from dilution.

Dilution in open pit mining is generally less than underground as the ore zones are larger and the mining method permits low grade to be separated during loading. However, there will inevitably be some mixing of ore and waste. Good grade control relies on experience and Kazakhaltyn has recruited 51 experienced employees from the Murantau open pit gold mine in Uzbekistan.

The grade of the old flotation tailing dams should be reliably determined from plant records and the tailings should also be easy to mine. However, the tailings dumps are not deep and there is potential both to leave ore and to take underlying barren ground causing dilution.

The dumps that WAI observed at Aksu, Zholymbet and Bestobe were varied in character. They appear to consist of oxide material from the old open pits (not treatable in flotation plants), low grade from underground and possibly some waste from underground. The grade of the dumps has been determined partly from records, but largely from surface grab samples and trenches. The confidence in the estimated grade is thus low. It will also be difficult to separate ore from waste in some dumps as they clearly exhibit stratification.

16.3.4 Process Recovery

Process recovery also directly effects revenue. Kazakhaltyn has previously processed all ores through flotation plants, preceded at Bestobe by a gravity section to recover the free gold. The company is now embarking on two new processes to recover the gold at each mine—CIP leaching and heap leaching. As there are no historical recovery statistics on these ores, the recoveries estimated by Kazakhaltyn are largely reliant on testwork. Some ore has yet to be thoroughly tested and WAI is of the opinion that there is scope for recoveries to fall below those used in Kazakhaltyn's business plan (as well as some scope for improvement). Since WAI's site visit by the CIP plants at Aksu and Zholymbet have commenced operation, and recovered doré and first indications are that the recoveries predicted can be achieved. Heap leach operations have also commenced at Aksu and Bestobe, but more time is required to assess recoveries due to gold retention on the heaps.

16.3.5 Operating Costs

Kazakhaltyn has prepared a detailed cost model to calculate operating costs at each mine. However, it is not practical for WAI to trace the build-up in detail. WAI has followed the standard practice of reviewing costs on a "per tonne of material" basis and compared the results with standard costs, known costs of other projects in Kazakhstan and Central Asia, and past experience.

Kazakhaltyn's business plan summarises production plans, revenues and profits. WAI believes that some cost parameters used by Kazakhaltyn is optimistic, including some mining costs. Compared with Kazakhaltyn's business plan, WAI has reduced the estimated average ore grade and increased the estimated total operating cost, resulting mainly from WAI increasing the average underground mining cost, and the average open pit mining cost. Expressed in US dollars per ounce gold, WAI estimates a cash operating cost of $183 per ounce making the Project extremely robust.

16.3.6 Capital expenditures

Kazakhaltyn's principal three mines are currently operating and have a developed infrastructure. Some capital expenditure has already been incurred for new processing plants and open pit equipment. The capital included in Kazakhaltyn's business plan for these areas will be used to expand production over the next three years. Some work to prepare the underground mines for the new production levels has also been completed.

WAI has reviewed the information recently supplied by Kazakhaltyn and has taken a view of the capital requirements in the future, on the assumption that the provisions in Kazakhaltyn's business plan are fully funded by the end of 2005. WAI estimates include a contingency factor.

16.4 Project Sensitivity

The sensitivity of certain parameters to the Project economics has been examined through the use of risk modelling which investigates the interaction of risks. It is useful to examine the effect of individual factors, particularly on the negative side as it indicates specific Project vulnerabilities.

Table 16.2. indicates the impact of changes in various factors to WAI's financial appraisal using a discount rate of 12%.

Table 16.2: Sensitivity Results

Factor	WAI worst case	Net present value using worst case
Gold price	−18%	$298 million
Exchange rate	+12%	$424 million
Average grade	−6%	$419 million
Average recovery	−14%	$342 million
Average operating cost	+20%	$388 million
Life of mine capital expenditure	+45%	$454 million

All other parameters remaining constant, WAI's analysis shows the Project to be most sensitive to a fall in the gold price to below $350 per ounce. A gold price below $233 per ounce would produce losses, but even then the Project would retain a positive undiscounted cashflow.

The results also indicate the prime importance of controlling process recovery. The worst case estimates reflect the relative paucity of testwork. However, with the plants now coming into operation the estimates will be revised. Indeed initial indications from the CIP plants give rise to some optimism.

As with all mines, grade control will always require attention of management, as will operating cost control. The strength of the Tenge will also impact on costs/revenue.

Potential increases to capital expenditure result in the smallest decrease in the net present value.

One final sensitivity was examined. It can be noted that the mines are operated below capacity after 2015 and that ore processed falls from 2011 to 2020. The unused capacity will hopefully be filled with ore already indicated at the existing mines, or possibly from new projects Kazakhaltyn is hopeful of developing. However, should production cease in 2019, the net present value would fall by only 7% to $453 million.

16.5 WAI's Conclusions

Kazakhaltyn's three principal mines at Aksu, Zholymbet and Bestobe contain a large and generally well-substantiated resource.

Recently Kazakhaltyn has spent considerable time, effort and money reviewing the assets and developing a revised mining concept. This plan should turn around the fortunes of the previously ailing mines. The plan relies heavily on open pit mining and heap leaching, relatively modern low-cost technology with other easily mined, surface resources such as old tailings and dumps, also being treated. The old high-cost, low-recovery, flotation plants are being replaced with modern CIP plants producing doré bullion, although some flotation capacity will remain to treat refractory ores. 43% of the planned gold will still come from the underground mines. It is the opinion of WAI that the plan proposed by Kazakhaltyn is well conceived and should maximise the assets.

Kazakhaltyn's business plan summarises production plans, revenues and profits. Using a real 12% discount rate WAI estimates the post-tax net present value as $488 million and the pre-tax net present value of $753 million. WAI's opinion is that some parameters used by Kazakhaltyn are optimistic, most particularly the grade of the underground ore and some mining costs. It also reflects some conservatism in process recovery.

The Project produces a positive cashflow from 2006 onwards, and with a cash operating cost of $183 per ounce, the Project is extremely robust.

16.6 Risks, Benefits And Opportunities

16.6.1 Risks

There is a reasonable degree of confidence in the resource base. However, some areas require further investigation, examples being the grade and tonnage of the dumps and sections of the underground Vera ore zone at Aksu, the No. 2 Zone (Deep Horizons) at Zholymbet and Bestobe veins.

Some cost estimates prepared by Kazakhaltyn appear overly optimistic and contingency funding should be made available.

All mining projects are highly sensitive to the gold price, and Kazakhaltyn is no exception. At the time of writing the gold price is above $470 per ounce but some commentators project a lower range in the medium term.

43% of the gold in the mining plan will be sourced from the underground mines where the veins are generally narrow and erratic. Dilution has been a major problem in the past and will therefore require constant supervision. It is also difficult to predict and control costs in such deposits. The underground mines are old and much of the infrastructure worn, whilst rehabilitation costs are hard to estimate and implement. As such, the underground mines represent a more significant risk than the new open pit developments.

16.6.2 Benefits

The mines have multiple ore sources, both underground and on surface. Such a diverse source of ore gives considerable flexibility for the managers and mine planners.

The mines, having already been in operation for many years, have a well-developed, proven infrastructure in place.

There is an industrious, well-trained workforce at each mine, led by competent engineers.

16.6.3 Opportunities

There remains some scope to make improvements with Kazakhaltyn's business plan. For example, Kazakhaltyn plans to process the old flotation tailings (1.0 grams of gold per tonne) in the CIP plants, which give a good recovery. In the early years this displaces open pit ore (2.0 grams of gold per tonne) to the heap leach operation where recovery is up to 30% less. It may be prudent to process most of the open pit ore in the CIP plants and ignore the tailings until capacity becomes available.

The scheduling of open pit stripping could be improved. A significant rock tonnage is to be moved in the period 2006 to 2008. This rock movement diminishes rapidly thereafter. The equipment fleet might be reduced and utilised more productively with a revised stripping plan.

Kazakhaltyn's business plan, as reviewed by WAI, provides that production will fall away rapidly after 2010. There is a strong possibility that new ore will be located both adjacent to the existing mines and in other prospects. This could significantly boost cashflows in the later years.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f), we are responsible for this report as part of this document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in this document in compliance with item 1.2 of Annex X of the Prospectus Regulation.

Yours faithfully,

Dr Phil Newall
Director

Annex A

Qualifications Of Consultants

The following team members were involved in the compilation of WAI's report and all visited the Company's assets in Kazakhstan:

Phil Newall (ARSM), PhD (ACSM), CEng, FIMMM Project Director

Phil is a Mining Geologist with over 20 years experience of providing consultancy services to minerals companies throughout the world, with particular specialisation in CIS, Europe, Central and West Africa, and China.

Mark Owen, BSc, MSc, FGS, CGeol, Principal Geologist, Mining Geology

Mark has worked for over 25 years as a mine geologist, in both the metalliferous and industrial mineral mining sectors.

Philip King, BSc (Eng) Mineral Technology (Hons), Technical Director, Processing

Phil has 23 years minerals processing experience ranging from laboratory testwork and pilot plant operations through to plant commissioning, operations and trouble-shooting.

John Eyre, FRICS, MIMMM, Technical Director, Environmental

John has over 30 years experience in the international minerals industry as, variously, mineral surveyor, minerals and environmental manager, lecturer, consultant and mineral agent in over 30 countries.

Che Osmond, B.Sc. (Hons), MSc, MIMM, Geologist, Resource Analysis

Che is a Geologist with over nine years experience of implementation and management of geological, geotechnical, environmental and civil engineering contracts.

Malcolm Hooper, BSc, MSc, FIMMM, CEng, Financial Analysis

Malcolm is a Chartered Engineer with 40 years mining experience, specialising in the financial evaluation of mining projects.

Dave Chilcott, ACSM, CEng, FIMMM, Underground Mining Engineer

David has some 46 years experience as a Mining Engineer most of which was from being involved in the underground operation of Zambia Consolidated Copper Mines.

Annex B

Scope Of Work
Limitations And Exclusions Materiality

WAI carried out the following scope of work for its report:

- introductory meetings with Kazakhaltyn directors and management to understand the business plan;
- site visits and collection of data including:
  - geological maps, plans and sections;
  - mining operations and equipment;
  - gold concentrating plants;
  - infrastructure including transport systems and maintenance facilities; and
  - power and heat generating plants.

Operational and technical data and documentation was supplied to WAI personnel at each complex or site and financial data was supplied to WAI personnel in Stepnogorsk. This included historical production and costs on an annual basis and budgets and plans.

A technical review was undertaken at each asset, including the following elements:

- data suitability;
- geology and mining hazards;
- resources and reserves;
- gold mining operations;
- gold ore processing to concentrates;
- environmental issues;
- capital and operating costs;
- review of budget forecasts; and
- valuation of mining reserves.

WAI's report covers Kazakhaltyn's gold operations that are materially relevant to the evaluation of the resources estimated according to the FSU Classification and the unique provisions identified for each deposit in the "Conditions for Estimation of Reserves and Resources." WAI has reviewed the resource statements of the individual units compiled by Kazakhaltyn and has commented on their robustness or otherwise with respect to the JORC Code. WAI produced its report and financial appraisal based on Kazakhaltyn's 2006 to 2040 projections.

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