KazakhGold Group Limited

U.S.$200,000,000 9.375 per cent. Senior Notes due 2013 unconditionally and irrevocably guaranteed on a joint and several basis by JSC Kazakhaltyn MMC, Rudnik Vasilevskyi LLP and Visart LLP

The Issuer

KazakhGold Group Limited, (the ''**Issuer**'' or ''**KazakhGold**''), is a company organised and existing under the laws of Jersey.

The Guarantors

JSC Kazakhaltyn MMC (''**Kazakhaltyn**''), Rudnik Vasilevskyi LLP (''**Rudnik Vasilevskyi**'') and Visart LLP (''**Visart**'') (each a ''**Guarantor**'' and collectively the ''**Guarantors**'') are each directly or indirectly wholly owned subsidiaries of the Issuer. Kazakhaltyn is a company, and Rudnik Vasilevskyi and Visart are limited liability partnerships, organised and existing under the laws of Kazakhstan.

The Notes and the Guarantees

The Notes: The Issuer is issuing U.S.$200,000,000 in aggregate principal of 9.375 per cent. senior notes due 2013 (the ''**Notes**''). Each Guarantor will guarantee the Issuer's payment obligations under the Notes (each, a ''**Guarantee**'').

Interest: The Notes will bear interest at a rate of 9.375 per cent. per annum. Interest on the Notes is payable semi-annually in arrear on 06 May and 06 November of each year commencing on 06 May 2007.

Maturity: Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 06 November 2013.

Optional Redemption: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount in the event of certain changes in taxation in Kazakhstan or the United Kingdom. See ''*Terms and Conditions of the Notes—Condition 5(d) (Redemption for Tax Reasons)*''. In addition, the Issuer may at any time prior to 06 November 2010 redeem the Notes in whole or in part at the redemption price equal to 100 per cent of their principal amount plus an applicable premium. Further, the Issuer may on any date falling on or after 06 November 2010 redeem the Notes in whole or in part at a specified redemption price. See ''*Terms and Conditions of the Notes—Condition 5(b) (Redemption at the option of the Company)*''.

Change of Control and Asset Dispositions: If there is a change of control of the Issuer, Noteholders will have the right to require the Issuer to repurchase all or any part of such holder's Notes at a purchase price equal to 101% of the principal amount of the Notes. See ''*Terms and Conditions of the Notes—Condition 5(e) (Change of Control)*''. In addition, the Issuer is required to offer to repurchase Notes from Noteholders at a purchase price equal to 100% of the principal amount of the Notes with the net proceeds of asset sales in certain circumstances. See ''*Terms and Conditions of the Notes—Condition 3.6 (Limitations on Sales of Assets and Subsidiary Stock)*''.

Ranking: The Notes constitute direct, general, unconditional and secured obligations of the Issuer and will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantees constitute direct, general, unconditional and unsecured obligations of each Guarantor and will rank *pari passu* in right of payment to all existing and future unsecured and unsubordinated indebtedness of that Guarantor.

Security: The Issuer will on-lend the proceeds of the issue of the Notes to Kazakhaltyn pursuant to an inter-company loan (the ''**Loan**''). Subject as provided in the Trust Deed (as defined herein), the Issuer will charge and assign certain of its rights and interests under the Loan in favour of The Bank of New York as trustee of the Notes (the ''**Trustee**'') as security for its payment obligations under the Notes.

Settlement: The Notes will be represented by a global registered note certificate (the ''**Global Note Certificate**'') registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear Bank, S.A./N.V., as operator of the Euroclear System (''**Euroclear**'') and Clearstream Banking, *société anonyme*, Luxembourg (''**Clearstream, Luxembourg**'').

Listing: Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange.

No U.S. Registration: The Notes have not been and will not be registered under the Securities Act of 1933 (the ''**Securities Act**''). Subject to certain exceptions, the Notes may not be offered or sold in the United States or to U.S. persons or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Investing in the Notes involves a high degree of risk. Prospective investors should carefully consider the information set forth in the section headed *''Risk Factors''* beginning on page 14 before investing in the Notes.

Issue Price of the Notes: 100.00 per cent.

Sole Book-Running Manager

ING Wholesale Banking

This Offering Circular is dated 31 October 2006.

Neither the Issuer nor any of the Guarantors have authorised the making or provision of any representation or information regarding the Issuer, the Guarantors or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer and the Guarantors. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantors or the Manager.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or any of the Guarantors since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes. This Offering Circular may only be used for the purposes for which it has been published.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, each of the Guarantors and the Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see *''Subscription and Sale''*.

In particular, the Notes have not been and will not be registered under the Securities Act of 1933. Subject to certain exceptions, the Notes may not be offered or sold in the United States or to U.S. persons or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

A copy of this Offering Circular has been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002 and he 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 Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Notes.

It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it. If you are in any doubt about the contents of this Offering Circular 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. An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment. The directors of the Issuer have taken all reasonable care to ensure that the facts stated in this Offering Circular are true and accurate in all material respects and that there are no other facts the omission of which would make misleading any statement in this Offering Circular, whether of facts or of opinion. All the directors accept responsibility accordingly.

In connection with the issue of the Notes, ING Bank N.V., London Branch (the ''Stabilising Manager'') (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

RESPONSIBILITY STATEMENT

The Issuer and Kazakhaltyn accept responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and contains no omission is likely to affect the import of such information.

The information contained under the heading ''*Industry Overview*'' and ''*Appendix A: Country Overview*'' has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and mining sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information provided herein. The Issuer accepts responsibility for accurately reproducing such extracts, and as far as the Issuer is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.

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**'') as adopted by the European Union.

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 Issuer (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various securities laws. The Issuer confirms that such information has been accurately reproduced from its sources and, as far as the Issuer is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, the Issuer 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 Issuer 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 ''GFMS Limited'' are to GFMS Limited, independent researchers of the global market and an associate member of the London Bullion Market Association.

Currency Presentation

Unless otherwise indicated, all references to ''**U.S.$**'' or ''**U.S. 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.

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*''. The Technical Report is dated 13 June 2005 and has not been updated. Information on the reserves and resources reviewed by WAI is set out in tables under the headings ''*Business Description—Group Reserves and Resources*'', ''*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*''. The Technical Report has not been updated since 13 June 2005 and accordingly does not therefore reflect changes to the Group's reserves and resources arising from a number of factors including the acquisitions of Visart LLP and Rudnik Vasilevskyi LLP and five additional properties acquired in tenders in December 2005, the adoption of a new mining plan and gold production since the date of the report.

In this document, the reserve and resource estimates which have been reviewed by WAI are based on data initially prepared by the Issuer 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 Issuer.

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*''.

ENFORCEMENT OF FOREIGN JUDGMENTS

Each of the Guarantors is incorporated or established under legislation of Kazakhstan and certain of their officers and directors and certain other persons referred to in this Offering Circular are residents of Kazakhstan. All or a substantial portion of the assets of the Group and of each of such persons are located in Kazakhstan. As a result, it may not be possible: (a) to effect service of process upon the Guarantors or any such person outside Kazakhstan; (b) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions; or (c) to enforce against any of them, in courts of Kazakhstan, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes or the Trust Deed in the courts of England.

The Notes, the Trust Deed, the Loan Agreement and the Agency Agreement (as defined in ''*Terms and Conditions of the Notes*'') are governed by the laws of England and the Issuer has agreed in the Notes, the Trust Deed, the Loan Agreement and the Agency Agreement that disputes arising thereunder are subject, at the election of the Trustee or in certain circumstances, a Noteholder (as defined in the ''*Terms and Conditions of the Notes*'') to arbitration in London, England, or to the English courts. Courts in Kazakhstan will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. Kazakhstan is, however, a party to the 1958 New York Convention for the Recognition and Enforcement of Foreign Arbitral Awards, pursuant to which Kazakhstan courts are obligated, subject to a limited number of conditions, to recognise as binding and to enforce arbitral awards made in the territory of any country other than Kazakhstan, including arbitral awards made in London, England. In addition, on 28 December 2004, Kazakhstan passed the Law on International Commercial Arbitration, which also provides, subject to similar conditions, for the recognition as binding and the enforcement of arbitral awards made outside Kazakhstan, including those made in London, England.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements can be identified by the use of forward-looking terminology such as ''estimates'', ''believes'', ''expects'', ''may'', ''are expected to'', ''intends'', ''will'', ''will continue'', ''should'', ''would be'', ''seeks'', ''approximately'', or ''anticipates'', or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. The Group is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Offering Circular whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributed to the Group, or persons acting on the Group's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Circular. A prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

TABLE OF CONTENTS

	Page
Summary	1
Risk Factors	14
Use of Proceeds	24
Capitalisation	25
Selected Historical Financial and Operating Information	26
Operating and Financial Review and Results of Operations	30
Industry Overview	41
Business Description	43
Regulation	66
Directors and Senior Management	77
Related Party Transactions	83
Principal Shareholders	84
Certain Other Indebtedness	85
Terms and Conditions of the Notes	86
Summary of Provisions Relating to the Notes in Global Form	129
Loan Agreement	130
Taxation	137
Subscription and Sale	141
General Information	143
Definitions and Glossary	147
Appendix A: Country Overview	A-1
Index to Financial Information	F-1
Accountant's Review Report and Unaudited Consolidated Interim Financial Information on KazakhGold Group Limited	F-2
Accountant's Report and Consolidated Financial Information on KazakhGold Group Limited	F-10
Accountant's Report and Consolidated Financial Information on Kazakhaltyn	F-33
Wardell Armstrong International—Technical Report	T-1

SUMMARY

Subject as provided above, the following summary highlights selected information from the Offering Circular, but prospective investors should read this entire Offering Circular before making an investment decision. Prospective investors should also carefully consider the information set forth under ''Risk Factors''.

Business Overview

The Group is one of the leading gold mining companies in Kazakhstan based upon the Company's estimate of its total reserves and resources of 46.6 million ounces, or approximately 1,450 tonnes, of gold of which approximately 13.2 million ounces are B and C_1 reserves. The Company believes these are the largest known gold reserves and resources in Kazakhstan. The Group's principal operations are in Northern Kazakhstan. In the second half of 2005, the Company acquired several new properties in Eastern Kazakhstan. These have not yet been included in its resources calculations.

The Group's principal assets comprise:

- ***The Aksu mine.*** The Aksu mine 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 resources under the FSU Classification at the Aksu and Quartzite Hills deposits were approximately 5.4 million ounces and 15.0 million ounces, respectively. The Aksu mine comprises four operating shafts for underground mining, including two dedicated ventilation shafts, 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 with approximately 0.5 million tonnes per annum throughput capacity, which commenced operations in July 2005 and the recently modernised Aksu Processing Plant, which includes the newly constructed Aksu CIP Plant with approximately 1.0 million tonnes per annum throughput capacity which commenced operations in August 2005 and the Aksu Floation Facility with approximately 0.2 million tonnes per annum throughput capacity. The Company is planning to construct a new CIP Plant at Aksu with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2008.
- ***The Bestobe mine.*** The Bestobe mine 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. 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, with approximately 1.0 million tonnes per annum processing capacity, which commenced operations in August 2005, and the Bestobe Flotation Plant, with approximately 0.25 million tonnes per annum throughput capacity. The Company is planning to construct a new CIP Plant at Bestobe with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2008.
- ***The Zholymbet mine.*** The Zholymbet mine 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 at 13 June 2005. 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 with approximately 0.5 million tonnes per annum throughput capacity, which commenced operations in August 2005. The Company is also planning to construct a new CIP Plant at Zholymbet, with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2009.

For further information on WAI's independent review of the resources at the Company's principal mines, see ''*Technical Report*''.

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 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. 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 enables the Group to process low grade ore from open pits and waste dumps and to reprocess 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.

Kazakhaltyn produced 36,182 ounces of gold in 2003. The modernisation programme required the closure of the Aksu and Zholymbet flotation plants in 2004. 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. These new processing facilities made a significant contribution to increased production for 2005 which amounted to approximately 80,069 ounces of gold. This production trend has been confirmed in 2006, with approximately 95,160 ounces of gold produced in the six months ended 30 June 2006 despite adverse seasonal effects on heap leaching processing caused by cold winter weather. This is reflected in the monthly production figures which showed a marked increase beginning in late April and continuing through 2006 to date. Production in the three months ended 30 September 2006 was 78,361 ounces of gold, resulting in production for the nine months to 30 September 2006 of 173,521 ounces of gold.

The expansion of the throughput capacity at all of the new or recently modernised processing facilities is expected to continue. The Company plans to construct new large capacity CIP plants at Aksu and Bestobe which are expected to commence operations in 2008 as well as a new large capacity CIP plant at Zholymbet which is expected to start operations in 2009.

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. Each of the Akzhal, Boldykol, Vasilevskyi and Zhanan mines are located within 210 kilometres of the city of Semipalatinsk, in which the Group established its headquarters for managing its operations in Eastern Kazakhstan.

In addition, in December 2005 the Kazakh government announced that the Company won the tenders to acquire mineral rights to exploration properties from the Kazakh government for the five properties at Southern Karaultube, Kyzylsorskoe, Pridorojnoe, Kaskabulakskoe and Akshatau Zones I and II. The Group has begun geological exploration in these areas and plans to continue exploration through the second half of 2006. Trial open pit mining commenced at Kaskabulakskoe in Eastern Kazakhstan in June 2006, and whilst the Company expects some gold production from the fourth quarter of 2006, its contribution to the Group's total production in 2006 will be small.

As at 31 December 2005, the Group had 3,209 permanent employees.

Key Competitive Strengths

The Group believes that it benefits from the following key competitive strengths:

Relatively low mining and processing costs in respect of its open pits, waste dumps and tailings

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

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. 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, the Group 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 Aksu, Bestobe and Zholymbet, will reduce cash production costs and total operating costs per ounce as production increases. The Company also believes it will 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, the electricity cost and the costs of transmission are also relatively low.

Experienced management with proven 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 with geological and metallurgical expertise and the Company's board of directors includes three non-executives with international experience in the gold and natural resources sector.

Strong position from which to acquire exploration properties in Kazakhstan

Whilst a number of international gold mining companies have mineral rights in Kazakhstan, none of the major international gold mining companies have 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 successfully acquire mineral rights to exploration properties in Kazakhstan. For example, in relation to acquisitions 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.

Strategy

The Company's strategy is to increase the Group's gold production significantly, lower the Group's cash production costs and total 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 until August 2005, the Group had primarily processed gold ore using flotation and gravity technologies. As part of the Group's modernisation programme, it has adopted 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. In particular, the Group has plans to invest significantly in the development of CIP technology. The Company believes that CIP processing technology offers a number of benefits including the possibility of increased gold recovery rates, lower unit costs of production and reduced seasonality in production volumes as compared with heap leaching. CIP technology also allows the processing of both oxide and sulphide ores.

Expanding the Group's production significantly

As part of the Group's implementation of its modernisation programme, in the second half 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 further expects to complete the construction of new CIP Plants at Bestobe and Aksu in 2008 and a further CIP Plant at Zholymbet in 2009. The expansion of the throughput capacity of the Group's main processing facilities is expected to continue until the Group's modernisation programme is fully implemented.

The Company 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

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 near the cities of Semipalatinsk and Ust-Kamenogorsk and mineral rights with respect to Zhanan and Boldykol deposits. In December 2005, the Company won tenders for exploration rights in relation to five properties at Southern Karaultube, Kyzylsorskoe, Pridorojnoe, Kaskabulakskoe and Akshatau Zone I and II. In searching for potential acquisition targets, 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 at lower cost. 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 intends to reclassify its reserves and resources over time under the JORC Code. Wardell Armstrong International is expected to be retained to reclassify the reserves to the JORC Code and this work is to be concluded in 2007.

Seeking international strategic arrangements to maximise the potential of its existing resources and new acquisitions

KazakhGold has a highly experienced management team with extensive expertise in geology, metallurgy and mining and processing technologies that are currently used in Kazakhstan. The Group intends to leverage this experience and seek international strategic arrangements. The Group is currently in discussions with various international gold mining corporations including China National Gold Company and Barrick Gold Corporation to explore potential strategic arrangements.

Summary Reserves and Resources Information

WAI carried out a review of the Group's stated B and C_1 reserves as at 13 June 2005 which was 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. The Company intends to reclassify its reserves at Aksu, Bestobe and Zholymbet under the JORC Code classification. It is expected that this work should be concluded in 2007. The Company expects to retain WAI to assist in such reclassification. 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			
Mine	**Ore (millions of tonnes)**	**Grade (grams per tonne)**	**Gold (thousands of kilograms)**	**Gold (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

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			
Mine	**Ore**	**Grade**	**Gold**	**Gold**
	(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	139.4	4.73	660.0	21.2

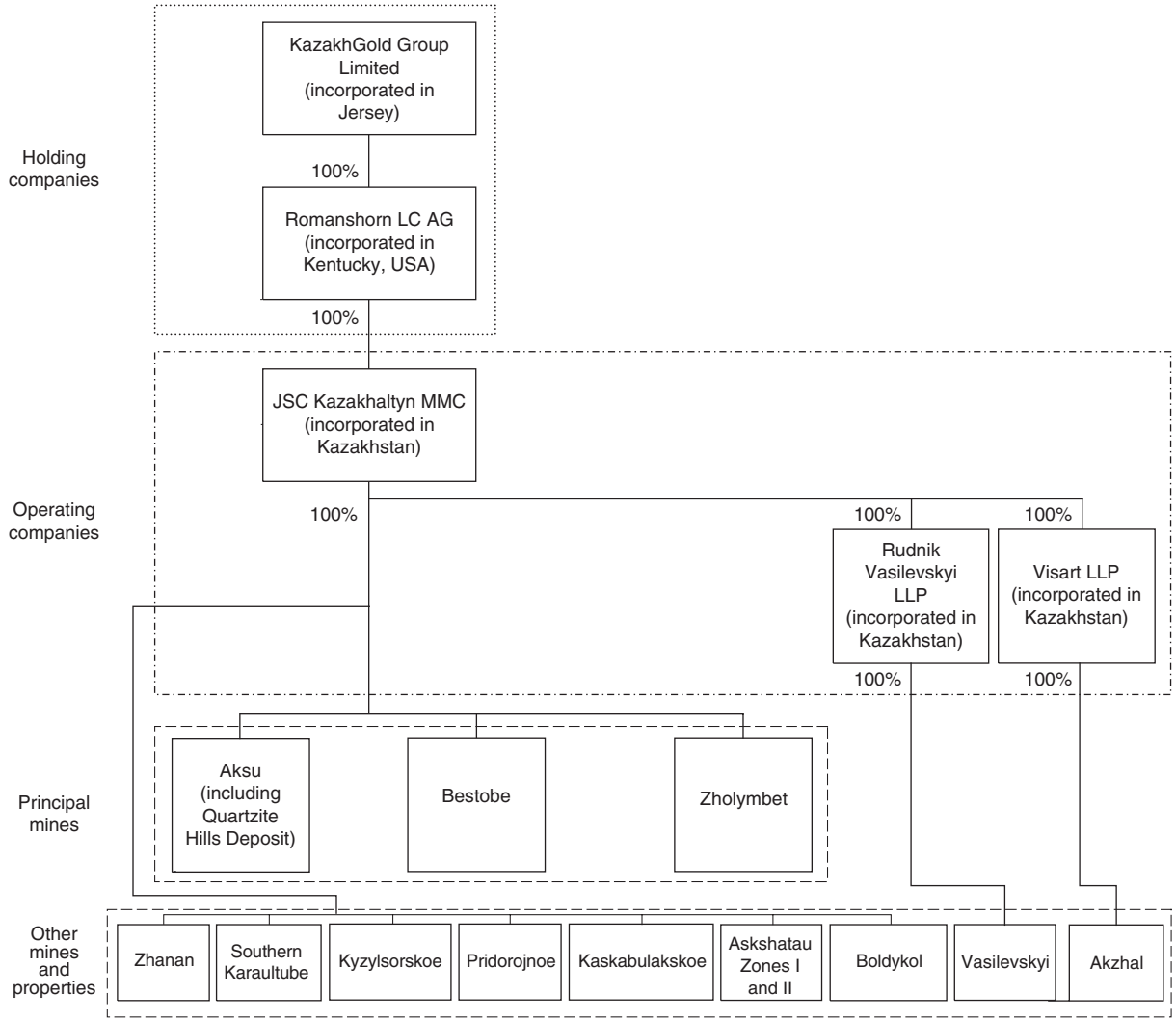
For information on certain risks relating to the presentation of the Group's reserves and resources in this document, see ''*Risk Factors—Risks Relating to the Group's Business—Information on reserves and resources*''. For information on the FSU Classification, including a comparison with the JORC Code,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

The Group has not undertaken any verification of the reserves and resources at the recently acquired Akzhal, Boldykol, Vasilevskyi and Zhanan deposits and properties at Southern Karaultube, Kyzylsorskoe, Pridorojnoe, Kaskabulakskoe and Akshatau Zones I and II to date.

Corporate Structure

The Company, which is incorporated in Jersey but managed and controlled in the United Kingdom, 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, Zholymbet Boldykol, Zhanan, Kaskabulakskoe mines and Southern Karaultube, Kyzylsorskoe, Pridorojnoe and Akshatau Zones I and II properties. The Group's other operating companies are wholly owned subsidiaries of Kazakhaltyn.

The diagram below shows the Group's corporate structure for its material subsidiaries and mines:



THE OFFERING

Capitalised terms not specifically defined in the summary have the meanings set out in the ''Terms and Conditions of the Notes''. See *''Terms and Conditions of the Notes'' and ''Summary of Provisions Relating to the Notes while in Global Form'' for a more detailed description of the Notes.*

Issuer	KazakhGold Group Limited
Guarantors	JSC Kazakhaltyn MMC, Rudnik Vasilevskyi LLP and Visart LLP
Issue	U.S.$200,000,000 9.375 per cent. Senior Notes due 2013.
Status of the Notes and the Guarantees	The Notes constitute direct, general, unconditional and secured obligations of the Issuer and will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantees constitute direct, general, unconditional and unsecured obligations of each Guarantor and will rank *pari passu* in right of payment to all existing and future unsecured and unsubordinated indebtedness of that Guarantor.
Security	The Issuer will on-lend the proceeds of the issue of the Notes to Kazakhaltyn pursuant to an inter-company Loan. Subject as provided in the Trust Deed, the Issuer will (a) charge by way of a first-ranking charge certain of its rights and interests under the Loan and (b) assign by way of security certain of its other rights under the Loan, in each case in favour of The Bank of New York as Trustee of the Notes as security for its payment obligations under the Notes.
Maturity Date	06 November 2013
Interest and Interest Payment Dates	The Notes will bear interest at a rate of 9.375 per cent. per annum. Interest on the Notes will accrue from the Issue Date and will be payable semi-annually in arrear on the interest payment dates falling on 06 May and 06 November of each year, commencing on 06 May 2007.
Redemption at the Option of the Issuer	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with interest accrued but unpaid to the date fixed for redemption, in the event of certain changes in taxation in the United Kingdom, Jersey or Kazakhstan. See *''Terms and Conditions of the Notes—Condition 5(d) (Redemption for Tax Reasons)''*. The Issuer may, prior to 06 November 2010 redeem the Notes in whole or in part at the redemption price equal to 100 per cent of their principal amount plus an Applicable Premium and all accrued and unpaid interest and any Additional Amounts payable pursuant to *5(b) (Redemption at the option of the Company)* to the redemption date. Further, the Issuer may on any date falling on or after 06 November 2010 redeem the Notes in whole or in part at the redemption price as set out below (expressed as a percentage of the principal amount), plus accrued and unpaid interest to the redemption date: • a redemption date falling on or after 06 November 2010 and before 06 November 2011 has a redemption price of 104.688 per cent; • a redemption date falling on or after 06 November 2011 and before 06 November 2012 has a redemption price of 102.344 per cent; and • a redemption date falling on or after 06 November 2012 has a redemption price of 100 per cent. See *''Terms and Conditions of the Notes — Condition 5(b) (Redemption at the Option of the Issuer).*

Change of Control and Asset Dispositions	If there is a change of control of the Issuer, Noteholders will have the right to require the Issuer to repurchase all or any part of such holder's Notes at a purchase price equal to 101% of the principal amount of the Notes. See ''*Terms and Conditions of the Notes—Condition 5(e) (Change of Control)*''. In addition, the Issuer is required to offer to repurchase Notes from Noteholders at a purchase price equal to 100% of the principal amount of the Notes with the net proceeds of asset sales in certain circumstances. See ''*Terms and Conditions of the Notes—Condition 3.6 (Limitations on Sales of Assets and Subsidiary Stock)*''.
Certain Covenants	The Issuer and its Restricted Subsidiaries are subject to certain other covenants in the Conditions of the Notes, including, without limitation: • limitations on Incurrence and guarantees of Indebtedness; • limitation on Restricted Payments; • limitation on Liens; • limitation on restrictions on distributions from Restricted Subsidiaries; • limitation on sales of Assets and subsidiary stock; • limitations on lines of business; • limitation on Affiliate Transactions; • limitation on merger, amalgamation and consolidation; • limitation on activities of Romanshorn LC AG; • limitation on the Issuer, its Subsidiaries and Guarantors making payments to any consent, waiver or amendment to the terms or provisions of the Trust Deed or the Notes; • limitations on sale or issuance of Capital Stock of Restricted Subsidiaries; and • limitation on amendment to terms of the Security Interest.
Reporting	The Issuer is obliged to furnish the Trustee and Principal Paying Agent and make public certain information, including audited fiscal statements within 180 days of the end of each of the Company's financial years ending 31 December 2006 and 31 December 2007 and within 150 days of the fiscal years thereafter, and unaudited interim financial statements within 120 days of the end of the first six months in each of the Company's financial years ending 31 December 2006 and 31 December 2007, and within 90 days following the end of the first six months in each financial year of the Company thereafter.
Use of Proceeds	The net proceeds to the Issuer from the issue of the Notes, (the ''**Offer**'') are estimated to be approximately U.S.$197,000,000 after deducting combined management and underwriting commissions and the estimated offering expenses. The Issuer will enter into the Loan Agreement (as defined in the ''*Terms and Conditions of the Notes*'') pursuant to which it will lend the proceeds of the issue to Kazakhaltyn. Kazakhaltyn intends to use at least U.S.$120 million of the net proceeds for its modernisation programme, including the construction of new CIP plants at Aksu, Bestobe and Zholymbet and to use the remainder to fund exploration and development and for general corporate purposes, including but not limited to the

	refinancing of existing indebtedness, any additional requirements of the modernisation programme and for selective acquisitions.
Form and Denominations	The Notes shall be in registered form in denominations of U.S. $100,000 and integral multiples of U.S. $1,000 in excess thereof. See ''*Terms and Conditions of the Notes—Condition 1(a) (Form and Denomination)*''. The Notes will initially be represented by beneficial interests in the Global Note Certificate, which will be exchangeable for individual definitive certificates only in the limited circumstances specified therein. For further information, see ''*Summary of Provisions Relating to the Notes while in Global Form*''.
Governing Law	The Notes, the Trust Deed and the Agency Agreement are governed by, and will be construed in accordance with, the laws of England.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act or any state securities laws, and subject to certain exceptions, may not be offered or sold within the United States. The offer and sale of Notes is also subject to restrictions in the United Kingdom, Jersey and Kazakhstan. For further information, see ''*Subscription and Sale*''.
Trustee	The Bank of New York
Principal Paying Agent, and Transfer Agent	The Bank of New York
Registrar, Listing Agent and Transfer Agent	The Bank of New York (Luxembourg) S.A.
Payment and Settlement	The identification numbers for the Notes are as follows: ISIN: XS0273371632 Common Code: 027337163

Summary of 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 below has been derived from and should be read in conjunction with the historical consolidated audited balance sheets, statements of income and cash flows of Kazakhaltyn as at and for the years ended 31 December 2003, 2004 and 2005, respectively, and the historical consolidated audited balance sheet, consolidated statement of income and cash flow of KazakhGold for the period from incorporation on 26 September 2005 to 31 December 2005 and the historical unaudited consolidated balance sheet, consolidated statement of income and cash flow of KazakhGold as at and for the period ended 30 June 2006.

Historical financial information of KazakhGold and Kazakhaltyn 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.

	Kazakhaltyn				KazakhGold	
	Year Ended 31 December 2003	Year Ended 31 December 2004	Year Ended 31 December 2005	Year Ended 31 December 2005[1]	Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan. to 30 Jun. 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
Income statement data						
Revenue	1,526,355	1,141,180	3,498,563	26,329	20,357	31,578
Cost of sales	(1,115,945)	(937,321)	(1,531,386)	(11,525)	(14,863)	(14,269)
Gross profit	410,410	203,859	1,967,177	14,804	5,494	17,309
Administrative expenses	(198,632)	(186,215)	(1,022,751)	(7,697)	(6,954)	(8,193)
Distribution expenses	(8,781)	(23,635)	(313,430)	(2,359)	(86)	(731)
Other operating income	123,015	210,477	93,280	702	1,473	430
Other operating expenses	(11,455)	—	(95,481)	(718)	(640)	(1,696)
Profit/(loss) before finance income/(expense) and tax	314,557	204,486	628,795	4,732	(713)	7,119
Finance income	10,529	57,926	3,288	25	277	1,154
Finance expense	(215,577)	(222,218)	(343,265)	(2,583)	(647)	(2,042)
Profit/(loss) before tax	109,509	40,194	288,818	2,174	(1,083)	6,231
Taxation	(70,742)	(34,808)	(79,529)	(599)	(1,090)	(3,208)
Profit/(loss) for the year/period	38,767	5,386	209,289	1,575	(2,173)	3,023

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.

	Kazakhaltyn				KazakhGold	
	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2005[1]	Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan. to 30 Jun. 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
Cash flow data						
Cash generated from / (absorbed by) operating activities	46,519	(255,276)	3,828,575	28,812	5,055	(7,467)
Cash used in investing activities	(76,142)	(1,191,788)	(3,500,649)	(26,344)	(10,585)	(20,670)
Cash generated from financing activities	27,755	1,551,265	1,930,148	14,525	93,417	(27,294)
Net change in cash and cash equivalents	(1,868)	104,201	2,258,074	16,993	87,887	(55,431)

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.

	Kazakhaltyn				KazakhGold	
	As at 31 December				As at 31 December 2005	As at 30 Jun. 2006
	2003	2004	2005	2005[1]		
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited, restated) (U.S.$'000)	(unaudited) (U.S.$'000)
Balance sheet data						
Cash and cash equivalents	1,586	105,787	2,363,861	17,671	87,887	32,456
Other current assets	845,341	1,279,452	4,066,090	30,396	27,741	75,080
Total assets	3,418,899	6,703,829	14,657,870	109,575	939,218	1,046,788
Total debt	1,490,536	3,267,004	6,016,265	44,975	45,007	23,074
Total equity	1,395,221	2,419,965	2,612,407	19,529	608,110	686,714
Total equity and liabilities	3,418,899	6,703,829	14,657,870	109,575	939,218	1,046,788

(1) Converted into US dollars for convenience using an exchange rate of KZT 133.77 per U.S.$1.00, being the official Tenge to US dollar exchange rate as at 31 December 2005, as reported by the NBK.

	Kazakhaltyn			KazakhGold	
	Year Ended 31 December			Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan. to 30 Jun. 2006
	2003	2004	2005		
	(KZT '000)	(KZT '000)	(KZT '000)	(U.S.$'000)	(U.S.$'000)
Other financial and operating data					
EBITDA[1]	427,752	333,583	888,407	698	12,698
Adjusted EBITDA[2]	336,003	200,591	1,054,694	10,887	14,394
EBITDA margin	28.0%	29.2%	25.4%	3.4%	40.2%
Adjusted EBITDA margin	22.0%	17.6%	30.1%	53.5%	45.6%
Capital expenditures[3]	81[4]	1,293[4]	3,001[4]	6,930[5]	16,840[5]
Processed ore (thousands of tonnes)	270	217	1,340	757	2,245
Gold produced (ounces)	36,182	26,272	80,069	43,976	95,160
Recovered grade (grams per tonne)	5.12	4.64	2.72	3.25	1.92
Recovery rate (percentage)	81.4	81.2	72.9	66.7	68.8
Gold sales (ounces)	36,182	26,272	61,859	45,231	64,549
Average production cost per ounce of gold sold (US dollars)[6]	206	262	209	240	221

(1) EBITDA is a measure used by management to measure operating performance. The Group defines EBITDA as net income plus income tax, financial expense, depreciation and amortisation and minus financial income. EBITDA is presented because the Group believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this offering circular to permit a more complete and comprehensive analysis of the Group's operating performance relative to other companies. However, other

companies may calculate EBITDA differently than the Group does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of the Group's operating performance or any other measures of performance derived in accordance with IFRS.

(2) Adjusted EBITDA is not a recognised term under IFRS and does not purport to be an alternative to operating income or cash flows as an indicator of operating and financial performance. Because other companies may not calculate Adjusted EBITDA on the same basis as the Group does, the Group's presentation of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA reflects an estimate of our recurring EBITDA by adding to and subtracting from the Group's EBITDA certain non-recurring or unusual items specified below, modified to take into account further information and analysis as described in the sub-notes below. The Group believes that Adjusted EBITDA assists in comparing its performance on a consistent basis without regard to factors that it believes do not reflect the regular operating performance of its business. Accordingly, the Group has included this information in this offering circular to permit a more complete and comprehensive analysis of its operating performance relative to other companies.

(3) Excludes capitalized mining licences, mine development costs and intangible assets.

(4) Presented in Kazakh Tenge millions.

(5) Presented in U.S. thousand dollars.

(6) Average production costs per ounce of gold sold is calculated by dividing the costs of goods sold (converted into U.S.$ for Kazakhaltyn using the average official Tenge to U.S. dollar rates for the relevant period as reported by the NBK) by the gold sold in ounces during the corresponding year or period.

The following table sets out the calculation of EBITDA of Kazakhaltyn and KazakhGold for the periods indicated therein:

	Kazakhaltyn				KazakhGold	
	Year ended 31 December					
	2003	2004	2005	2005[1]	Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan 2006 to 30 Jun 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
Net income	38,767	5,386	209,289	1,575	(2,173)	3,023
Taxation	70,742	34,808	79,529	599	1,090	3,208
Financial expense	215,577	222,218	343,265	2,583	647	2,042
Financial income	(10,529)	(57,926)	(3,288)	(25)	(277)	(1,154)
Depreciation, depletion and amortisation	113,195	129,097	259,612	1,954	1,411	5,579
EBITDA[2]	**427,752**	**333,583**	**888,407**	**6,686**	**698**	**12,698**

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the year to 31 December 2005.

(2) EBITDA is a measure used by management to measure operating performance. The Group defines EBITDA as net income plus income tax, financial expense, depreciation and amortisation and minus financial income. EBITDA is presented because the Group believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this offering circular to permit a more complete and comprehensive analysis of the Group's operating performance relative to other companies. However, other companies may calculate EBITDA differently than the Group does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of the Group's operating performance or any other measures of performance derived in accordance with IFRS.

The following table sets out the adjustments to EBITDA of Kazakhaltyn and KazakhGold for the periods indicated therein:

	Kazakhaltyn				KazakhGold	
	Year ended 31 December					
	2003	2004	2005	2005[1]	Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan. 2006 to 30 Jun. 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
EBITDA[2]	427,752	333,583	888,407	6,686	698	12,698
Non-recurring advisory fees[3]	0	0	0	0	2,172	0
Share-based payments[4]	0	0	0	0	2,887	115
Inventory write-down[5]	0	0	0	0	1,305	0
Foreign exchange (gains)/losses	(103,204)	(132,992)	70,806	533	(1,274)	1,497
Inventory fair value adjustment[6]	0	0	0	0	4,459	0
Loss on disposal of non-current assets[7]	11,455	0	95,481	719	640	84
Adjusted EBITDA[8]	336,003	200,591	1,054,694	7,938	10,887	14,394

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.

(2) EBITDA is a measure used by management to measure operating performance. The Group defines EBITDA as net income plus income tax, financial expense, depreciation and amortisation and minus financial income. EBITDA is presented because the Group believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this offering circular to permit a more complete and comprehensive analysis of the Group's operating performance relative to other companies. However, other companies may calculate EBITDA differently than the Group does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of the Group's operating performance or any other measures of performance derived in accordance with IFRS.

(3) Non-recurring advisory fees are for legal, tax and accounting advice as well as investment banking and public relations services in relation to the initial public offering of KazakhGold completed in November 2005.

(4) The 2005 charge represents U.S.$2,870,000 as a result of an exercise by a director of an option over 400,000 ordinary shares of KazakhGold Group Limited as well as a charge of U.S.$17,000 representing other option-related charges.

(5) Represents a write-down of certain spares, tools and equipment held in inventory to their net realisable value as a result of these items becoming obsolete following implementation of the modernisation programme. This was charged to cost of sales.

(6) Represents the effect on cost of sales of the revaluation of inventory of finished goods on acquisition to net realisable value in accordance with IFRS. All products affected were sold in the period but the majority of the usual sales margin was recognised in the pre-acquisition period and was, therefore, not reflected in the results of KazakhGold.

(7) Represents losses on the disposal of items of plant and equipment not required as a result of implementation of the modernisation programme.

(8) Adjusted EBITDA is not a recognised term under IFRS and does not purport to be an alternative to operating income or cash flows as an indicator of operating and financial performance. Because other companies may not calculate Adjusted EBITDA on the same basis as the Group does, the Group's presentation of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA reflects an estimate of our recurring EBITDA by adding to and subtracting from the Group's EBITDA certain non-recurring or unusual items specified below, modified to take into account further information and analysis as described in the sub-notes below. The Group believes that Adjusted EBITDA assists in comparing its performance on a consistent basis without regard to factors that it believes do not reflect the regular operating performance of its business. Accordingly, the Group has included this information in this offering circular to permit a more complete and comprehensive analysis of its operating performance relative to other companies.

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Notes should consider carefully, in the light of the circumstances and their investment objectives, the information contained in this entire Offering Circular. Prospective purchasers should nevertheless consider, among other things, the investment considerations relating to Kazakhstan corporations and the Issuer and the Guarantors not normally associated with investments in other countries and other Issuers and Guarantors, including those set out below. Prospective purchasers 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

Not all of the Group's resources have been surveyed independently and as such there can be no assurance that had WAI conducted a review of these resources that such a review would correspond to the Group's statement of these reserves. In addition the WAI Technical Report was produced over one year ago and the reserves may have diminished in the interim

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 WAI Technical Report included elsewhere in this document dated 13 June 2005. However, the scope of WAI's review did not extend to either the Group's C_2 or P_1 resources or the properties acquired in 2005. There can be no assurance that, had WAI conducted a review of the Group's C_2 or P_1 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*''.

In addition, the Technical Report has not been updated since 13 June 2005 and accordingly does not, therefore, reflect changes to the Company's reserves and resources arising from a number of factors, including any potential existence of reserves and resources arising from the acquisitions in 2005, the adoption of a new mining plan and gold production since the date of the report.

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 or operational difficulties once projects are commissioned, which may have a material adverse effect on the financial condition of the Group.

Historically, the Group processed gold ore using flotation and gravity processing technologies. As part of its modernisation programme, the Group 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 construct additional CIP Plants in 2008 and 2009. 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. The Group has not yet obtained all of the licences, permits, consents and approvals that will be required to implement certain of these projects including its planned mineral processing plant expansions at Aksu, Bestobe and Zholymbet. Any delay in obtaining such licenses, permits, consents or approvals, completing planned expansions or cost overruns or operational difficulties once the projects are commissioned may have a material adverse effect on the results of operations or financial condition of the Group.

Since completion of the Group's CIP Plants at Aksu and Zholymbet in August 2005, the Group has produced significant quantities of cathodic sludge due to the sub-optimal performance of the high-pressure electro-winning vessels used in the new CIP Plants and the use of lower quality carbon during processing. The Group has worked with the vessel manufacturers to correct such vessel functioning. The output of cathodic gold has recently increased and the Group expects this trend to continue. However, there can be no assurances that the equipment

performance will continue to improve or that such problems may not arise in the future which could affect the Group's business, operating results and financial position. As a result of the recent increases in demand for gold, the differentials in the price and the market between Cathodic sludge and gold dore has narrowed. However, these differentials can be significant during times of lower demand for gold. Cathodic sludge is sold at a greater discount to, and have a more limited market than, cathodic gold or gold dore. For further information see ''*Business Description—Production and Processing—Cyanide and Heap Leaching*''.

Changes in the Group's production costs have a major impact on its profitability. Its main production expenses are raw materials, 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.

As the Group does not currently 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 based prices on the date of the sale 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. 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, a potential consequence being that the Group may realise the positive impact of any short term 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. The Group is keeping its hedging policy under review.

The price of gold is 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 five 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. 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 reserves. However, the Group's current average total cash costs and total production costs are significantly below the prevailing gold price.

As the majority 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. 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.

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.

Withdrawal of licences, termination of subsurface use contracts or the 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.

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.

The Group has been controlled by the Assaubayev family and Abacus (C.I.) Limited as trustee of 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 Notes

As at 30 September 2006, approximately 60% outstanding shares in the Issuer were directly or 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 outstanding shares, it will be able to control the outcome of all matters requiring a simple majority vote of the shareholders of the Issuer, including, but not limited to, the election and removal of Directors, proposed amendments to the Issuer's articles of association, 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 Notes.

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 and commitment to 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, 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 has recently experienced a high rate of growth in terms of production and turnover which may place significant demands on management and other resources to support its growth. The Group's inability to manage its growth effectively may have a material adverse effect on the results of operations or financial condition of the Group.

The Group has recently experienced rapid growth in terms of production and sales. The Group expects its growth will place significant demands on management and other resources and will require the Group to continue to develop and improve operational, financial and other internal controls. The Group has a limited history as a consolidated entity, has a developing management structure and a short history of financial disclosure and reporting obligations. In addition, the Group's rapid growth has resulted in changes to the Group's management and new management has a relatively short experience in managing the Group as a consolidated entity. The Group is currently in the process of recruiting a Chief Financial Officer. While the Group believes it has in place sufficient resources to manage all aspects of its current and planned operations, there can be no assurance that the Group will be able to retain or recruit qualified management and personnel in the future. The Company's inability to manage its growth effectively may have a material adverse effect on the results of operations or financial condition of the Group.

Rudnik Vasilevskyi LLP and Visart LLP have no current operations

Rudnik Vasilevskyi LLP and Visart LLP have no current operations and no plans to begin operations in the near to medium term. They have only engaged in limited activities since establishment and have not produced any financial statements. Their only assets are certain mining licences. The Group has not investigated the potential mineral reserves and resources related to these mining licences, and no technical report has been commissioned, or is expected to be commissioned in the near future. There can be no assurance that any mineral reserves or resources exist, that any such mineral reserves or resources are of suitable grade for extraction, that they are recoverable or that they can be recovered profitably.

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 gold is priced 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.

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 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 periodic 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 Notes. 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 and smelting, 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 Risks 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 Notes 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 Notes.

Risks Relating to Kazakhstan

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 was re-elected in December 2005 for a seven year term. Should President Nazarbayev due to unforeseen circumstances not be able to perform his presidential duties through his full term in office or not be re-elected in the future, the investment climate in Kazakhstan could change as there appears to be no clear succession plan in place. 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. 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.

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 is subject to subsoil users' and other taxes, including royalties, commercial discovery bonuses, corporate income tax, VAT, excise, social 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 that 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 2001 to 2005 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

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 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 foreign 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 Group Companies and the Group 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 any future transfer of shares or subsurface use rights by the Group. However, the Company is of the view that retrospective action by the Kazakh government is very unlikely. For more information on the Kazakh state's pre-emptive right, see ''*Regulation—Regulation of Mineral Rights—State pre-emptive right*''.

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 short term. If, however, 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 still 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. Whilst the laws and practice relating to insurance in Kazakhstan have very recently become more sophisticated, the Group envisages that it will take some time before insurance relating to property damage protection, business interruption and loan and guarantees protection become widely used. 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.

Risks Relating to the Notes

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Group. Although application has been made for the Notes to be admitted to listing on the Luxembourg Stock Exchange and traded on Euro MTF market of that exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

The Group may not be able to finance a Change of Control Noteholder put option

Should a Change of Control in the Issuer occur, Noteholders will have the right to require the Issuer to repurchase all or any part of such holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes plus all accrued and unpaid interest from the date of purchase. See the ''*Terms and Conditions of the Notes—Condition 5* (*Redemption and Purchase*)''. There can be no assurance made that the Issuer will be in a position to successfully finance such Change of Control Noteholder put option at all times throughout the term of the Notes.

The Notes may be redeemed prior to maturity

In the event that the Issuer or a Guarantor would be obliged to increase the amounts payable in respect of any Notes or a Guarantee (if a demand was made under the relevant Guarantee), or Kazakhaltyn (in its capacity as borrower) would be obliged to increase the amounts payable under the Loan, due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Kazakhstan, the United Kingdom, Jersey (as the case may be) or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. In addition, the Issuer may at any time prior to 06 November 2010 redeem the Notes in whole or in part at the redemption price equal to 100 per cent of their principal amount plus an applicable premium. Further, the Issuer may on any date falling on or after 06 November 2010 redeem the Notes in whole or in part at a specified redemption price. See ''*Terms and Conditions of the Notes—Condition 5(b) (Redemption at the option of the Company)*''.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and the Guarantors

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Global Note Certificate. The Global Note Certificate will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note Certificate. While the Global Note Certificate represents the Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantors will discharge their payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their distribution to their account holders. A holder of a beneficial interest in the Global Note Certificate must rely on the procedures of

Euroclear and Clearstream, Luxembourg to receive payment under the Notes. The Issuer and the Guarantors have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate. Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Restrictions Imposed by Financial and Other Covenants

The Conditions will, among other things, restrict, with certain exceptions, the ability of the Issuer and Restricted Subsidiaries (as defined in the Conditions) to (i) incur indebtedness; (ii) pay dividends on, redeem or purchase capital stock, or make investments; (iii) engage in transactions with affiliates; (iv) create or incur liens; (v) sell assets; (vi) in the case of Restricted Subsidiaries, guarantee indebtedness; (vii) issue or sell capital stock of Restricted Subsidiaries; (viii) place restrictions on the ability of Restricted Subsidiaries to pay dividends and other indebtedness; (ix) designate subsidiaries as Unrestricted Subsidiaries (as defined in the Conditions); (x) engage in activities unrelated to the mining industry; and (xi) undertake certain mergers and consolidations.

Although these restrictions are intended to preserve the creditworthiness of the Notes, they may hinder the ability of the Group to implement its business strategy and may have a material adverse affect on the Group's business, financial condition, results of operations and prospects.

Ability to Incur More Debt

The Issuer and the Guarantors may incur debt in the future, in addition to the Notes, however this is subject to certain limitations as outlined in the ''*Terms and Conditions of the Notes—Certain Covenants—3.1 Limitation on Indebtedness*''. Subject to certain exceptions (referred to as Permitted Liens), the Issuer and its Restricted Subsidiaries may not grant security in respect of such debt unless rateable and equivalent security is granted to secure the Notes. Any indebtedness secured by Permitted Liens would rank effectively senior to the Notes and the Guarantees up to the value of the assets securing such debt. New debt borrowed by any non-Guarantor subsidiaries would also be structurally senior to the Notes.

USE OF PROCEEDS

The net proceeds to the Issuer from the Offer are estimated to be approximately U.S.$197,000,000 after deducting combined management and underwriting commissions and the estimated offering expenses.

The Issuer will enter into the Loan Agreement pursuant to which it will on-lend the proceeds of the Notes to Kazakhaltyn.

Kazakhaltyn intends to use at least U.S.$120 million of the net proceeds for its modernisation programme, including the construction of new CIP plants at Aksu, Bestobe and Zholymbet and to use the remainder to fund exploration and development and for general corporate purposes including, but not limited to, the refinancing of existing indebtedness, any additional requirements of the modernisation programme, and for selective acquisitions.

CAPITALISATION

The following table presented in U.S.$ sets out the capitalisation of KazakhGold as at 30 June 2006, on an actual basis and as adjusted as if the issuance of the Notes had occurred as at that date. This information should be read in conjunction with KazakhGold's audited financial information and the related notes thereto included elsewhere in this document.

	As at 30 June 2006	
	Historical	As adjusted[1]
	(unaudited) (U.S.$'000)	
Cash and cash equivalents	32,546	229,546
Financial Debt:		
Kazakhaltyn bonds[2]	23,074	23,074
Finance leases	2,020	2,020
Notes offered hereby	—	200,000
Total financial debt	25,094	225,094
Total equity	686,714	686,714
Total capitalisation[3]	711,808	911,808

(1) Adjusted figures give effect to the offering of the Notes as if the issuance of such Notes had occurred as at 30 June 2006. The adjusted figures assume estimated transaction fees and expenses of U.S.$3.0 million. No deduction to equity has been reflected in relation to the estimated fees and expenses as it is assumed that they would be charged through the income statement evenly over the life of the Notes.

(2) All Indebtedness represented by the KZT Bonds in excess of the U.S.$8 million referred to in Condition 3.1(b)(13) shall be treated as Incurred on the day following the Issue Date provided that, the dollar denominated principal amount, of the KZT Bonds shall be determined based on the exchange rate in effect on 31 October 2006.

(3) No material change in the capitalisation of the Group has occurred since 30 June 2006.

SELECTED 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 below has been derived from and should be read in conjunction with the historical audited balance sheets, statements of income and cash flows of Kazakhaltyn as at and for the years ended 31 December 2003, 2004 and 2005, respectively and the historical consolidated audited balance sheet, consolidated statement of income and cash flow of KazakhGold for the period from incorporation on 26 September 2005 to 31 December 2005 and the historical unaudited consolidated balance sheet, consolidated statement of income and cash flow of KazakhGold for the period ended 30 June 2006.

Historical financial information of KazakhGold and Kazakhaltyn 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.

	Kazakhaltyn				KazakhGold	
	Year ended 31 December				Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan. to 30 Jun. 2006
	2003	2004	2005	2005[1]		
	(audited)	(audited) (KZT '000)	(audited)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
Income statement data						
Revenue	1,526,355	1,141,180	3,498,563	26,329	20,357	31,578
Cost of sales	(1,115,945)	(937,321)	(1,531,386)	(11,525)	(14,863)	(14,269)
Gross profit	410,410	203,859	1,967,177	14,804	5,494	17,309
Administrative expenses	(198,632)	(186,215)	(1,022,751)	(7,697)	(6,954)	(8,193)
Sales expenses	(8,781)	(23,635)	(313,430)	(2,359)	(86)	(731)
Other operating income	123,015	210,477	93,280	702	1,473	430
Other operating expenses	(11,455)	—	(95,481)	(718)	(640)	(1,696)
Profit/(loss) before finance income/(expense) and tax	314,557	204,486	628,795	4,732	(713)	7,119
Finance income	10,529	57,926	3,288	25	277	1,154
Finance expense	(215,577)	(222,218)	(343,265)	(2,583)	(647)	(2,042)
Profit/(loss) before tax	109,509	40,194	288,818	2,174	(1,083)	6,231
Taxation	(70,742)	(34,808)	(79,529)	(599)	(1,090)	(3,208)
Profit/(loss) for the year/period	38,767	5,386	209,289	1,575	(2,173)	3,023

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.

	Kazakhaltyn				KazakhGold	
	Year ended 31 December				Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan. to 30 Jun. 2006
	2003	2004	2005	2005[1]		
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
Cash flow data						
Cash generated from/ (absorbed by) operating activities	46,519	(255,276)	3,828,575	28,812	5,055	(7,467)
Cash used in investing activities	(76,142)	(1,191,788)	(3,500,649)	(26,344)	(10,585)	(20,670)
Cash generated from financing activities	27,755	1,551,265	1,930,148	14,525	93,417	(27,294)
Net change in cash and cash equivalents	(1,868)	104,201	2,258,074	16,993	87,887	(55,431)

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as of 31 December 2005 as reported by the NBK for 2005.

	Kazakhaltyn				KazakhGold	
	As at 31 December				As at	
	2003	2004	2005	2005[1]	31 Dec. 2005	30 June 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited, restated) (U.S.$'000)	(unaudited) (U.S.$'000)
Balance sheet data						
Cash and cash equivalents	1,586	105,787	2,363,861	17,671	87,887	32,456
Other current assets	845,341	1,279,452	4,066,090	30,396	27,741	75,080
Total assets	3,418,899	6,703,829	14,657,870	109,575	939,218	1,046,788
Total debt	1,490,536	3,267,004	6,016,265	44,975	45,007	23,074
Total equity	1,395,221	2,419,965	2,612,407	19,529	608,110	686,714
Total equity and liabilities	3,418,899	6,703,829	14,657,870	109,575	939,218	1,046,788

(1) Converted into US dollars for convenience using an exchange rate of KZT 133.77 per U.S.$1.00, being the official Tenge to US dollar exchange rate as reported by the NBK at 31 December 2005.

	Kazakhaltyn			KazakhGold	
	Year Ended 31 December			Period from 26 Sept to 31 Dec. 2005	Period from 1 Jan. to 30 Jun. 2006
	2003	2004	2005		
	(KZT '000)	(KZT '000)	(KZT '000)	(U.S.$'000)	(U.S.$'000)
Other financial and operating data					
EBITDA[1]	427,752	333,583	888,407	698	12,698
Adjusted EBITDA[2]	336,003	200,591	1,054,694	10,887	14,394
EBITDA margin	28.0%	29.2%	25.4%	3.4%	40.2%
Adjusted EBITDA margin	22.0%	17.6%	30.1%	53.5%	45.6%
Capital expenditures[3]	81[4]	1,293[4]	3,001[4]	6,930[5]	16,840[5]
Processed ore (thousands of tonnes)	270	217	1,340	757	2,245
Gold produced (ounces)	36,182	26,272	80,069	43,976	95,160
Recovered grade (grams per tonne)	5.12	4.64	2.72	3.25	1.92
Recovery rate (percentage)	81.4	81.2	72.9	66.7	68.8
Gold sales (ounces)	36,182	26,272	61,859	45,231	64,549
Average production cost per ounce of gold sold (US dollars)[6]	206	262	209	240	221

(1) EBITDA is a measure used by management to measure operating performance. The Group defines EBITDA as net income plus income tax, financial expense, depreciation and amortisation and minus financial income. EBITDA is presented because the Group believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this offering circular to permit a more complete and comprehensive analysis of the Group's operating performance relative to other companies. However, other companies may calculate EBITDA differently than the Group does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of the Group's operating performance or any other measures of performance derived in accordance with IFRS.

(2) Adjusted EBITDA is not a recognised term under IFRS and does not purport to be an alternative to operating income or cash flows as an indicator of operating and financial performance. Because other companies may not calculate Adjusted EBITDA on the same basis as the Group does, the Group's presentation of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA reflects an estimate of our recurring EBITDA by adding to and subtracting from the Group's EBITDA certain non-recurring or unusual items specified below, modified to take into account further information and analysis as described in the sub-notes below. The Group believes that Adjusted EBITDA assists in comparing its performance on a consistent basis without regard to factors that it believes do not reflect the regular operating performance of its business. Accordingly, the Group has included this information in this offering circular to permit a more complete and comprehensive analysis of its operating performance relative to other companies.

(3) Excludes capitalized mining licenses, mine development costs and intangible assets.

(4) Presented in Kazakh Tenge millions.

(5) Presented in U.S. dollars thousands.

(6) Average production costs per ounce of gold sold is calculated by dividing the costs of goods sold (converted into U.S.$ for Kazakhaltyn using the average official Tenge to U.S. dollar rates for the relevant period as reported by the NBK) by the gold sold in ounces during the corresponding year or period.

The following table sets out the calculation of EBITDA of Kazakhaltyn and KazakhGold for the periods indicated therein:

	Kazakhaltyn				KazakhGold	
	Year ended 31 December					
	2003	2004	2005	2005[1]	Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan 2006 to 30 June 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
Net income	38,767	5,386	209,289	1,575	(2,173)	3,023
Taxation	70,742	34,808	79,529	599	1,090	3,208
Financial expense	215,577	222,218	343,265	2,583	647	2,042
Financial income	(10,529)	(57,926)	(3,288)	(25)	(277)	(1,154)
Depreciation, depletion and amortisation	113,195	129,097	259,612	1,954	1,411	5,579
EBITDA[2]	427,752	333,583	888,407	6,686	698	12,698

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the year to 31 December 2005.

(2) EBITDA is a measure used by management to measure operating performance. The Group defines EBITDA as net income plus income tax, financial expense, depreciation and amortisation and minus financial income. EBITDA is presented because the Group believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this offering circular to permit a more complete and comprehensive analysis of the Group's operating performance relative to other companies. However, other companies may calculate EBITDA differently than the Group does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of the Group's operating performance or any other measures of performance derived in accordance with IFRS.

The following table sets out the adjustments to EBITDA of Kazakhaltyn and KazakhGold for the periods indicated therein:

	Kazakhaltyn				KazakhGold	
	Year ended 31 December					
	2003	2004	2005	2005[1]	Period from 26 Sept. to 31 Dec. 2005	Period from 1 Jan 2006 to 30 Jun 2006
	(audited) (KZT '000)	(audited) (KZT '000)	(audited) (KZT '000)	(U.S.$'000)	(audited) (U.S.$'000)	(unaudited) (U.S.$'000)
EBITDA[2]	427,752	333,583	888,407	6,686	698	12,698
Non-recurring advisory fees[3]	0	0	0	0	2,172	0
Share-based payments[4]	0	0	0	0	2,887	115
Inventory write-down[5]	0	0	0	0	1,305	0
Foreign exchange (gains)/losses	(103,204)	(132,992)	70,806	533	(1,274)	1,497
Inventory fair value adjustment[6]	0	0	0	0	4,459	0
Loss on disposal of non-current assets[7]	11,455	0	95,481	719	640	84
Adjusted EBITDA[8]	336,003	200,591	1,054,694	7,938	10,887	14,394

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S. $1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the year to 31 December 2005.

(2) EBITDA is a measure used by management to measure operating performance. The Group defines EBITDA as net income plus income tax, financial expense, depreciation and amortisation and minus financial income. EBITDA is presented because the Group believes that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability because it eliminates variances caused by the effects of differences in taxation, the amounts and types of capital employed, amortisation policies and extraordinary items. Accordingly, this information has been disclosed in this offering circular to permit a more complete and comprehensive analysis of the Group's operating performance relative to other companies. However, other companies may calculate EBITDA differently than the Group does. EBITDA is not a measurement of financial performance under IFRS and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net earnings as an indicator of the Group's operating performance or any other measures of performance derived in accordance with IFRS.

(3) Non-recurring advisory fees are for legal, tax and accounting advice as well as investment banking and public relations services in relation to the initial public offering of KazakhGold completed in November 2005.

(4) Includes a charge of U.S.$2.87 million as a result of an exercise by a director of an option over 400,000 ordinary shares of KazakhGold Group Limited as well as a charge of U.S.$17,000 representing other option-related charges.

(5) Represents a write-down of certain spares, tools and equipment held in inventory to their net realisable value as a result of these items becoming obsolete following implementation of the modernisation programme. This was charged to cost of sales.

(6) Represents the effect on cost of sales of the revaluation of inventory of finished goods on acquisition to net realisable value in accordance with IFRS. All products affected were sold in the period but the majority of the usual sales margin was recognised in the pre-acquisition period and was, therefore, not reflected in the results of KazakhGold.

(7) Represents a loss on the disposal of plant and equipment not required as a result of implementation of the modernisation programme.

(8) Adjusted EBITDA is not a recognised term under IFRS and does not purport to be an alternative to operating income or cash flows as an indicator of operating and financial performance. Because other companies may not calculate Adjusted EBITDA on the same basis as the Group does, the Group's presentation of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA reflects an estimate of our recurring EBITDA by adding to and subtracting from the Group's EBITDA certain non-recurring or unusual items specified below, modified to take into account further information and analysis as described in the sub-notes below. The Group believes that Adjusted EBITDA assists in comparing its performance on a consistent basis without regard to factors that it believes do not reflect the regular operating performance of its business. Accordingly, the Group has included this information in this offering circular to permit a more complete and comprehensive analysis of its operating performance relative to other companies.

OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS

The following is an analysis of the results of operations and financial condition of KazakhGold for the period from its incorporation on 26 September 2005 until 30 June 2006 and a comparative analysis of the results of operations and financial condition of Kazakhaltyn for the years ended 31 December 2003, 2004 and 2005. Prospective investors should read this discussion in conjunction with the respective financial statements and related notes of KazakhGold and Kazakhaltyn as included elsewhere in this Offering Circular. Both KazakhGold and Kazakhaltyn have prepared their financial statements in accordance with International Financial Reporting Standards. The following analysis contains forward-looking statements about the future revenue, operating results and expectations of the Group that involve risks and uncertainties. Actual results could differ materially from those anticipated in any forward-looking statements as a result of numerous factors, including the risks discussed in the ''Risk Factors'' section and elsewhere in this Offering Circular.

Overview

KazakhGold is a holding company for the Group's assets. It was formed on 26 September 2005 as part of the restructuring of the Group in preparation for the initial public offering and admission of its global depository receipts to the Official List and to trading on the London Stock Exchange in November 2005.

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. Kazakhaltyn is wholly-owned by Romanshorn LC AG.

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 first half of 2005 production volumes were significantly lower and capital expenditure was significantly higher than in 2003 and 2004, respectively. From July to December 2005 there was a phased increase in the monthly production levels at the Group's three principal mines, being Aksu, Bestobe and Zholymbet. This was followed by reduced production between January and March 2006 due to the adverse seasonal effects on the heap leaching operations in the colder months. From April 2006 there was a marked production increase again as the Group moved out of its seasonal low period.

On 12 October 2005 Romanshorn LC AG, the holding company of Kazakhaltyn, was gifted to KazakhGold. The Directors of KazakhGold assessed the fair value of the underlying assets and liabilities on acquisition at U.S.$510,000,000 and a corresponding entry was recorded to reserves under capital contributions.

Significant Factors Affecting Results of Group Operations

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

World gold price

Substantially all of the Group's revenues are derived from the sale of gold. Consequently, the price of gold has a significant impact on the Group'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 the Group. During the period from 1 January 2002 to 30 June 2006 the price of gold increased significantly, which allowed the Group to achieve higher average price realised per ounce in Tenge and despite the appreciation of the Tenge relative to the U.S. 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
2000	272.65	279.10	312.70	263.80
2001	276.50	271.04	293.25	255.95
2002	342.75	309.68	349.30	277.85
2003	417.25	363.32	416.25	319.90
2004	438.00	409.17	454.20	375.00
2005	537.50	449.98	537.50	411.50
Through 30 June 2006	613.50	590.69	725.00	524.75
Spot Rate at 12 October 2006	573.00			

Source: The London Bullion Market Association. Prices expressed are the afternoon London Fixed Rates.

Price of and demand for various products that contain gold

The Group produces a number of products that contain gold, which are sold to customers in Switzerland, Russia, Kazakhstan, the Kyrgyz Republic and the United Arab Emirates at a discount to the daily spot price of gold as fixed by the London Bullion Market on the day of sale. For example, cathodic gold, free gold and gold dore are typically sold in the current market at approximately 97% of the price of gold on the London bullion market, whilst flotation and gravity concentrates are sold at 65% to 74% of the price of gold on the London bullion market. The discount on cathodic sludge depends on a number of factors, including gold composition of the sludge. The Group exported the majority of its cathodic sludge in the first half of 2006. The majority of these sales were made at a discount of approximately 9% to the London Bullion Market Association gold price.

For the volume of gold sold to customers in 2003, 2004 and 2005 and the six months to 30 June 2006 by type of product and the revenues generated from such sales, see ''*Operating and Financial Review and Results of Operations—Summary of financial and operating performance*''.

Certain products that have previously been or continue to be produced and sold by the Group are significantly less profitable than others. For instance, 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 the Group in 2004 has resulted in a shift in production from lower margin flotation and gravity concentrates to higher margin products.

Exchange rates

The Group invoices the majority of its sales in US dollars. However, the Group incurs the majority of its costs in Tenge. The Group also typically borrows in US dollars and Tenge. Because the majority of the Group's expenses are incurred in Tenge, the Group'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 the Group in future periods. The Group does not currently hedge its exposure to foreign currency risk.

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 U.S.$1.00.

Period	Period end	Average	High	Low
2003	144.22	149.58	155.75	143.66
2004	130.00	136.04	143.33	130.00
2005	133.77	132.88	136.88	130.26
Through 30 June 2006	118.69	127.10	133.85	118.26
Spot Rate at 12 October 2006	127.75			

Source: NBK

Production costs and efficiency

In common with other gold producers, the Group is unable to influence directly 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. The Group benefits from relatively low labour, electricity and transportation costs. See ''*Business Description—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 the Group's overall profitability and competitiveness. Accordingly, the gross margins achieved by Kazakhaltyn in 2004 and 2005 were significantly negatively affected by reduced production in the second half of 2004 and the first half of 2005 related to construction and reconstruction of processing facilities at the Aksu and Zholymbet mines.

Commencement of the modernisation programme and new borrowings

Other significant factors that impacted the Group's results of operations in 2004 and the first half of 2005 were 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 the Group'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 the Group's total revenue and impacted its operating efficiency leading to a reduced gross profit margin. The Group incurred significant capital expenditure in 2004 and further significant capital expenditure in 2005, however in the final quarter of 2005 monthly revenues and profits began to increase following the implementation of the new heap leaching and CIP plants at the three principal mines. As a result of the increased production levels operating efficiency and profit margins increased substantially in the final quarter of 2005.

Prior to and during the implementation of the modernisation programme, the Group increased its borrowings by issuing Tenge 2.8 billion bonds on the Kazakhstan Stock Exchange in 2004 and 2005. The interest rate on the bonds was significantly lower than the interest rates on the Group's bank loans. In addition, Kazakhaltyn refinanced various bank loans in 2004 and reduced interest rates on such loans. The refinancing of the existing credit facilities, the new credit facility with Kazkommertsbank and the issuance of bonds on the Kazakhstan Stock Exchange provided the Group with the necessary resources to commence and continue the implementation of its modernisation programme. However, this increased borrowing led to higher net finance expenses in 2004. Finance expenses rose significantly in 2005 as a result of higher levels of borrowings utilised to finance the modernisation works at Aksu, Bestobe and Zholymbet. To date in 2006, the Group has used part of the funds raised in the initial public offering to repay all of its bank borrowings and promissory notes.

Seasonality

The Group is exposed to seasonal variations in gold production, primarily as a result of the heap leaching technology used by the Group to process a portion of its ore. The efficiency of heap leaching technologies declines with cold weather. The heap leaching process involves spraying cyanide solution onto gold ore, which percolates through the ore, dissolving the gold. Gold bearing solutions are collected through drainage into a pond from which the gold is subsequently recovered. For further information see ''*Business Description—Production and Processing—Heap Leaching*''. The efficiency of the heap leaching process, as measured by gold recovery rate, is significantly affected by weather conditions. Temperatures in Northern Kazakhstan range from +30°C in the summer to -30°C in the winter and the recovery rate of the heap leaching process, which is approximately 60% on average throughout a year, is significantly lower than this average during February-March and significantly higher than this average during July, August and September, depending on actual temperatures. This is due to the cyanide solution freezing as the temperature drops. As a result, the Group typically experiences lower levels of gold production in the winter months compared with the remainder of the year. The Group's strategy is to reduce the seasonal effects on its operations by increasing the amount of ore processed using CIP technology, which is not subject to seasonal variations. To that end, the Group intends to construct new, large-capacity CIP Plants at Aksu, Zholymbet and Bestobe.

KAZAKHGOLD

KazakhGold published audited consolidated financial statements for the period since its incorporation on 26 September 2005 until 31 December 2005. On 12 October 2005, KazakhGold was gifted the entire unit capital of Romanshorn LC AG, the non-trading parent company of Kazakhaltyn, by Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva. As the controlling party of Romanshorn LC AG and KazakhGold were the same, the acquisition was accounted for as a capital contribution. As a result, KazakhGold's consolidated financial statements reflect the operations of Kazakhaltyn from 26 September until 31 December 2005. Kazakhaltyn's assets and liabilities were recognised in KazakhGold's consolidated financial statements at fair value at the date of the contribution, with a corresponding increase in equity credited to the capital contribution reserve.

KazakhGold has also published unaudited financial statements for the period from 1 January 2006 to 30 June 2006. In the half year ended 30 June 2006, Kazakhaltyn incorporated two new wholly-owned subsidiaries, whose results are included from their respective dates of incorporation. These new subsidiaries are Stepnogorsk Hotel LLP and Tagan-Alakan LLP, which are single asset entities containing accommodation for guests and visitors

and a company canteen, respectively. The capitalisation of each of these new subsidiaries is immaterial in the context of the Group. There were no other changes to the corporate structure of the Group during this period.

A change was made within the presentation of the balance sheet of KazakhGold as at 30 June 2006, which led to a corresponding restatement of the balance sheet as at 31 December 2005. To reflect developments in industry practice in the period, the Board of KazakhGold was advised by its auditors to restate the fair value of its mining properties to include deferred taxation previously netted from the fair value of its mining properties and record the associated deferred tax liability as a non-current liability. This change has not impacted upon equity, profit/(loss) before and after taxation and cashflows within the financial statements.

Segmental Analysis of Revenues by Product

	26 September to 31 December 2005	Six months to 30 June 2006
	audited (U.S.$'000)	unaudited (U.S.$'000)
Product		
Cathodic sludge	16,998	28,654
Cathodic gold	682	—
Free gold	1,841	1,514
Flotation and gravitational concentrate	602	1,173
Quartzite ore	138	237
Dore bars	96	—
Total	**20,357**	**31,578**

Results of Operations

Six months to 30 June 2006 and the period from 26 September 2005 to 31 December 2005

Revenues

In the six months to 30 June 2006, revenues were U.S.$31,578,000. Sales consisted primarily of cathodic sludge which accounted for 90.7% of total revenues. Gold sales for this period amounted to 64,549 ounces, at an average achieved sales price of U.S.$507 per ounce, based on the prevailing Tenge/U.S.$ exchange rate at the date of each sale. Sales revenues in the six months to June 2006 were negatively impacted by the temporary suspension in sales to Kyrgyz Republic, which resulted in a build up of inventories of finished goods at the period-end. Sales were resumed to the Kyrgyz Republic in August 2006. Based upon the company's internal records, sales volumes of 97,318 ounces of gold were achieved in the three months ended 30 September 2006, at an average achieved sales price of U.S.$556 per ounce, based on the prevailing Tenge/U.S.$ exchange rate at the date of each sale. This resulted in gold sales for the nine months to 30 September 2006 of 162,105 ounces. The customer base has been expanded with the recent addition of a new customer in the United Arab Emirates.

In the fourteen weeks to 31 December 2005, revenues amounted to U.S.$20,357,000, with cathodic sludge accounting for 83.5% of total sales. Gold sales amounted to 45,231 ounces at an average achieved sales price of U.S.$448 per ounce based on the prevailing U.S.$/Tenge exchange rate at the date of each sale.

Gross profit

In the six months to 30 June 2006, KazakhGold's gross profit was U.S.$17,309,000 which represents a gross profit margin of 54.8%.

In the fourteen weeks ended 31 December 2005, gross profit was U.S.$5,494,000, a gross profit margin of 27.0%. Cost of sales was inflated by non-recurring items, the largest of which being a U.S.$4,459,000 inventory write-down as part of the fair value exercise consolidating Kazakhaltyn into KazakhGold. These items increased cost of sales by U.S.$5,765,000. Excluding these items, gross profit would have amounted to U.S.$11,259,000 which is an adjusted gross profit margin of 55.3%.

Other operating income

In the six months to 30 June 2006, other operating income amounted to U.S.$430,000 and was primarily generated by non-core activities of the Group.

In the fourteen weeks to 31 December 2005, other operating income amounted to U.S.$1,473,000 which included U.S.$1,274,000 in respect of foreign exchange gains.

Distribution, administrative and other operating expenses

In the six months to 30 June 2006, distribution, administrative and other operating expenses amounted to U.S.$10,620,000. This covers a broad range of cost categories which include, but are not limited to, certain staff costs, security costs and transportation costs.

In the fourteen weeks to 31 December 2005, distribution, administrative and other operating expenses amounted to U.S.$7,680,000. Included within this figure were non-recurring items of U.S.$2,172,000 relating to the IPO and U.S.$2,887,000 relating to equity-settled share-based payments for directors' options.

Operating profit

In the six months to 30 June 2006, operating profit amounted to U.S.$7,119,000 which is an operating profit margin of 22.5%.

In the fourteen weeks to 31 December 2005, the operating loss amounted to U.S.$713,000. Adjusting for the non-recurring items (initial public offering costs, equity-settled share-based payments and the exceptional items included in cost of sales), results in an adjusted operating profit figure of U.S.$10,750,000.

Net financing costs

In the six months to 30 June 2006, net financing costs amounted to U.S.$888,000 made up of interest income and interest paid of U.S.$1,154,000 and U.S.$2,042,000, respectively.

In the fourteen weeks to 31 December 2005, net financing costs amounted to U.S.$370,000, comprising income and expenses relating to financing of U.S.$277,000 and U.S.$647,000 respectively.

Taxation

In the six months to 30 June 2006, the taxation charge was U.S.$3,208,000. The corporate tax system in Kazakhstan is both evolving and subject to varying interpretations.

In the fourteen weeks to 31 December 2005, the taxation charge amounted to U.S.$1,090,000 albeit that a pre-tax loss of U.S.$1,083,000 was incurred. The charge is greater than the statutory rates due to the impact of certain expenses not deductible for taxation. All current and deferred taxation is provided for.

Profit/(loss) for the period

For the six months to 30 June 2006, profit after tax amounted to U.S.$3,023,000, a profit after tax margin of 9.6%. In the fourteen weeks ended 31 December 2005, the loss after tax amounted to U.S.$2,173,000.

Liquidity and Capital Resources

The primary cash requirements of the KazakhGold Group include a continuing programme of capital expenditure in order to exploit existing and potential mining opportunities, as well as the servicing of indebtedness and general working capital needs. Its primary sources of liquidity are expected to be cash reserves, internal cash generation and long-term debt.

As at 30 June 2006, the Group had cash and cash equivalents of U.S.$32,456,000.

Cash flow

	26 September to 31 December 2005	Six months to 30 June 2006
	audited (U.S.$'000)	unaudited (U.S.$,000)
Cash flow data		
Cash generated from/(absorbed by) operating activities	5,055	(7,467)
Net cash flow from investing activities	(10,585)	(20,670)
Net cash flow from financing activities	93,417	(27,294)
Net increase/(decrease) in cash and cash equivalents	87,887	(55,431)

Cash generated from/(absorbed by) operating activities

In the six months to 30 June 2006, cash absorbed by KazakhGold operations amounted to U.S.$7,467,000. Cash generated by operations, before working capital, was U.S.$27,536,000 including a non-cash reserve movement of U.S.$11,969,000 but net working capital requirements over the period increased by U.S.$35,003,000. Trade and other receivables increased by U.S.$33,019,000 largely as a result of deposits being paid on equipment orders relating to the new CIP plant installations. The increase in inventories in the period was U.S.$14,618,000. Finished goods inventories increased by 30,611 ounces to 48,821 ounces as at 30 June 2006. Based on current

levels of production, this level of inventory as at 30 June 2006 was considered exceptional for the Group, being primarily the result of the temporary suspension of sales into Kyrgyz Republic following the disagreements with a customer regarding the grade of product shipped. Following strong sales volumes in the quarter ended 30 September 2006, inventories have reduced to 29,864 ounces as at 30 September 2006. The company intends to reduce this level of inventories further by the year-end. Trade and other payables and provisions increased by U.S.$12,634,000, partly offsetting the cash outflow arising from the increases in receivables and inventories described above.

In the fourteen weeks ended 31 December 2005, cash generated from operations amounted to U.S.$5,055,000. Cash generated from operations, before working capital, amounted to U.S.$4,510,000. Net working capital in the period decreased by U.S.$545,000.

Net cash from investing activities

In the six months to 30 June 2006, the net cash outflow from investing activities amounted to U.S.$20,670,000. Gross capital expenditure net of lease finance received of U.S.$21,508,000 comprised U.S.$16,840,000 for the acquisition of property, plant and equipment, U.S.$4,530,000 for capitalised exploration and development costs and U.S.$138,000 for the acquisition of mining licenses. A large part of the capital expenditure incurred in the period was for mine development, including U.S.$11,700,000 to refurbish a mine shaft at Aksu as well as equipment to accelerate open pit mining.

In the fourteen weeks ended 31 December 2005, the net cash outflow from investing activities was U.S.$10,585,000.

Net cash from financing activities

In the period to 30 June 2006, there was a net cash outflow from financing activities of U.S.$27,294,000. All outstanding bank loans and promissory notes were repaid in the period.

In the fourteen weeks ended 31 December 2005, there was a net cash inflow from financing activities of U.S.$93,417,000. This is largely attributable to a net cash receipt of U.S.$97,437,000 from the Initial Public Offering.

Capital Resources

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

	As at 31 December 2005	As at 30 June 2006
	(U.S.$'000)	(U.S.$'000)
Long-term borrowings:		
Bank loans > 1 year	4,174	—
Bonds	20,369	23,074
Finance leases > 1 year	1,197	1,471
Short-term borrowings:		
Bank loans < 1 year	17,457	—
Promissory notes	3,007	—
Finance leases < 1 year	414	549
Cash and cash equivalents and equity:		
Cash and cash equivalents	87,887	32,456
Equity	608,110	686,714

Capital Expenditure

The following table breaks out KazakhGold's capital expenditure for the two financial periods since its incorporation.

	26 September to 31 December 2005	Six months to 30 June 2006
	(U.S.$'000)	(U.S.$'000)
Property, plant and equipment	6,930	16,840
Mining licenses	114	138
Exploration and development	4,491	4,530
Assets acquired under finance leases	—	1,109
Total capital expenditure in the period	**11,535**	**22,617**

KazakhGold's total capital expenditure over the six months to 30 June 2006 was U.S.$22,617,000. A significant part of this expenditure related to mine development at the Group's three principal mines. The Group expects

total capital expenditure for the full year to 31 December 2006 to be U.S.$89,500,000. Of this U.S.$67,992,000 of extra investment the Group expects to spend another U.S.$26,000,000 at Aksu, U.S.$27,000,000 at Bestobe and U.S.$6,400,000 at Zholymbet. The capital expenditure at Aksu and Bestobe will principally relate to the commencement of the new CIP plant constructions whereas at Zholymbet it will be used to purchase additional open pit mining equipment.

Capitalised exploration and development costs were U.S.$4,530,000 in the six months to 30 June 2006, which represented approximately 21% of total capital expenditure in the period. An amount of U.S.$3,750,000 related to Aksu, Bestobe and Zholymbet. The Group's budget for capitalised exploration and development costs for the full year to 31 December 2006 is U.S.$11,500,000. The majority of this expenditure in the second half of this year will relate to the three new mines acquired in July 2005 and the five additional acquisitions made in December 2005.

Kazakhaltyn

Segmental Analysis of Revenues by Product

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	KZT million	KZT million	KZT million	U.S.$'000
Product				
Flotation and gravity concentrate	979	768	257	1,173
Free gold	467	373	462	1,514
Quartzite ore	80	—	73	237
Cathodic Sludge	—	—	2,586	28,654
Cathodic Gold	—	—	107	—
Dore bars	—	—	13	—
Total	1,526	1,141	3,498	31,578

Results of Operations

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenues

Revenues in 2005 were KZT 3.5 billion, an increase of KZT 2.4 billion, or approximately 207%, from KZT 1.1 billion in 2004. This increase in revenues was mainly the result of the significant increase in gold production in the second half of 2005 following the reopening of the processing plants at Aksu and Zholymbet, after they were shut down during the second half of 2004 and the first half of 2005, as well as the significant increase in the average price of gold per ounce realised by the Group. The volume of gold sold in 2005 increased to 61,589 ounces, or approximately 234%, from 26,272 ounces in 2004. The average gold price realised by the Group increased from KZT 55,663 (U.S.$319.2) per ounce in 2004 to KZT 59,151 (U.S.$416) per ounce in 2005, or 6.3%. The higher average gold price per ounce realised by the Group was mainly a result of the significant increase in world gold prices in 2005 compared to 2004, and also due to the lower average discount to the price of gold on the London Bullion Market achieved by the Group for its products as a result of the increased share of higher-value products, such as cathodic sludge, in the sales mix of the Group in 2005 compared to 2004.

Cost of sales

Cost of sales increased to KZT 1,531 million for 2005 from KZT 937 million in 2004, representing a 63% increase. This increase was largely the result of the costs associated with the modernisation works undertaken on the Aksu and Zholymbet processing plants and increased gold production and sales in the second half of 2005.

Gross profit

Gross profit for 2005 was KZT 1,967 million up from KZT 204 million in 2004, an increase of 865%. The gross profit margin rose from 18% in 2004 to 56% in 2005. This substantial increase in gross profit was the result of increased gold production and sales, favourable movements in the gold prices and the accrual of the benefits of the modernisation program in the second half of 2005.

Administrative and sales expenses

Administrative and sales expenses for 2005 were KZT 1,336 million in 2005 from KZT 210 million in 2004, an increase of 536%. The increase was the result of increased wage costs, higher property taxes (following the

revaluation of buildings and unfinished construction projects to their fair value in September 2004) and increased professional and advisory fees.

Other operating income/(expenses)

Net other operating expenses were KZT 2 million for 2005, compared to net other operating income of KZT 210 million in 2004.

Net finance expense

Net finance expense was KZT 340 million for 2005 which more than doubled the KZT 164 million figure for 2004. This was a result of increased borrowings used to finance the modernisation works at Aksu, Bestobe and Zholymbet. The effect of the increase in borrowings was partially offset by lower effective interest rate on Kazakhaltyn's outstanding debt in 2005.

Income tax expense

Income tax expense in 2005 was KZT 80 million, up from KZT 35 million in 2004, which represents an increase of approximately 129%. This increase is due to higher taxable income in 2005 resulting largely from higher profits in 2005.

Profit/(loss) for the year

Kazakhaltyn's profit for 2005 was KZT 209 million, an increase in profit of KZT 204 million over 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 U.S.$334 at the 31 December 2004 dollar to the Tenge exchange rate) from KZT 42,185 (approximately U.S.$292 at the 31 December 2003 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 3 million, or approximately 1%, from KZT 207 million in 2003.

Other operating income/(expenses)

Net other operating income in 2004 was KZT 210 million, an increase of KZT 87 million, or approximately 71%, from KZT 123 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.

Liquidity and Capital Resources

Kazakhaltyn's primary cash requirements include the funding of 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. In addition, following the completion of the initial public offering of KazakhGold's global depositary receipts in November 2005, Kazakhaltyn has access to intercompany funding from KazakhGold with respect to the proceeds.

As of 31 December 2005, Kazakhaltyn had cash and cash equivalents of KZT 2.36 billion.

Cash flow

	Kazakhaltyn			
	2003	2004	2005	2005[1]
	(audited)	(audited) (KZT '000)	(audited)	(U.S.$'000)
Cash flow data				
Cash generated from/(absorbed by) operating activities	46,519	(255,276)	3,828,575	28,812
Cash used in investing activities	(76,142)	(1,191,788)	(3,500,649)	(26,344)
Cash generated from financing activities	27,755	1,551,265	1,930,148	14,525
Net change in cash and cash equivalents	(1,868)	104,201	2,258,074	16,993

(1) Converted into US dollars for convenience using an exchange rate of KZT 132.88 per U.S.$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.

Net cash flow from operating activities

The operating activities of Kazakhaltyn resulted in a net cash inflow of KZT 3,829 million for 2005 compared with a net cash outflow of KZT 255 million for 2004. This was primarily as a result of significantly higher operating cashflows in 2005 due to the four new processing plants coming on-stream in the second half of 2005 and boosting production volumes and sales.

The operating activities of Kazakhaltyn in 2004 resulted in a net cash outflow of KZT 255 million compared with a net cash inflow of KZT 47 million in 2003.

Net cash flows from investing activities

Kazakhaltyn used KZT 3,501 million in cash in investing activities for 2005 compared with KZT 1,192 million for 2004. The 194% increase in the Kazakhaltyn's cash flow used in investing activities was due primarily to the construction of the new Aksu CIP Facilities, the Zholymbet CIP Plant, the Aksu Heap Leach Plant and the Bestobe Heap Leach Plant.

Net cash flows from financing activities

Kazakhaltyn generated KZT 1,930 million in cash from financing activities for 2005 compared with KZT 1,551 million for 2004. This 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 1,003,756,265 KZT (resulting in net proceeds of KZT 999,356,000) listed on the Kazakhstan Stock Exchange.

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.

Capital resources

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

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

	Kazakhaltyn			
	As at 31 December			
	2003	2004	2005	2005
	(audited)	(audited) (KZT million)	(audited)	(U.S.$'000)[1]
Long-term borrowings:				
Bank loans >1 year	1,444	1,344	558	4,171
Bonds	—	1,723	2,723	20,356
Finance leases > 1 year	—	—	160	1,196
Short-term borrowings:				
Bank loans < 1 year	46	199	2,736	20,453
Promissory notes	—	—	—	—
Finance leases < 1 year	8	4	55	411
Cash and cash equivalents and equity:				
Cash and cash equivalents	2	106	2,364	17,672
Equity	1,395	2,420	2,612	19,526

(1) Converted into US dollars for convenience using an exchange rate of KZT 133.77 per $1.00, being the official Tenge to US dollar exchange rate as reported by the NBK on 31 December 2005.

Capital Expenditure

In 2003, Kazakhaltyn's capital expenditure was KZT 81 million. With the commencement of the modernisation programme, Kazakhaltyn's capital expenditure increased to KZT 1,293 million and KZT 3,001 million in 2004 and 2005, respectively.

The following table sets forth Kazakhaltyn's capital expenditure for the construction of the four processing facilities in 2004 and 2005, as well as other and total capital expenditure in 2003, 2004 and 2005 (excluding capitalised mining licenses and mine development costs):

	Year ended 31 December		
	2003	2004	2005
		(KZT million)	
Aksu CIP plant construction	—	279	812
Zholymbet CIP plant construction	—	340	569
Aksu heap leach plant construction	—	391	415
Bestobe heap leach plant construction	—	263	1,181
Other capital expenditure	81	20	24
Total capital expenditure in the year/period	81	1,293	3,001

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 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 is however considering various strategies designed to moderate the effects of the volatility of gold prices. See ''*Business Description—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

Details of the significant accounting policies of the KazakhGold group are set out below.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available-for-sale.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Business combinations

The Company owns the entire share capital of Romanshorn LC AG. As the controlling party of Romanshorn LC AG and KazakhGold Group Limited at the time of the acquisition was the same, the acquisition was accounted for as a capital contribution with the assets and liabilities acquired initially recognised at fair value and a corresponding increase to equity credited to the capital contributions reserve.

Exploration and development

Exploration and development costs are capitalised as intangible assets until the decision is made to proceed to development, whereupon the related expenditures are transferred to non-current assets as mining properties, or until the projects are determined not to be commercially viable, whereupon the related costs are written off to the income statement.

Mining properties

Once a decision is made to proceed with the development of a mining project, exploration and development expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets as mining properties, together with any amount transferred from exploration and development.

Depreciation, depletion and amortisation of mining properties are calculated using the 'units of production method' based upon actual production and estimated recoverable reserves. This amount is charged to cost of sales in the income statement.

Foreign Exchange

On consolidation, the results of overseas operations are translated into U.S.$, the presentational currency of the Group, at rates approximating to those prevailing when the transaction took place. Goodwill and fair value adjustments arising on the acquisition of an overseas entity are treated as assets and liabilities of the overseas entity and translated at the rate prevailing at the balance sheet date. The functional currency of JSC Kazakhaltyn MMC is deemed by the directors of that entity to be Kazakh Tenge. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised directly in equity (the ''translation reserve'').

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 U.S.$271 per ounce in 2001 to U.S.$409 per ounce in 2004. GFMS Limited estimated that the average quoted cash costs in 2004 for gold producers were U.S.$253 per ounce whilst total operating costs (including depreciation, amortisation, reclamation and mine closure costs) were U.S.$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, Kyrgyz Republic 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 2000 to 2004 in Uzbekistan, Kyrgyz Republic, Kazakhstan and Tajikistan and, for comparative purposes, Russia and China and the total worldwide gold production.

	Gold Production by Year					
	2000	2001	2002	2003	2004	Rank in world production (based on 2004 tonnage)
	(In tonnes, except world ranking)					
China	172.2	192.8	201.9	205.6	217.3	4th
Russia	154.3	165.0	180.6	182.3	181.6	5th
Uzbekistan	87.5	83.4	82.6	80.0	83.7	8th
Kyrgyz Republic	22.0	24.6	17.9	22.7	22.1	20th
Kazakhstan	12.8	14.7	14.0	13.0	13.7	25th
Tajikistan	3.7	4.3	4.3	4.1	3.9	43rd
World total	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, the largest reserves of gold in Kazakhstan being located in Eastern, Northern and Central Kazakhstan.

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.

BUSINESS DESCRIPTION

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 of which approximately 13.2 million ounces are B and C_1 reserves. The Company believes these are the largest known gold reserves and resources in Kazakhstan. The Group's principal operations are in Northern Kazakhstan. In the second half of 2005 several new properties were acquired in Eastern Kazakhastyn. These have not yet included in Company resources calculations.

The Group's principal assets comprise:

- **The Aksu mine.** 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 two dedicated ventilation shafts, 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 in July 2005 with approximately 0.5 million tonnes per annum throughput capacity and the recently modernised Aksu Processing Plant, which includes the newly constructed Aksu CIP Plant with approximately 1.0 million tonnes per annum throughput capacity which commenced operations in August 2005 and the Aksu Flotation Facility with approximately 0.2 million tonnes per annum throughput capacity. The Company is planning construction of a new CIP Plant at Aksu with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2008.

- **The Bestobe mine.** 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 in 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 Company is planning to construct a new CIP at Bestobe with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP plant is expected to commence operations in 2008.

- **The Zholymbet mine.** 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 Company is planning to construct a new CIP Plant at Zholymbet, with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2009.

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 Kazakhstan.

The Group's business dates back to 1929, when gold ore was discovered at the Aksu deposit in Northern Kazakhstan. Exploration began in the Group's Bestobe and Zholymbet deposits in 1932. 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 a lower cost per ounce than using flotation and gravity technologies.

Kazakhaltyn produced 34,317 ounces and 36,182 ounces of gold in 2002 and 2003, respectively. The modernisation programme required the closure of the Aksu and Zholymbet flotation plants in 2004. 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. These new processing facilities made a significant contribution to increased production for 2005 which amounted to approximately 80,069 ounces of gold. This production trend has been confirmed in 2006, with approximately 95,160 ounces of gold produced in the six months ended 30 June 2006 despite the adverse seasonal effects on heap leach processing caused by cold winter weather. This seasonal adverse effect is reflected in the monthly production figures which showed a marked increase beginning in late April and continuing through 2006 to date. Production in the three months ended 30 September 2006 was 78,361 ounces of gold, resulting in production for the nine months to 30 September 2006 of 173,521 ounces of gold.

The expansion of the throughput capacity at all of the new or recently modernised processing facilities is expected to continue. The Company plans to construct new, large capacity CIP plants at Aksu and Bestobe which are expected to commence operations in 2008 and a new large capacity CIP Plant at Zholymbet expected to start operations in 2009.

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. Each of the Akzhal, Boldykol, Vasilevskyi and Zhanan mines are located within 210 kilometres of the city of Semipalatinsk, in which the Group established its headquarters for managing its operations in Eastern Kazakhstan.

In addition, in the third quarter of 2005 the Company submitted tenders to acquire mineral rights to exploration properties from the Kazakh government. In December 2005, it was announced by the Kazakh government that the Company won tenders for subsurface contract rights for the five properties at Southern Karaultube, Kyzylsorskoe, Pridorojnoe, Kaskabulakskoe and Akshutau Zones I and II. The Group has begun geographical exploration in these areas and plans to continue exploration work during the second half of 2006. Trial open pit mining commenced at Kaskabulakskoe in Eastern Kazakhstan in June 2006, and whilst the Company expects some gold production from the fourth quarter of 2006, its contribution to the Group's total production in 2006 will be small.

As at 31 December 2005, the Group had approximately 3,209 permanent employees.

Key Competitive Strengths

The Company believes that the Group benefits from the following key competitive strengths:

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

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, the Group 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 facilities from Stepnogorsk will enable the Group to continue to reduce its cash production costs and total operating costs per ounce as production increases. The Company also believes it will 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, the electricity cost and the costs of transmission are also relatively low.

Experienced management with proven 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 with geological and metallurgical expertise and the Company's board of directors includes three non-executives with international experience in the gold and natural resources sector. The Group is currently in the process of recruiting a Chief Financial Officer.

Strong position from which to acquire exploration properties in Kazakhstan

Whilst a number of international gold mining companies have mineral rights in Kazakhstan, none of the major international gold mining companies have 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, in relation to acquisitions 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.

Strategy

The Company's strategy is to increase the Group's gold production significantly, lower the Group's cash production costs and total 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 until August 2005, the Group had primarily processed gold ore using flotation and gravity technologies. As part of the Group's modernisation programme, it has adopted heap leaching and cyanidation technologies. In particular, the Group has plans to invest significantly in the development of CIP technology. The Company believes that CIP processing technology offers a number of benefits including the possibility of increased gold recovery rates, lower unit costs of production and reduced seasonality in production as compared with heap leaching. CIP technology also allows the processing of both oxide and sulphide ores.

Expanding the Group's production significantly

As part of the Group's implementation of its modernisation programme, in the second half 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 further expects to complete the construction of new CIP Plants at Bestobe and Aksu in 2008 and a further CIP Plant at Zholymbet in 2009. 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 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

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 near the cities of Semipalatinsk and Ust-Kamenogorsk and mineral rights with respect to Zhanan and Boldykol deposits. In December 2005, the Company won tenders for exploration rights in relation to five properties at Southern Karaultube, Kyzylsorskoe, Pridorojnoe, Kaskabulakskoe and Akshatau Zone I and II. 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 potential acquisition targets, 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 at lower cost. 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 intends to reclassify its reserves and resources over time under the JORC Code. Wardell Armstrong International is expected to be retained to convert the reserves to the JORC classifications standard and this work is to be concluded in 2007.

Seeking international strategic arrangements to maximise the potential of its existing resources and new acquisitions

KazakhGold has a highly experienced management team with extensive expertise in geology, metallurgy and mining and processing technologies that are currently used in Kazakhstan. The Group intends to leverage this experience and seek international joint ventures and other strategic arrangements. The Group is currently in discussions with various international gold mining corporations including China National Gold Company and Barrick Gold Corporation to explore potential strategic arrangements.

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 Company's admission of global depositary receipts to the Official List and to trading on the London Stock Exchange on 30 November 2005.

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 assets 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 OJSC Kazakhaltyn in August 1998, the Kazakh government put the assets of OJSC 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 in 15 June 2005 when it acquired 7.1% of the issued share capital of Kazakhaltyn from a third party in consideration of the transfer of intellectual property rights unrelated to the Group's gold mining operations. In preparation for the Company's admission of global depository receipts to listing on the official List and trading on the London Stock Exchange on 30 November 2005, 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 expansion of the throughput capacity at all of the new or recently modernised processing facilities is expected to continue. The Company plans to construct a new large capacity CIP Plants at Aksu and Bestobe which are expected to start operating in 2008 as well as a new large capacity CIP Plant at Zholymbet which is expected to start operations in 2009.

In November 2005, the Company successfully completed an initial public offering of 13,100,000 newly-issued and previously-owned shares in the form of global depository receipts on the London Stock Exchange, raising approximately U.S.$98.2 million in total net proceeds (the ''**Initial Public Offer**''). This has enabled the Group to increase and diversify sources of capital for the development of the business. The proceeds of the offering were applied to further development of the Group's principal mines at Aksu, Bestobe and Zholymbet, for improvements to transport infrastructure and roads, construction of electricity networks, basic building construction and installation works for new plants, tailings construction for new plants. The Group also repaid loans from domestic commercial banks of U.S.$21.6 million and promissory notes of U.S.$3.0 million in the first half of 2006.

Recent acquisitions and disposals

Participation in tenders conducted by the Kazakh Government and commencement of trial mining at Kaskabulakskoe

In December 2005 the Company won tenders for exploration rights in relation to the five properties at Southern Karaultube in Northern Kazakhstan (license area 9 sq km), Kyzylsorskoe in Northern Kazakhstan (license area 60 sq km), Pridorojnoe in Eastern Kazakhstan (license area 390 sq km), Kaskabulakskoe in Eastern Kazakhstan (license area 491 sq km) and Akshatau Zones I and II in Central Kazakhstan (license area 57 sq km). The Group

has been, and plans to continue, progressing geological exploration on these sites in 2006. However, at present, the Group has limited information regarding these newly acquired properties.

Trial open pit mining commenced at Kaskabulakskoe in Eastern Kazakhstan in June 2006, and whilst the Company expects some gold production from the fourth quarter of 2006, its contribution to the Group's total production in 2006 will be small. The Group has also built a heap leach facility at Kaskabulakskoe to process the ore from this mine.

Acquisition of the Akzhal mine

In July 2005, Kazakhaltyn 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 Rudnik Vasilevskyi mine

In July 2005, Kazakhaltyn 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, Kazakhaltyn 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 Kazkommertsbank as security for JSC Altyn Tobe's indebtedness. Following a default by JSC Altyn Tobe on its obligations in respect of this indebtedness, JSC Kazkommertsbank enforced its security and conducted a tender to sell the assets. In the year ended 31 December 2004, Altyn Tobe produced approximately 10,000 ounces of gold.

Disposal of the Bailyusty deposit

In 2000 Kazakhaltyn sold the subsurface rights relating to the Bailyusty deposit with related mining assets and land in southern Kazakhstan to SRV Consulting LLP for approximately KZT 720 million. Of the KZT 720 million approximately KZT 512 million remained outstanding as at 31 December 2005. The outstanding amount is due to be repaid by 30 December 2007 under the Restructuring Agreement between Kazakhaltyn, IIFI and Irgiredmet OJSC.

Strategic Alliances

Barrick Gold Corporation (''**Barrick Gold**'')

Kazakhaltyn signed a framework agreement with Barrick Gold in September 2005, to cooperate in exploration projects in Kazakhstan and Central Asia. The Company's discussions with Barrick Gold are ongoing.

China National Gold Corporation (''**CNGC**'')

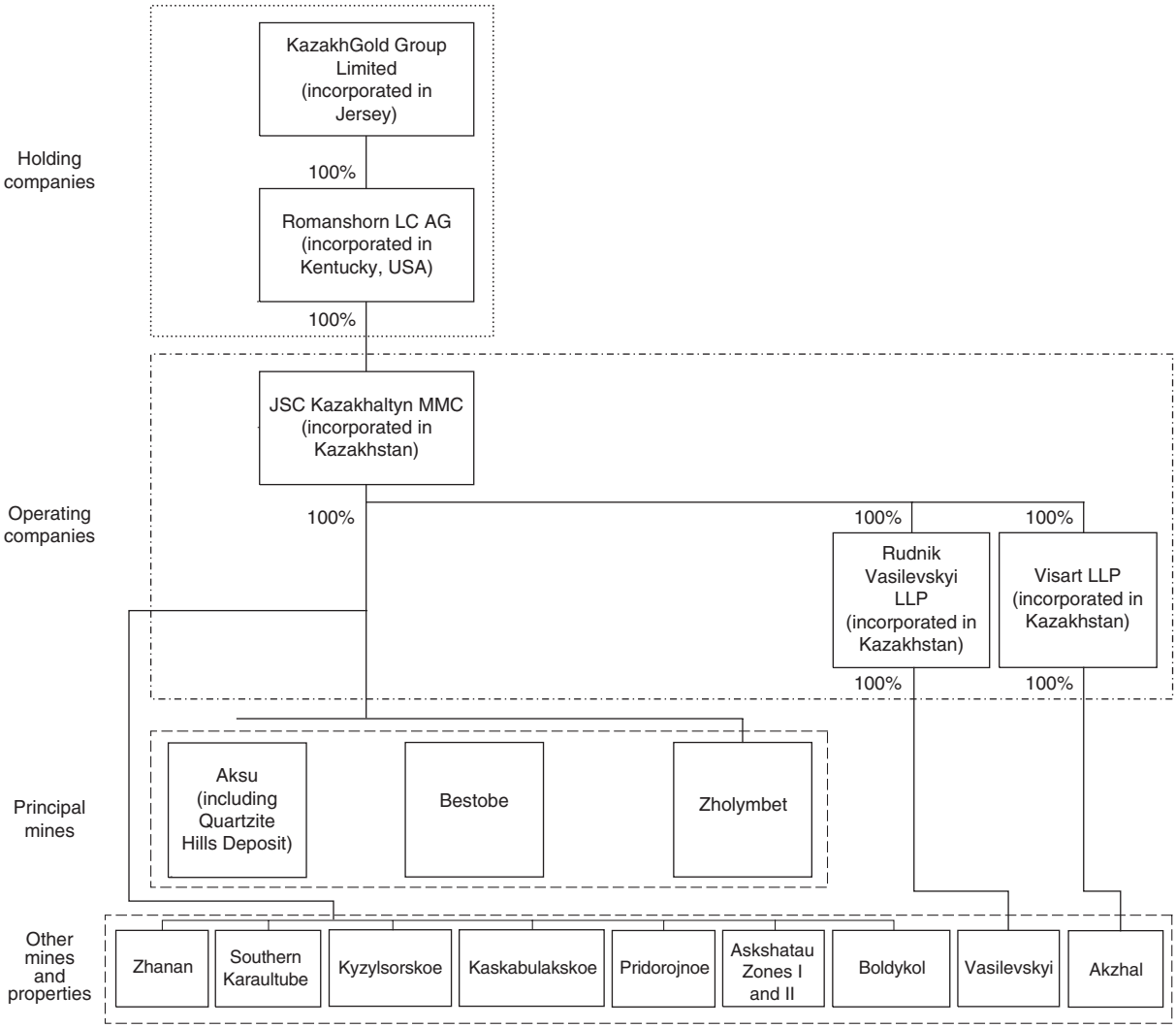
Kazakhaltyn began negotiations with CNGC in 2005 regarding the expansion of underground mining operations at Bestobe. Originally, a joint venture arrangement was under consideration by the parties, although discussions are now focusing on CNGC acting as a subcontractor for underground mining at Bestobe. It is currently envisaged that CNGC will provide equipment, operational management and underground mining expertise.

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 interest 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 for its material subsidiaries and its mines:

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 the JORC Code.

Reserves and resources

In connection with the Issuer's Initial Public Offering and listing of global depositary receipts on the London Stock Exchange in December 2005, WAI 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 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.

The Company intends to reclassify its reserves and resources over time under the JORC Code. WAI is expected to be retained to convert the reserves at Aksu, Bestobe and Zholymbet to the JORC Code and this work is to be concluded in 2007.

The Technical Report has not been updated since 13 June 2005 and accordingly, does not therefore reflect changes to the Company's reserves and resources arising from a number of factors including any potential existence of reserves and resources arising from the acquisitions in 2005, the adoption of a new mining plan and gold production since the date of the report. 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 activities) that may affect their cash flows and overall profitability—Ore reserve and resource estimation risks*''.

Group Reserves and Resources

	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

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.

Mine	As stated by the Group			
	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

Recent acquisitions by tender

In December 2005, Kazakhaltyn won tenders for subsurface contract rights for the five properties at Southern Karaultube, Kyzylsorskoe, Pridorojnoe, Kaskabulakskoe and Akshutau I and II.

Southern Karaultube and Kyzylsorskoe are both located in the Akmola region of Northern Kazakhstan, near Kazakhatlyn's existing mining operations. They can both be explored and developed efficiently by KazakhGold.

Pridorojnoe and Kaskabulakskoe are located in Eastern Kazakhstan, close to the four deposits acquired in July 2005. While the Zones 1 & 2 of the Akshatau MMC deposit are located in the Karaganda region of Central Kazakhstan.

The Group has budgeted to spend U.S.$3.5 million in 2006 on exploration and development of these five properties, of which amount U.S.$0.4 million had been spent as at 30 June 2006.

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 each core sample has been 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 undertakes periodic 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'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*''.

The Kaskabulakskoe property has shown early promise and trial open pit mining began at the property in June 2006. Kaskabulakskoe is expected to make a small contribution in 2006 to the Group's production. Ore from Kaskabulakskoe will be heap leached to produce gold product.

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 2003, 2004 and 2005 and the six months ended 30 June 2006:

	Kazakhaltyn			KazakhGold	
	Year ended 31 December			Period from 26 Sept. to 31 Dec.	Period from 1 January to 30 June
Aksu, Bestobe and Zholymbet mines	2003	2004	2005	2005	2006
Processed ore (thousand tonnes)	270	217	1,340	757	2,245
Gold produced (ounces)	36,182	26,272	80,069	43,976	95,160
Recovered grade (grams per tonne)	5.12	4.64	2.72	3.25	1.92
Recovery rate	81.4	81.2	72.9	66.7	68.8
Gold sales (ounces)	36,182	26,272	61,859	45,231	64,549
Average production cost per ounce of gold sold (U.S.$ per ounce)[1]	206	262	209	240	221
Capital expenditure (KZT million)[2]	81	1,293	3,001	882	2,135
Capital expenditure (U.S.$ million)[2][3]	0.54	9.50	22.4	6.9	16.8

(1) Average production cost per ounce gold sold is calculated by dividing the cost of goods sold (converted into U.S.$ for Kazakhaltyn using the average official Tenge to US dollar rates for the relevant period as reported by the NBK) by the gold sold in ounces during the corresponding year or 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.

(3) Capital expenditure excludes capitalized mining licences, mine development costs and intangible assets.

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 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 undertook 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 decreases in 2005 and 2006 in the recovered grade and recovery rate occurred as a result, in part, of the larger volumes of ore that was able to be processed in 2005 and 2006 after the heap leaching and new CIP plants became operational and from the shift to mining oxide and lower grade ores. The Company expects the amount of ore that can be processed, and the kind of lower grade ore that can be treated, to further increase as new CIP equipment is installed and expanded as a result of the modernisation programme. The Company expects that this significant increase in throughput capacity will enable it to increase and maintain higher levels of 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 on 13 July 2005. The Aksu Heap Leach Plant has a throughput capacity of approximately 0.5 million tonnes

per annum. The Company is planning to construct a new CIP Plant at Aksu with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP plant is expected to commence operations in 2008.

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 in 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 has approximately 0.25 million tonnes per annum throughput capacity. The Company is planning to construct a new CIP Plant at Bestobe with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2008.

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 in August 2005 with a throughput capacity of 0.5 million tonnes per annum. The Company is planning to construct a new CIP Plant at Zholymbet with throughput capacity of approximately 4.0 million tonnes per annum. The new CIP Plant is expected to commence operations in 2009.

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 reconstructed 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.

Carbon in Pulp (CIP) and heap leaching

CIP

The first stage of the Carbon in Pulp 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 in a high pressure electro-winning vessel. On completion of this process, the cathodes used in the electrolysis are washed to remove cathodic gold and cathodic sludge are removed from the bottom of the vessels. The Company sells cathodic sludge which have higher gold content residue remaining after electrolysis is applied to the solution. Cathodic gold and cathodic sludge are sold as a semi-finished products. Since completion of the Group's new CIP plants at Aksu and Zholymbet in August 2005, the Group has produced significantly higher than expected quantities of gold in the form of cathodic sludge than the higher margin product cathodic gold, with only a neglible amount of cathodic gold being produced and sold during the first half of 2006. The high cathodic sludge production is believed to have resulted from sub-optimal performance of the high-pressure electro-winning vessels used in the new CIP Plants and lower quality carbon used during processing. The Group has worked with the vessel manufacturers to improve the vessel functioning. The output of cathodic gold has increased and the Group expects this trend to continue. The Group is also investigating the possibility of the purchase and installation in the fourth quarter of 2006 of an additional smelter furnace to smelt cathodic gold and cathodic sludge into gold dore.

Heap leaching

The first stage of a heap leaching process involves passing unweathered ore from the Group's mines through several stages of crushing. Currently, weathered ore is 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 through carbon to recover the gold. The gold laden carbon is transported to a CIP plant for gold recovery. For an analysis of the effects of seasonal variation on the productivity of heap leaching, see ''*Operating and Financial Review and Results of Operations Production Costs and Efficiency*''.

Products and Sales

Products

Cathodic Gold and Cathodic Sludge

In the fourth quarter of 2005 and the first half of 2006 the Company produced significant quantities of cathodic sludge due to sub-optimal performance of the high pressure electro-winning vessels and the use of lower quality carbon during the process. Cathodic sludge is produced as part of the process of electrolysis in the Company's new CIP plants at Aksu and Zholymbet. Cathodic gold is created on completion of CIP plant processing, the cathodes used in the electrolysis process are washed thereby removing the cathodic gold. The cathodic sludge is a by-product of the electro-winning processing in the CIP Plants and has a lower percentage of gold content than cathodic gold and a higher proportion of impurities. Both cathodic gold and cathodic sludge are sold at a discount to the gold price fixed by the London Bullion Market Association and the extent of that discount may differ depending upon market conditions. The Group currently expects to be able to sell cathodic gold at an approximate discount of between 2 and 3%. The discount on cathodic sludge depends on a number of factors, including the gold composition of the sludge. The Group exported the majority of its cathodic sludge in the first half of 2006. The majority of these sales were made at a discount of approximately 9% to the London Bullion Market Association Price. During 2005 and 2006 the Company has sold cathodic sludge to customers in the Kyrgyz Republic and Kazakhstan and since June 2006 sales have been diversified with the addition of a new customer in the United Arab Emirates.

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 28% and 30% 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.

Gold doré

As a result of the Group's transition from gravity and flotation to heap leaching and cyanidation processing technologies, the Group now has the capacity 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.

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.

The table below shows a breakdown of the Group's revenue by product category for the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	KZT million			U.S.$000'
Product				
Flotation and gravity concentrate	979	768	257	1,173
Free gold	467	373	462	1,514
Quartzite ore	80	—	73	237
Cathodic Sludge	—	—	2,586	28,654
Cathodic Gold	—	—	107	—
Dore bars	—	—	13	—
Total	1,526	1,141	3,498	31,578

Regions

Historically, the Group has exported the majority of its production and expects to export the majority of its gold production from 2006.

In 2005 and the six month period to 30 June 2006, the Group's geographical breakdown with respect to gold sales was Kyrgyz Republic (52.2% in 2005, 54.3% in the first half 2006), Kazakhstan (35.3% in 2005, 27.3% in the first half 2006), Switzerland (8.9% in 2005, 12.1% in the first half of 2006) and Russia (3.6% in 2005, 4.5% in the first half of 2006).

During the first half of 2006, the Group's inventory increased from 30,611 ounces to 48,821 ounces due to the temporary suspension of shipments to Kyrgyz Republic following disagreements with respect to the grade of product shipped by the Group. The disagreement was resolved and, as a result of investigations undertaken during the dispute, the Group made certain improvements to its laboratory facilities to further refine the accuracy of its assays. The Group has also recently entered into an agreement with a customer in the United Arab Emirates which has further diversified its customer base.

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 Group will continue to review its hedging strategy at regular intervals.

Transportation

The Group exports the majority of its products. The Group is responsible for transportation costs from its mines to Almaty or Astana airport, in the 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 the case of flotation and gravity concentrates and quartzite ore despatched by rail to customers in Russia. Cathodic gold is sent by air to customers in Kyrgyz Republic and the United Arab Emirates. Transportation of finished products is carried out by air by the Republican State Company Kazakhstan Temir Zholy, KLM and Ibis.

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 of sales. 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.

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 Chinese suppliers.

Other suppliers

The table below sets out Kazakhaltyn's ten largest suppliers in 2005 the type of products supplied, their location and the percentage of Kazakhaltyn'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	27.8%
Aylak-Astana LLP	Drilling bits, steel, timber, lubricants, mining spares	Astana, Kazakhstan	17.2%
Tuplar-Complect LLP	Drilling bits, steel, chemical reagents, timber, lubricants and mining spares	Astana, Kazakhstan	16.7%
Almaty Trade Group	Commodities	Almaty, Kazakhstan	13.0%
China National Gold Corporation	Chemicals	China	11.7%
JSC AREK	Electricity	Astana, Kazakhstan	1.9%
AES Ekibastuz LLP	Milling balls	Pavlodar, Kazakhstan	1.8%
Geomash KIAMZ LLP	Commodities	Astana, Kazakhstan	1.4%
KVERTA	Commodities	Chelyabinsk, Russia	1.1%
Kazzinctek LLP	Castings	Riddev, Kazakhstan	1.1%

Capital expenditure

For information on the Group's capital expenditure, 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 salaries paid to employees in the geological exploration unit totalled KZT 27 million in 2005. As at 31 December 2005, 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. Failure to obtain and maintain such insurance may result in a fine of approximately up to KZT 1 million. As required by law, the Group maintains third party liability insurance policies in relation to each of its subsurface use contracts. The aggregate limit on these insurance policies is approximately KZT$260 million for all events of loss covered under the policies.

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. Kazakhaltyn has obtained insurance policies dated 20 February 2006 and 10 March 2006 relating to health and safety claims by all of the Group's employees up to a limit of

approximately KZT 585 million. In 2006, the Group entered into four environmental insurance agreements in compliance with the requirements of the Law on the Protection of the Environment dated 15 July 1997. The total limit of cover under these insurance policies that have been taken out by Group is approximately KZT105 million. 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. Further, the ''Law on Mandatory Environmental Insurance'' was signed into Kazakh law by the President of the Republic of Kazakhstan in December 2005 and requires mandatory insurance of all legal entities and individuals undertaking dangerous activities in Kazakhstan.

The Group intends to take up additional environmental insurance protection as required by the ''Voluntary Insurance of Civil Liability for Damage On Environmental Risks''. 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 May 2006 the Group entered into four voluntary insurance contracts in respect of its key assets with the aggregate limit of approximately KZT 738 million 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 31 December 2005, the Group had, 3,209 permanent employees, of whom 847 work at the Aksu mine, 1,101 at the Bestobe mine and 701 at the Zholymbet mine. As of 31 December 2004, Kazakhaltyn had 2,469 permanent employees, compared with 2,748 as at 31 December 2003. 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 expansion in the employee base into 2005 has been driven by the expansion of the Group's existing mines and recent acquisitions.

The following table sets out information on the numbers of persons employed in the Group as at 31 December 2003, 2004 and 2005 by main category of activity:

	31 December		
	2003	2004	2005
Aksu mine	651	516	847
Bestobe mine	906	840	1,101
Zholymbet mine	790	652	701
Geological exploration unit	73	82	82
Central supply base	87	120	64
Department of reconstruction and support	16	18	116
Safety department	129	122	174
Open Mining	—	—	—
Administration	96	119	124
Total	2,748	2,469	3,209

In the year ended 31 December 2005, the total compensation paid to (or accrued with respect to) the Group's employees was KZT 987 million (comprising KZT 836 million in salaries and KZT 89 million in pensions 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 2005, approximately 1,420 or 44% 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 an annual collective agreement with Kazakhaltyn every year on behalf of Kazakhaltyn's current and former employees. The current collective agreement for 2006 to 2008 was entered into in June 2006.

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 21 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. 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 Group would consider seeking possible acquisitions of exploration or production rights outside of Kazakhstan, it is not actively seeking any such opportunities at present, with its focus remaining on the expansion of production at its existing and newly acquired mines.

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 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 Description—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 U.S.$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 U.S.$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 U.S.$275.00	0.85%
	U.S.$275.00 to U.S.$294.99	1.35%
	U.S.$295.00 to U.S.$304.99	1.6%
	U.S.$305.00 or more	2.3%
Silver	Less than U.S.$4.70	0.7%
	U.S.$4.70 to U.S.$4.89	1.1%
	U.S.$4.90 to U.S.$5.09	1.3%
	U.S. $5.10 or more	1.8%

From 2006, the royalty rate against the fixed value of gold will be 2.5%, the equivalent rate for silver being 2.0% from the primary commodity output.

- 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 is 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 (U.S. $1,500 in each of the three contracts, as opposed to U.S. $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.

REGULATION

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

- 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 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).

The 2005 Amendments to the Subsurface Law

On 14 October 2005 another substantial amendments to the Subsurface Law have been made (the ''**2005 Amendments**''). The most significant change introduced concerns the priority (pre-emptive) right. Under the amended language on the Subsurface Law, the pre-emptive right given to the government by the 2004 Amendments is expanded to alienation of equity interests in legal entities capable of directly and/or indirectly making decisions of and/or influencing the decisions made by a subsoil user, if the legal entity's principal activities are connected with subsoil use in the Republic of Kazakhstan. The Subsurface Law was also amended to give the competent authority the right to terminate a subsurface use contract if a transfer occurs without first offering the interest to the State.

Also, the 2005 Amendments introduce a rule requiring authorisation for subsoil use right transfers even if a transfer is to a subsidiary. According to the previous wording of the Subsoil Law, the authorisation of the competent authority was required for transfer of the subsoil use right to a subsidiary organisation or as a result of accession by rule of law. The competent authority could not refuse to give its authorisation to a transfer of subsoil use rights to a subsidiary organisation, provided that the parent organisation have given the competent authority a guarantee of full performance of all obligations under the contract, jointly and severally with the subsidiary in question.

One of the significant amendments to the Subsurface Law requires the parties when concluding a subsurface use contract to agree on the conditions of the level of salaries to be paid to Kazakhstan personnel.

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 and acquisitions made by Kazakhaltyn, see ''*Risk Factors—Risk Relating to the Group's Business*''.

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 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 Government 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 ''**WUPs**''). 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 ''Centrekaznedra'' 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 and the New Law No. 93-III ''On Obligatory Ecological Insurance'' dated 13 December 2005. 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 7 July 2006, a legal entity is deemed to occupy a dominant position if its market share constitutes 35% or more in the relevant market. In addition, a dominant position can be deemed to exist where three market entities have an aggregate market share of 50% or more and where four market entities have an aggregate market share of 70% or more.

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;
- 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;
- acquisition of more than 25% of the voting shares in a company;
- participation of the same individuals in the executive bodies, boards of directors (supervisory boards) of two or more entities;
- acquisition or use of more than 10% of the tangible assets of a company; 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.

The pre-completion approval by the Competition Committee is required for transactions if they fall within the last four categories and:

- the total value of the assets of the companies involved or the aggregate volume of sales for the latest financial year is above the 1,500,000 times the Monthly Calculation Index (''**MCI**'') (approximately U.S.$12,360,000). The Competition Committee may set larger thresholds of the asset value or aggregate volume of sales for certain markets ' analysis of such markets; or
- one of the persons (entities) participating in the transaction has a dominant (monopoly) position in a respective market; or
- the acquirer is a group of persons controlling the market activities of those entities described above.

Under the previous Law on Competition and Restriction on Antimonopolistic Activity dated 19 January 2001 and the current competition law, almost 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 2006'', is KZT 9,200 (U.S.$75) per month. Employees who work overtime or night shifts are required to be paid at least 150% of the hourly wage. Employees who work on bank holidays or at weekends are required to be paid at least 200% of the hourly (daily) wage. Employers are required to pay employees at least 50% of their average monthly salary for any downtime not caused by the employees' 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 21 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 2005, approximately 1,426 or 44.5% 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 for 2006-2008 was entered into in June 2006. 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 Kazakhaltyn has no expatriate 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 60 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 U.S.$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;
- chief executives of joint stock companies in which the State owns not less than 50% of the shares;
- chiefs and general managers of banking and insurance (reinsurance) organisations; 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 0.7% 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 AND SENIOR MANAGEMENT

Directors of the Issuer

The following table outlines the Directors of KazakhGold, their age, and their position on the Board and the date upon which they were appointed to the Board.

Name	Age	Position	Date appointed to Board
Dr. Kanat Assaubayev	58	Chief Executive Officer	3 October 2005
Mr. Baurzhan Assaubayev	36	First Deputy Chief Executive	19 October 2005
Mr. Aidar Assaubayev	28	Deputy Chief Executive Officer—Corporate Development	26 September 2005
Mrs. Marussya Assaubayeva	56	Deputy Chief Executive Officer—Health Safety, Environment and HR	19 October 2005
Lord Daresbury	53	Non Executive Chairman	4 October 2005
Mr. Toktarkhan Kozhagapanov	62	Non Executive Director	19 October 2005
Mr. David Netherway	53	Non Executive Director	19 October 2005
Mr. Stephen Oke	52	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 gained 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 previously 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. From April 2005 to June 2006 Lord Daresbury served as 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. On 1st June 2006 he was appointed Managing Director /Chief Executive Officer of Shield Mining Limited. 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 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 more than 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 Company Ltd.

Mr. Oke is currently a Non-Executive Director of International Ferro Metals Limited.

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 of Kazakhaltyn

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	56	Chief Technical Officer
Maksut Kainarovich Abduazhitov	50	Head of Open Pit Operations
Adil Karimovich Bekzatov	42	Chief Financial Officer
Saken Rakhimzhanovich Usenov	49	Head of Production and Technical Management
Oleg Leonidovich Gorozhanin	69	Chief Geologist
Kyamel Shagaipovich Akbayev	63	Head of Underground Operations
Napoleon Evstafyevich Mikhailov	42	Head of Aksu
Saiken Temirbaevich Alpysbayev	47	Head of Bestobe
Victor Aleksandrovich Shevchenko	49	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. Orynbasarov 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.

Corporate Governance

There is no relevant recommendation on corporate governance applicable to companies incorporated in Jersey. The Directors support the principles of good corporate governance and intend that the Group is administered accordingly. Although KazakhGold is registered in Jersey, and is at an early stage in its development, the Group intends to comply with the recommendations of the Combined Code on Corporate Governance for UK registered and listed companies. In addition, the board meets regularly in London, United Kingdom.

Board

As stated above the Board of Directors is composed of eight members, four Executive Directors and four Non-Executive Directors, including a Non-Executive Chairman.

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

Audit Committee

The Audit Committee helps the Board discharge its responsibilities regarding financial reporting, external and internal audits and controls as well as reviewing the Group's annual financial statements. It also assists by reviewing and monitoring the extent of non audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group'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 Audit Committee comprises four independent Non-Executive Directors (Peter Daresbury, Toktarkhan Kozhagapanov, David Netherway and Stephen Oke). The Chairman of the Audit Committee is Stephen Oke. The committee meets formally at least three times a year and otherwise as required.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration. This includes making recommendations to the Board on the Group'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 Remuneration Committee comprises four Non-Executive Directors (Peter Daresbury, Toktarkhan Kozhagapanov, David Netherway and Stephen Oke) and is chaired by David Netherway. The committee meets formally at least twice a year and otherwise as required.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee helps the Board in formulating the Group's health, safety and environment policies as they affect the Group's operations. The committee also monitors compliance with national and international standards and reviews management's investigations of any incidents or accidents that may occur, in order to assess whether policy improvements are required.

The Health, Safety and Environment Committee is composed of four members, one of whom is an independent Non-Executive Director (David Netherway). The other members of the committee are Executive Directors (Kanat Assaubayev, Aidar Assaubayev and Marussya Assaubayeva). The Chairman of the Health, Safety and Environment Committee is David Netherway. The committee meets formally at least twice a year and otherwise as required.

RELATED PARTY TRANSACTIONS

The Group does not have any material related party transactions.

PRINCIPAL SHAREHOLDERS

Substantial Shareholdings

The Company is aware of the following beneficial shareholdings, representing 10 per cent or more of the issued ordinary share capital of the Company, as at 30 June 2006.

	Number of ordinary shares	% of issued share capital
Gold Lion Limited[1]	33,600,000	71.3
BNY (Nominees) Limited[2]	13,100,000	27.8

(1) On 21 July 2006, the Company announced the sale by Gold Lion, a company beneficially owned by the Assaubeyev family, of 5.5 million depositary receipts in the secondary market for a price of U.S. $21.00 per GDR. Mr. Kanat Assaubayev, President of the Company stated that it was the intention of the family to use the proceeds of the sale for passive portfolio investments in Kazakhstan and internationally and that the Assaubayev family was committed to retaining its majority holding and full time executive involvement in the Company. The Assaubeyev family currently hold 59.66% of the Company.

(2) BNY (Nominees) Limited holds these shares as depository, against which 13.1 million Global Depositary Receipts have been issued, each representing one ordinary share with a nominal value of £0.0001.

Directors and their Interests

The table below sets out the interests of the Directors in KazakhGold Group's issued share capital as at 30 June 2006.

Director	Number of ordinary shares	% of issued share capital
Kanat Assaubayev[1,3]	33,600,000	71.3
Baurzhan Assaubayev[1,3]	33,600,000	71.3
Aidar Assaubayev[1,3]	33,600,000	71.3
Marussya Assaubayeva[1,3]	33,600,000	71.3
Peter Daresbury[2]	561,901	1.2
David Netherway[2]	3,333	0
Stephen Oke[2]	3,333	0

(1) The interests include those of Kanat Assaubayev, Baurzhan Assaubayev, Aidar Assaubayev, Marussya Assaubayeva as discretionary beneficiaries under the ABM SK Trust, held by Gold Lion Limited, whose only named discretionary beneficiaries are members of the Assaubayev family. No members of the Assaubayev family have a direct interest in the Group. The shareholding interests of the ABM SK Trust are held by Gold Lion Limited.

(2) Of the share interest total shown for Peter Daresbury, 400,000 is held in the form of ordinary shares, while the remaining interest and those of David Netherway and Stephen Oke are held in the form of Global Depositary Receipts.

(3) On 21 July 2006, the Company announced the sale by Gold Lion, a company beneficially owned by the Assaubeyev family, of 5.5 million depositary receipts in the secondary market for a price of U.S. $21.00 per GDR. Mr. Kanat Assaubayev, President of the Company stated that it was the intention of the family to use the proceeds of the sale for passive portfolio investments in Kazakhstan and internationally and that the Assaubayev family was committed to retaining its majority holding and full time executive involvement in the Company. The Assaubeyev family currently hold 59.66% of the Company.

The following options to purchase the Group's ordinary shares were granted during the period and were outstanding at 31 December 2005. No additional options have been granted to date.

	David Netherway	Stephen Oke
Number of options granted on 1 December 2005	26,666	26,666
Fair value at measurement date	U.S.$8,694	U.S.$8,694
Weighted average share price	U.S.$15	U.S.$15
Exercise price	U.S.$15	U.S.$15

CERTAIN OTHER INDEBTEDNESS

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 September 2006. 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 currently listed on the official list of the Kazakhstan Stock Exchange.

TERMS AND CONDITIONS OF THE NOTES

The U.S.$200,000,000 9.375 per cent. Senior Notes due 2013 (the ''**Notes**'', which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of KazakhGold Group Limited (the ''**Company**'') are constituted by, are subject to, and have the benefit of, a trust deed dated 6 November 2006 (as amended or supplemented from time to time, the ''**Trust Deed**'') between the Company, JSC Kazakhaltyn MMC, Rudnik Vasilevskyi LLP and Visart LLP (each a ''**Guarantor**'', together the ''**Guarantors**'', which term shall also include any Person becoming a Subsidiary Guarantor and shall exclude any Person ceasing to be a guarantor, in each case in accordance with the Trust Deed) and The Bank of New York, as trustee (the ''**Trustee**'', which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed), and are the subject of an agency agreement dated 6 November 2006 (as amended or supplemented from time to time, the ''**Agency Agreement**'') between the Company, the Guarantors, The Bank of New York, (Luxembourg) S.A., as registrar (the ''**Registrar**'', which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York, as principal paying agent (the ''**Principal Paying Agent**'', which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the ''**Transfer Agents**'', which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the **''Paying Agents**'', which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the ''**Agents**'' are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an ''**Agent**'' is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours upon prior written request at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, 48th Floor, London E14 5AL and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer, as lender, has entered into a loan agreement dated 6 November 2006 with JSC Kazakhaltyn MMC (''**Kazakhaltyn**''), as borrower, (in such capacity, the ''**Borrower**'') pursuant to which the Issuer will advance a U.S.$200,000,000 loan (the ''**Loan**'') to the Borrower (as amended and supplemented from time to time, the ''**Loan Agreement**'').

As security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes, the Issuer has:

(A) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to (i) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer as lender under the Loan Agreement and (ii) all amounts now or hereafter paid or payable by the Borrower to the Issuer under or in respect of any claim, award or judgment relating to the Loan Agreement (this sub-clause (A), the ''**Charged Property**''); and

(B) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement other than the Charged Property and amounts payable by the Borrower in relation to the Charged Property (the ''**Transferred Rights**''),

together, the ''**Security Interests**''.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

1. Form, Denomination, Status and Guarantee

(a) **Form and denomination:** The Notes are in registered form in the denomination of U.S.$100,000. Notes may be held in holdings in the aggregate principal amount of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof (each, an ''**Authorised Holding**'').

(b) **Status of the Notes:** The Notes constitute direct, general, secured and unconditional obligations of the Company which will at all times rank *pari passu* among themselves and at least *pari passu* with all other

present and future unsecured obligations of the Company, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) **Guarantee of the Notes:** The Guarantors have in the Trust Deed jointly, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Company in respect of the Notes. These guarantees (the ''**Guarantees of the Notes**'') constitute direct, general and unconditional obligations of each of the Guarantors which will at all times rank at least *pari passu* with all other present and future unsecured obligations of each of the Guarantors, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Security Interests. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

2. Register, Title and Transfers

(a) *Register:* The Registrar will maintain a register (the ''**Register**'') in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the ''**Holder**'' of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and ''**Noteholder**'' shall be construed accordingly. A certificate (each, a **''Note Certificate**'') will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers:* Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, ''**business day**'' means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Company, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Company with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Certain Covenants

3.1 Limitation on Indebtedness

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness; *provided, however, that* the Company and any Guarantor may Incur Indebtedness if on the date thereof the Leverage Ratio for the Company and its Restricted Subsidiaries is less than 3 to 1.

(b) Condition 3.1(a) will not prohibit the Incurrence of the following Indebtedness:

(1) Indebtedness of the Company and of any Guarantor Incurred under a Credit Facility in an aggregate principal amount up to U.S.$15 million;

(2) Indebtedness of the Company owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Company or any Restricted Subsidiary; *provided, however, that*

(a) if the Company is the obligor on such Indebtedness (other than Indebtedness owed to a Guarantor), such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes;

(b) if a Guarantor is the obligor on such Indebtedness (other than Indebtedness owed to the Company or another Guarantor), such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes and the relevant Guarantee of the Notes; and

(c) any subsequent:

(i) issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Company or a Restricted Subsidiary; and

(ii) sale or other transfer of any such Indebtedness to a Person other than the Company or a Restricted Subsidiary of the Company,

shall be deemed, in each case, to constitute an Incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be;

(3) Indebtedness represented by the Guarantees of the Notes;

(4) Indebtedness represented by (a) the Notes issued on the Issue Date, (b) any other Indebtedness (other than the Indebtedness described in sub-condition (1), (2), (3), (6), (8), (9), (10), (11) and (13) of this Condition 3.1(b)) outstanding on the Issue Date and (c) any Refinancing Indebtedness Incurred in respect of any Indebtedness described in this sub-condition (4) or sub-condition (5) or Incurred pursuant to Condition 3.1(a);

(5) Indebtedness of a Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary was acquired by the Company or any Restricted Subsidiary (other than Indebtedness Incurred (a) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was otherwise acquired by the Company or any Restricted Subsidiary or (b) otherwise in connection with, or in contemplation of, such acquisition); *provided, however, that* at the time such Restricted Subsidiary is acquired by the Company or another Restricted Subsidiary, immediately after giving effect to such acquisition and the Incurrence of such Indebtedness pursuant to this sub-condition (5), either (x) the Company would have been able to Incur U.S.$1.00 of additional Indebtedness pursuant to Condition

3.1(a) (*Limitation on Indebtedness*) or (y) the Leverage Ratio would not be greater than the Leverage Ratio immediately prior to giving effect to such transaction;

(6) Indebtedness under Hedging Obligations; *provided that* such Hedging Obligations are entered into for *bona fide* hedging purposes of the Company or its Restricted Subsidiaries and are related to business transactions of the Company or its Restricted Subsidiaries entered into in the ordinary course of business and not for speculative purposes (as determined in good faith by the Board of Directors or senior management of the Company);

(7) Indebtedness of the Company or any Guarantor represented by Capitalized Lease Obligations, mortgage financings or purchase money obligations with respect to assets other than Capital Stock or other Investments, in each case incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvements of property used in the business of the Company or such Guarantor, in an aggregate principal amount not to exceed U.S.$15 million at any time outstanding;

(8) Indebtedness incurred in respect of workers' compensation claims, self-insurance obligations, performance, surety and similar bonds and completion guarantees provided by the Company or a Restricted Subsidiary in the ordinary course of business;

(9) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Restricted Subsidiary, *provided that* the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Company and its Restricted Subsidiaries in connection with such disposition;

(10) Indebtedness arising from the honouring by a bank or other financial institution of a check, draft or similar instrument (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, *provided, however, that* such Indebtedness is extinguished within five Business Days of Incurrence;

(11) in addition to the items referred to in sub-conditions (1) through (10) and sub-condition (12) of this Condition 3.1(b), Indebtedness of the Company and the Restricted Subsidiaries in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this sub-condition (11) and then outstanding, will not exceed U.S.$15 million at any time outstanding;

(12) Subordinated Shareholder Indebtedness; and

(13) U.S.$8 million of the Indebtedness represented by the KZT Bonds.

(c) For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this Condition 3.1:

(1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in Condition 3.1(a) and 3.1(b), the Company, in its sole discretion, will classify such item of Indebtedness on the date of Incurrence, and may from time to time reclassify such item of Indebtedness, and only be required to include the amount and type of such Indebtedness in one of such clauses; and

(2) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock will not be deemed to be an Incurrence of Indebtedness for purposes of this Condition 3.1. The amount of any Indebtedness outstanding as of any date shall be (i) the accreted value of the Indebtedness in the case of any Indebtedness issued with original issue discount and (ii) the principal amount or liquidation preference thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

In addition, the Company will not permit any of its Unrestricted Subsidiaries to Incur any Indebtedness or issue any shares of Disqualified Stock, other than Non-Recourse Debt. If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be

Incurred by a Restricted Subsidiary of the Company as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under this Condition 3.1, the Company shall be in Default hereunder).

For purposes of determining compliance with any dollar-denominated restriction on the Incurrence of Indebtedness, the dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided that* if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this Condition 3.1, the maximum amount of Indebtedness that may be Incurred pursuant to this Condition 3.1 shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

3.2 Limitation on Restricted Payments

(a) The Company will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(1) declare or pay any dividend or make any distribution (including any payment in connection with any merger or consolidation involving the Company or any Subsidiary of the Company on or in respect of its Capital Stock) except:

(a) dividends or distributions payable solely in Capital Stock of the Company (other than Disqualified Stock) or in options or warrants or other rights to purchase such Capital Stock of the Company; and

(b) dividends or distributions payable to the Company or another Restricted Subsidiary (and, if such Restricted Subsidiary has shareholders other than the Company or other Restricted Subsidiaries, to its other shareholders on a pro rata basis);

(2) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company held by Persons other than the Company or a Restricted Subsidiary (other than in exchange for Capital Stock of the Company (other than Disqualified Stock));

(3) purchase, repurchase, prepay, repay, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Obligations of the Company or any Guarantor (other than the purchase, repurchase, prepayment or repayment redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of purchase, repurchase or acquisition); or

(4) make any Restricted Investment in any Person;

any such dividend, distribution, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in sub-conditions (1) through (4) (inclusive) of this Condition 3.2(a) shall be referred to herein as a ''**Restricted Payment**'', unless at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(a) no Default shall have occurred and be continuing (or would result therefrom);

(b) the Company is able to Incur an additional U.S.$1.00 of Indebtedness pursuant to Condition 3.1(a) (*Limitation on Indebtedness*) after giving effect, on a *pro forma* basis, to such Restricted Payment; and

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made subsequent to the Issue Date does not exceed the sum of:

(i) 50% of Consolidated Net Income for the period (treated as one accounting period) from the beginning of the semi-annual financial period beginning 1 January 2006 to the end of the most recent semi-annual financial period ending prior to the date of such Restricted Payment for which financial statements are in existence (or, in the event Consolidated Net Income for such period is a deficit then, minus 100% of such deficit);

(ii) 100% of the aggregate Net Cash Proceeds received by the Company from the issue or sale of its Capital Stock (other than Disqualified Stock) or other capital contributions subsequent to the Issue Date (other than Net Cash Proceeds received from an issuance or sale of such Capital Stock to a Subsidiary of the Company or an employee stock ownership plan, option plan or similar trust established by the Company or any of its Subsidiaries to the extent such sale to an employee stock ownership plan, option plan or similar trust is financed by loans from or guaranteed by the Company or any of its Subsidiaries unless such loans have been repaid with cash on or prior to the date of determination);

(iii) the amount by which Indebtedness of the Company is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Issue Date of any Indebtedness of the Company convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or other property, distributed by the Company upon such conversion or exchange); and

(iv) the amount equal to the net reduction in Restricted Investments made by the Company or any of its Restricted Subsidiaries in any Person resulting from:

(A) repurchases or redemptions of such Restricted Investments by such Person and repayments of loans or advances or other transfers of assets (including by way of dividend or distribution) by such Person to the Company or any Restricted Subsidiary of the Company not to exceed, in the case of any Person, the amount of Restricted Investments previously made by the Company or any Restricted Subsidiary in such Person;

(B) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued in each case as provided in the definition of ''**Investment**'') not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by the Company or any Restricted Subsidiary in such Unrestricted Subsidiary; or

(C) proceeds realized upon the sale of such Restricted Investment to a Person other than the Company or a Restricted Subsidiary,

which amount in each case under this paragraph (iv) was included in the calculation of the amount of Restricted Payments; *provided, however*, *that* no amount will be included under this paragraph (iv) to the extent it is already included in Consolidated Net Income.

(b) The provisions of Condition 3.2(a) will not prohibit:

(1) any (x) purchase or redemption of Capital Stock or Subordinated Obligations of the Company or any Restricted Subsidiary or (y) any Restricted Investment, in each case, made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary or an employee stock ownership plan or similar trust to the extent such sale to an employee stock ownership plan or similar trust is financed by loans from or guaranteed by the Company or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination); *provided, however, that* (a) such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments and (b) the Net Cash Proceeds from such sale will be excluded from Condition 3.2(a)(4)(c)(ii);

(2) any purchase or redemption of Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations of the Company or any purchase or redemption of Subordinated Obligations of the Guarantors made by exchange for, or out of proceeds of the substantially concurrent sale of Subordinated Obligations of the Company or the Guarantors that, in each case, is permitted to be Incurred pursuant to Condition 3.1 (*Limitation on Indebtedness*) above and that, in each case, qualifies as Refinancing Indebtedness; *provided, however, that* such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments;

(3) so long as no Default or Event of Default has occurred and is continuing, any purchase or redemption of Subordinated Obligations from Net Available Cash to the extent permitted under Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*) below; *provided, however, that* such purchase or redemption will be excluded in subsequent calculations of the amount of Restricted Payments;

(4) dividends paid within 60 days after the date of declaration if at such date of declaration such dividends would have been permitted under this Condition 3.2; *provided, however, that* such dividends will be included in subsequent calculations of the amount of Restricted Payments;

(5) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock of the Company or any Restricted Subsidiary of the Company or any parent of the Company held by any existing or former employees or management of the Company or any Subsidiary of the Company or their assigns, estates or heirs, in each case in connection with the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management employees; *provided that* such redemptions or repurchases pursuant to this sub-condition will not exceed U.S.$0.5 million in the aggregate during any calendar year and U.S.$2.5 million in the aggregate for all such redemptions and repurchases; *provided, however, that* the amount of any such repurchase or redemption will be included in subsequent calculations of the amount of Restricted Payments;

(6) repurchases of Capital Stock deemed to occur upon the exercise of stock options, warrants or other convertible securities if such Capital Stock represents a portion of the exercise price thereof or withholding tax thereon; *provided, however, that* such repurchases will be included in subsequent calculations of the amount of Restricted Payments; and

(7) so long as no Default has occurred or is continuing or would be caused thereby, other Restricted Payments in an aggregate amount not to exceed U.S.$5 million since the Issue Date; *provided, however, that* such Restricted Payments will be included in subsequent calculations of the amount of Restricted Payments.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount and any non-cash Restricted Payment shall be determined conclusively by the Board of Directors acting in good faith, such determination to be based upon a written opinion of an independent and reputable accounting, appraisal or investment banking firm of internationally recognized standing if the fair market value of such Restricted Payment is estimated to exceed U.S.$5 million.

3.3 Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Lien (other than Permitted Liens) upon any of its property or assets (including Capital Stock of Restricted Subsidiaries of the Company), whether owned on the Issue Date or acquired after that date, which Lien is securing any Indebtedness of the Company or any Restricted Subsidiary unless contemporaneously with the Incurrence of the Liens effective provision is made to secure the Indebtedness due under the Trust Deed and the Notes or, in respect of Liens on any Restricted Subsidiary's property or assets, any Guarantee of the Notes of such Restricted Subsidiary, equally and rateably with (or prior to in the case of Liens with respect to Subordinated Obligations of the Company or a Guarantor), the Indebtedness secured by such Lien for so long as such Indebtedness is so secured.

3.4 Waiver of Stay; Extension or Usury Laws

The Company and each of the Guarantors covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company or any of the Guarantors from paying all or any portion of the principal of and/or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of the Trust Deed, and (to the extent that it may lawfully do so) the Company and each of the Guarantors, hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

3.5 Limitation on Restrictions on Distributions from Restricted Subsidiaries

(a) The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to the Company or any Restricted Subsidiary;

(2) make any loans or advances to the Company or any Restricted Subsidiary; or

(3) transfer any of its property or assets to the Company or any Restricted Subsidiary.

(b) The provisions of Condition 3.5(a) will not prohibit:

(i) any encumbrance or restriction pursuant to an agreement in effect at the Issue Date;

(ii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by a Restricted Subsidiary on or before the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company or in contemplation of the transaction) and outstanding on such date;

(iii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement effecting a refunding, replacement or refinancing of Indebtedness referred to in sub-condition (i) or (ii) of this Condition 3.5(b) or this sub-condition (iii) or contained in any amendment to an agreement relating to any Indebtedness referred to in sub-condition (i) or (ii) of this Condition 3.5(b) or this sub-condition 3.5(b) (iii); *provided, however, that* any such restrictions contained in any such amendments or any agreement effecting refunding, replacement or refinancing referred to above, are no more restrictive than the encumbrances and restrictions contained in the agreements relating to the Indebtedness referred to in clauses (i) or (ii) of this paragraph in existence on the Issue Date or the date such Restricted Subsidiary became a Restricted Subsidiary, whichever is applicable;

(iv) in the case of sub-condition (3) of Condition 3.5(a) above, any encumbrance or restriction:

(a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any such lease, license or other contract;

(b) contained in mortgages, pledges or other security agreements permitted by the Trust Deed securing Indebtedness of the Company or a Restricted Subsidiary to the extent such encumbrances or restrictions restrict the transfer of the property subject to such mortgages, pledges or other security agreements; or

(c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Company or any Restricted Subsidiary;

(v) purchase money obligations for property acquired in the ordinary course of business and Capitalized Lease Obligations permitted by the Trust Deed, in each case, that impose

encumbrances or restrictions of the nature described in sub-condition 3.5(a)(3) on the property so acquired;

(vi) any restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition; and

(vii) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation, order, license or permit including applicable corporate law restrictions on the payment of dividends.

3.6 Limitation on Sales of Assets and Subsidiary Stock

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(1) the Company or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Disposition at least equal to the fair market value, as determined in good faith by the Board of Directors (including as to the value of all non-cash consideration), of the shares and assets subject to such Asset Disposition;

(2) at least 75% of the consideration from such Asset Disposition received by the Company or such Restricted Subsidiary, as the case may be, is in the form of cash or Cash Equivalents or a combination thereof; and

(3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company or such Restricted Subsidiary, to the extent the Company or such Restricted Subsidiary elects, within 360 days of receipt thereof:

(a) to prepay, repay or purchase Indebtedness of the Company (other than Disqualified Stock, Preferred Stock or Subordinated Obligations of the Company) or Indebtedness (other than any Disqualified or Preferred Stock or Subordinated Obligations of a Restricted Subsidiary) of a Restricted Subsidiary (in each case other than Indebtedness owed to the Company or an Affiliate of the Company); or

(b) to invest in Additional Assets;

provided that pending the final application of any such Net Available Cash in accordance with sub-condition (a) or sub-condition (b) above, the Company and its Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the Trust Deed.

(b) Any Net Available Cash from Asset Dispositions that is not applied or invested as provided in Condition 3.6(a)(3) within 360 days after receipt thereof will be deemed to constitute ''**Excess Proceeds**'' and:

(1) when the aggregate amount of Excess Proceeds exceeds U.S.$10 million, the Company will be required to make an offer (''**Asset Disposition Offer**'') to all holders of Notes to purchase the maximum principal amount of Notes to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount of the Notes plus accrued and unpaid interest and any additional amounts payable pursuant to Condition 7 (*Taxation*), to the date of purchase. The Company may (but is not obliged to) make an Asset Disposition Offer if the aggregate amount of Excess Proceeds exceeds U.S.$1 million but does not exceed U.S.$10 million. If there is any Indebtedness outstanding that ranks *pari passu* with the Notes and contains similar provisions to this Condition 3.6 requiring the Company to make an offer to purchase such Indebtedness following as Asset Disposition, the Company (x) may make an offer to purchase such Indebtedness on the same terms as, or on terms that are no better than the terms of, the Asset Disposition Offer and, (y) to the extent that the aggregate principal amount of Notes validly tendered and not withdrawn (the ''**Tendered Notes**'') together with the amount of such pari passu Indebtedness validly tendered and not withdrawn (the ''**Aggregate Tendered Amount**'') exceeds the Excess Proceeds, the proportion of the

Excess Proceeds to be applied to the purchase of the Tendered Notes shall be the amount which bears the same proportion to the Excess Proceeds as the aggregate principal amount of the Tendered Notes bears to the Aggregate Tendered Amount, and any reference below to Excess Proceeds shall be taken to mean such proportional amount.

(2) To the extent that all or any portion of the Excess Proceeds remains after completion of an Asset Disposition Offer, the Company or such Restricted Subsidiary may use any remaining Excess Proceeds for general corporate purposes, subject to the other covenants contained in the Trust Deed.

(3) If the aggregate principal amount of Notes surrendered by holders thereof exceeds the amount of Excess Proceeds, the Trustee shall select the Notes to be purchased on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion deems fair and appropriate, *provided that* such method is in compliance with the rules of any stock exchange on which the Notes are listed and the requirements of any depositary. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero. The Trustee shall have no liability in relation to approvals, decisions or selections made by it pursuant to this Condition 3.6.

The Company will determine the relevant procedures in respect of any Asset Disposition Offer, *provided that* such procedures are in compliance with the rules of any stock exchange on which the Notes are listed. Notice of the Asset Disposition Offer will be given in accordance with the Trust Deed. The Asset Disposition Offer will remain open for a period of 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law (the ''**Asset Disposition Offer Period**''). No later than five Business Days after the termination of the Asset Disposition Offer Period (the ''**Asset Disposition Purchase Date**''), the Company will purchase and pay for the principal amount of Notes required to be purchased pursuant to this Condition 3.6 (the ''**Asset Disposition Offer Amount**'') and issue a new Note Certificate in respect of any such Note purchased in part only.

Any Note tendered and not accepted for purchase will be promptly mailed or delivered by the Company to the holder thereof. The Company will publicly announce the results of the Asset Disposition Offer on the Asset Disposition Purchase Date.

For the purposes of this Condition 3.6, the following will be deemed to be cash:

(1) the assumption by the transferee of Indebtedness (other than Subordinated Obligations or Disqualified Stock) of the Company or Indebtedness (other than Disqualified Stock or Subordinated Obligations) of any Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition (in which case the Company will, without further action, be deemed to have applied such deemed cash to Indebtedness in accordance with clause (a) above); and

(2) securities, notes or other obligations received by the Company or any Restricted Subsidiary from the transferee that are converted within 90 days by the Company or such Restricted Subsidiary into cash.

The Company will comply, to the extent applicable, with any securities laws or regulations in connection with the repurchase of Notes pursuant to the Trust Deed. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Condition 3.6, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Trust Deed by virtue of any conflict.

(c) Notwithstanding, and without complying with, the provisions of Condition 3.6(a) and (b), the Company and its Restricted Subsidiaries may exchange assets for property, businesses, or assets held by any Person (including by merger or consolidation in the case of a Restricted Subsidiary of the Company), *provided that*:

(1) the property, business and assets, in one or a series of related transactions, received by the Company or such Restricted Subsidiaries in any such exchange in the good faith reasonable judgment of the Board of Directors of the Company will immediately constitute, be a part of, or be used or useful in, a Permitted Business of the Company or such Restricted Subsidiaries;

(2) if the property, business or assets received in exchange would constitute an Investment, such Investment is permitted to be made under Condition 3.2 (*Limitation on Restricted Payments*);

(3) the Company's Board of Directors has determined in good faith that the terms of any exchange are fair and reasonable and that the fair market value of the assets received together with any other consideration to be received is at least equal to the fair market value of the property, businesses or assets exchanged (evidenced by a resolution of the Board of Directors set forth in an officer's certificate delivered to the Trustee);

(4) any other consideration received by the Company or any Restricted Subsidiary in such exchange shall be treated as having been received as a result of an Asset Sale; and

(5) if the assets are being exchanged by the Company or a Guarantor, the property, businesses or assets received in such exchange is received by the Company or a Guarantor.

3.7 Limitation on Affiliate Transactions

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Company or a Restricted Subsidiary (an ''**Affiliate Transaction**'') *unless*:

(1) the terms of such Affiliate Transaction are no less favourable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction in arm's-length dealings with a Person who is not such an Affiliate;

(2) in the event such Affiliate Transaction involves an aggregate amount in excess of U.S.$1 million, the terms of such transaction have been approved by a majority of the members of the Board of Directors of the Company and by a majority of the members of such board having no personal stake in such transaction, if any (and such majority or majorities, as the case may be, determines that such Affiliate Transaction satisfies the criteria in sub-condition (1) above);

(3) in the event such Affiliate Transaction involves an aggregate amount in excess of U.S.$5 million, the Company has received a written opinion from an independent and reputable accounting or valuation firm of internationally recognized standing that the terms of such Affiliate Transaction are not materially less favourable than those that might reasonably have been obtained in a comparable transaction at such time on an arms-length basis from a Person that is not an Affiliate; and

(4) in the event such Affiliate Transaction involves an aggregate amount in excess of U.S.$10 million, the Company has received a written opinion from an independent investment banking firm of internationally recognized standing that the terms of such Affiliate Transaction are not materially less favourable than those that might reasonably have been obtained in a comparable transaction at such time on an arms-length basis from a Person that is not an Affiliate.

(b) Condition 3.7(a) shall not apply to:

(1) any Restricted Payment (other than a Restricted Investment) permitted to be made pursuant to Condition 3.2 (*Limitation on Restricted Payments*);

(2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans and other reasonable fees, compensation, benefits and indemnities paid or entered into by the Company or its Restricted Subsidiaries in the ordinary course of business to or with members of the Board of Directors, officers or employees of the Company and its Restricted Subsidiaries approved by the Board of Directors;

(3) loans or advances to, or any Guarantee provided for the benefit of, employees of the Company or any of its Restricted Subsidiaries; *provided that* the aggregate amount of such loans or advances and the principal component of Indebtedness guaranteed by the Company or any Restricted Subsidiary does not exceed U.S.$1 million outstanding at any one time with respect to all such loans, advances or Guarantees made since the Issue Date;

(4) any transaction between the Company and a Restricted Subsidiary or between Restricted Subsidiaries and Guarantees issued by the Company or a Restricted Subsidiary for the benefit

of the Company or a Restricted Subsidiary, as the case may be, in accordance with Condition 3.1 (*Limitation on Indebtedness*); and

(5) the payment of reasonable and customary fees paid to, and indemnity provided on behalf of, directors of the Company or any Restricted Subsidiary of the Company.

3.8 Reports

The Company will furnish to the Trustee and to the Principal Paying Agent and make public:

(a) within 180 days after the end of each of the Company's fiscal years ending 31 December 2006 and 31 December 2007 and within 150 days after the end of each of the Company's fiscal years thereafter, audited annual reports containing a level of detail that is comparable in all material respects to the audited financial statements of the Company contained in the Offering Circular together with the following information:

(1) audited consolidated balance sheets of the Company as at the end of the two most recent financial years and audited consolidated income statements and statements of cash flow of the Company for the two most recent financial years, including appropriate footnotes to such financial statements, for and as at the end of each such financial year, and the report of the independent auditors on the financial statements (provided that, in respect of the Company's financial year ending 31 December 2006, the Company need provide such information in respect of that financial year and the period from 26 September 2005 to 31 December 2005);

(2) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources for the last two financial years (provided that, in respect of the Company's financial year ending 31 December 2006, the Company need provide such information in respect of that financial year and the period from 26 September 2005 to 31 December 2005); and

(3) material recent developments.

(b) within 120 days following the end of the first six months in each of the Company's financial years ending 31 December 2006 and 31 December 2007, and within 90 days following the end of the first six months in each financial year of the Company thereafter, semi-annual financial statements containing the following information:

(1) an unaudited consolidated balance sheet as at the end of such period, and an unaudited consolidated statements of income and cash flow for such period ending on the unaudited consolidated balance sheet date, and (except in respect of the period ending on 30 June 2006) the comparable prior year periods, together with condensed footnote disclosure;

(2) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources; and

(3) material recent developments;

(c) promptly after the occurrence of a material acquisition, disposition, restructuring, senior management change at the Company or change in its auditors, a description of such event.

If the Company has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the annual and semi-annual information required by this Condition 3.8 will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto and in the operating and financial review, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

All reports referred to in this section will be available for inspection at the respective offices of the Paying Agents and Transfer Agents. Any Noteholder may request that a copy of any such report be mailed to such Noteholder, at the expense of the Issuer, by written request to any Paying Agent or Transfer Agent.

3.9 Limitation on Lines of Business

The Company will not, and will not permit any Restricted Subsidiary to, engage in any business other than a Permitted Business.

3.10 Merger, Amalgamation and Consolidation

(a) The Company will not consolidate with, amalgamate or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all its assets to, any Person, *unless*:

(1) the resulting, surviving or transferee Person (the ''**Successor Company**'') will be a corporation or limited liability company organized and existing under the laws of Jersey, Liechtenstein, Iceland, the Isle of Man, Norway, Switzerland, Canada, South Africa, Australia, Kazakhstan, any member state of the European Union that is a member of the European Union as of the Issue Date, or of the United States of America, any State thereof or the District of Columbia;

(2) the Successor Company (if not the Company) will expressly assume, by supplemental Trust Deed, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Notes and Trust Deed;

(3) immediately before and after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company as a result of such transaction as having been Incurred by the Successor Company at the time of such transaction), no Default shall have occurred and be continuing;

(4) immediately after giving effect to such transaction, either (x) the Successor Company would be able to Incur at least an additional U.S. $1.00 of Indebtedness pursuant to Condition 3.1(a) (*Limitation on Indebtedness*) or (y) the Leverage Ratio of the Successor Company would not be greater than the Leverage Ratio of the Company immediately prior to giving effect to such transaction;

(5) the Company shall have delivered to the Trustee a certificate signed by two Directors stating that such amalgamation, consolidation, merger or transfer complies with the Trust Deed; and

(6) the Company shall have delivered to the Trustee (a) a signed Opinion of Counsel stating that such amalgamation, consolidation, merger or transfer complies with this Condition 3.10, and (b) a signed Opinion of Counsel stating that such counsel is not aware of any pending change in, or amendment to, the laws (or any regulations promulgated thereunder) of any country or jurisdiction in which the proposed Successor Company is incorporated or maintains its principal place of business or principal executive office, or any taxing authority thereof or therein, affecting taxation, or any pending change in application of or official position regarding, any treaty or treaties affecting taxation to which any such country or jurisdiction is a party, which, in any such case, would permit the Successor Company to redeem the Notes as described in Condition 5(d) (*Redemption and Purchase-Tax Redemption*), it being understood that the Company may instead deliver two or more Opinions of Counsel which together cover all of the foregoing matters.

For purposes of this Condition 3.10, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

(b) Notwithstanding sub-conditions 3.10(a)(4), 3.10(a)(5) and 3.10(a)(6), any Restricted Subsidiary of the Company may consolidate with, amalgamate, merge into or transfer all or part of its properties and assets to the Company.

(c) In addition, the Company will not permit any Guarantor to consolidate with, amalgamate or merge with or into any Person (other than the Company or another Guarantor), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or a series of related transactions to, another Person (other than the Company or another Guarantor) whether or not affiliated with such Guarantor *unless*:

(1)

(a) the resulting, surviving or transferee Person will be a corporation or a limited liability company organized and existing under the laws of Kazakhstan, Jersey, Liechtenstein, Australia, Iceland, the Isle of Man, Norway, South Africa, Switzerland, any member

state of the European Union that was a member of the European Union as of the Issue Date, or the United States of America, any State thereof or the District of Columbia;

(b) such Person (if not a Guarantor) will expressly assume all the obligations of such Guarantor under the Notes and the Trust Deed, including the relevant Guarantee of the Notes, pursuant to a supplemental Trust Deed executed and delivered to the Trustee in a form and substance satisfactory to the Trustee;

(c) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the resulting, surviving or transferee Person or any Restricted Subsidiary as a result of such transaction as having been Incurred by such Person or Restricted Subsidiary at the time of such transaction), no Default shall have occurred and be continuing; and

(d) the Company will have delivered to the Trustee (X) a certificate signed by two Directors stating that such consolidation, amalgamation, merger or transfer complies with this Condition 3.10; (Y) a signed Opinion of Counsel stating that such consolidation, amalgamation, merger or transfer complies with the Trust Deed; and (Z) a signed Opinion of Counsel stating that such counsel is not aware of any pending change in, or amendment to, the laws (or any regulations promulgated thereunder) of any country or jurisdiction in which the resulting, surviving or transferee Person is incorporated or maintains its principal place of business or principal executive office, or any taxing authority thereof or therein, affecting taxation, or any pending change in application of or official position regarding, any treaty or treaties affecting taxation to which any such country or jurisdiction is a party, which, in any such case, would permit the Company to redeem the Notes as described in Condition 5(d) (*Redemption and Purchase-Tax Redemption*), it being understood that the Company may instead deliver two or more Opinions of Counsel which together cover all of the foregoing matters; or

(2) the transaction is made in compliance with the covenant described under Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*) above.

The Person formed by or surviving such consolidation, amalgamation or merger (if other than a Guarantor) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made will succeed to, and be substituted for, and may exercise every right and power of, such Guarantor under the Trust Deed, but in the case of a lease of all or substantially all of its assets, such Guarantor will not be released from its obligation under its Guarantee to pay the principal of, premium, if any, or interest, if any, on the Notes.

3.11 Payments for Consent

The Company will not, and will not permit any of its Subsidiaries or the Guarantors, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of the Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Trust Deed or the Notes unless such consideration is offered to be paid and is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement (and such documents may provide for different consideration to be payable depending on the dates on which holders give such consent, waiver or agreement *provided that* all holders are entitled to receive such consideration by giving their consent, waiver or agreement within the timeframe set forth in such documents).

3.12 Limitations on Sale or Issuance of Capital Stock of Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary of the Company to, transfer, convey, sell, lease or otherwise dispose of any Voting Stock of any Restricted Subsidiary or to issue any

Voting Stock of a Restricted Subsidiary (other than, if necessary, Voting Stock owned by the Directors) to any Person except:

(1) to the Company or a Restricted Subsidiary;

(2) to create a Lien permitted under Condition 3.3 (*Limitation on Liens*) (solely to the extent that the creation of such Lien constitutes a disposition of the Voting Stock subject to such Lien under applicable law);

(3) a sale or other disposition of Voting Stock, where such sale is permitted under Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*) and, after giving effect to such sale or other disposition of Voting Stock, neither the Company nor any Restricted Subsidiary owns any Capital Stock of such Restricted Subsidiary; or

(4) if, immediately after giving effect to such issuance, sale or other disposition of Voting Stock such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and (a) any Investment in such Person remaining after giving effect thereto would have been permitted to be made under Condition 3.2 (*Limitation on Restricted Payments*) if made on that date of such issuance, sale or other disposition of Voting Stock (and such Investment shall be deemed to be an Investment for the purposes of Condition 3.2), and (b) such Person is not a Guarantor.

3.13 Limitation on Guarantees of the Company and Guarantor Indebtedness

The Company will not permit any Restricted Subsidiary that is not a Guarantor to Guarantee any Indebtedness of the Company or any Guarantor, *unless* contemporaneously therewith (or prior thereto) provision is made to Guarantee the Notes on an equal and rateable basis with such Guarantee for so long as such Guarantee remains effective.

3.14 Romanshorn LLC

(a) Subject to Condition 3.14(b), the Company and the Guarantors will not permit Romanshorn LLC (''**Romanshorn**'') to:

(1) Incur any Indebtedness;

(2) Make any Restricted Payment (other than dividends or distributions payable to the Company);

(3) Incur, create or suffer to exist any Lien;

(4) Make any Asset Disposition or transfer or otherwise convey any Capital Stock in any Person;

(5) Enter into any Affiliate Transaction;

(6) Consolidate, merge or amalgamate with any Person; or

(7) Enter into any agreement that would restrict, or otherwise allow any encumbrance or restriction on, the ability of the Company and Romanshorn to comply with Condition 3.14(b) below.

This Condition 3.14(a) shall apply regardless of whether Romanshorn or any other Restricted Subsidiary would be able to enter into any such transaction under the terms of Conditions 3.1 to 3.15.

(b) The Company may, at such time as it deems appropriate, take steps to procure the dissolution and liquidation of Romanshorn and any such steps shall not be in breach of Condition 3.14(a) provided that such dissolution and liquidation of Romanshorn shall constitute an Exempt Romanshorn Dissolution and that the Company shall have delivered to the Trustee a certificate signed by two directors of the Issuer certifying that such dissolution and liquidation constitutes an Exempt Romanshorn Dissolution (which the Trustee shall rely on without further investigation).

3.15 Security Interests

(a) Except as provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement (except as specifically

provided in the Loan Agreement). Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) unless otherwise agreed by the Trustee.

(b) The Company shall not, and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the Security Interests and the Company will not, and will not permit any of its Restricted Subsidiaries to grant to any Person other than the Trustee for the benefit of the holders of the Notes, any interest whatsoever any of the Security Interests, except as permitted in the Trust Deed.

3.16 Trustee Not to Monitor Covenants

The Trustee shall not be responsible for monitoring the covenants of the Company or the Guarantors included in this Condition 3. The Company and the Guarantors have undertaken to deliver to the Trustee certificates stating whether or not such covenants have been complied with (and whether a Default has occurred) and giving details of any non-compliance. The Trustee shall be entitled to rely on such certificates absolutely and shall not be obliged to enquire further as regards the circumstances then existing.

3.17 Additional Guarantors and Release of Subsidiary Guarantors

Subject to compliance with the Trust Deed, the Company may elect to have any Restricted Subsidiary become a Subsidiary Guarantor.

The Trust Deed contains provisions to release a Subsidiary Guarantor from all obligations under its Guarantee:

(i) in connection with any sale or other disposition of all or substantially all of the assets of such Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary provided that such sale or disposition is in compliance with Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*); or

(ii) in connection with any sale or other disposition of all of the Capital Stock of such Subsidiary Guarantor to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary provided that such sale or disposition is in compliance with Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*); or

(iii) upon designation of such Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with these Conditions.

3.18 KZT Bonds

All Indebtedness represented by the KZT Bonds in excess of the U.S.$8 million referred to in Condition 3.1(b)(13) shall be treated as Incurred on the day following the Issue Date provided that, the dollar denominated principal amount, of the KZT Bonds shall be determined based on the exchange rate in effect on 30 October 2006.

4. Interest

The Notes bear interest from 06 November 2006 (the ''**Issue Date**'') at the rate of 9.375 per cent. per annum (the ''**Rate of Interest**'') payable in arrear on 06 May and 06 November in each year (each, an ''**Interest Payment Date**''), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$46.875 in respect of each U.S.$1,000 in principal amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where ''**Day Count Fraction**'' means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. Redemption and Purchase

(a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 06 November 2013 (the ''**Maturity Date**''), subject as provided in Condition 6 (*Payments*).

(b) **Redemption at the option of the Company:**

(1) The Company may, prior to 06 November 2010, having given not less than 30 nor more than 60 days notice to the Noteholders and the Trustee in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable, shall specify the date fixed for redemption and if the redemption is in part only shall specify the method by which Notes will be selected for redemption), redeem the Notes in whole or in part at the redemption price equal to 100 per cent. of their principal amount plus the Applicable Premium and accrued and unpaid interest and any additional amounts payable pursuant to Condition 7 (*Taxation*) to the redemption date.

(2) The Company may, on any date falling on or after 06 November 2010, having given not less than 30 nor more than 60 days notice to the Noteholders and the Trustee in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable, shall specify the date fixed for redemption and if the redemption is in part only shall specify the method by which Notes will be selected for redemption), redeem the Notes in whole or in part at the redemption price set out below (expressed as a percentage of principal amount) plus accrued and unpaid interest to the redemption date:

Redemption date:	Redemption price:
falling on or after 06 November 2010 and before 06 November 2011 . .	104.688 per cent.
falling on or after 06 November 2011 and before 06 November 2012 . .	102.344 per cent.
falling on or after 06 November 2012	100.000 per cent.

The Company shall redeem the Notes in respect of which any such redemption notice is given on the redemption date specified in that notice.

(c) **Partial redemption:** If the Notes are to be redeemed in part only on any date in accordance with Condition 5(b) (*Redemption at the option of the Company*), the Trustee will select the Notes to be redeemed on a pro rata basis, by lot or such other method as the Trustee in its sole discretion deems fair and appropriate, *provided that*: (a) for so long as the Notes are listed such method will be in compliance with the rules of the stock exchange on which the Notes are then listed and the requirements of any depositary; and (b) no Note with a principal amount equal to U.S.$100,000 or less will be redeemed in part. A new Note Certificate in respect of the unredeemed portion of any such Note will be issued to the Noteholder.

(d) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Company satisfies the Trustee that:

(i) (A) the Company has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or Jersey or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 06 November

2006; and (B) such obligation cannot be avoided by the Company taking reasonable measures available to it; or

(ii) (A) a Guarantor has or (if a demand was made under the relevant Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 06 November 2006; and (B) such obligation cannot be avoided by such Guarantor taking reasonable measures available to it; or

(iii) (A) the Borrower has or will become obliged to pay additional amounts as provided or referred to in Clause 7.1 of the Loan Agreement as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any potential subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 06 November 2006; (B) such obligation cannot be avoided by the Borrower taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, the relevant Guarantor or (as the case may be) the Borrower would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee:

(A) a certificate signed by two directors of the Company stating that the circumstances referred to in (i) (A) and (B) above prevail or (as the case may be) a certificate signed by two directors of the relevant Guarantor stating that the circumstances referred to in (ii) (A) and (B) above prevail or (as the case may be) a certificate signed by two directors of the Borrower stating that the circumstances referred to in (iii) (A), (B) and (C) prevail and, in each case, setting out details of such circumstances; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of internationally recognised standing to the effect that the Company, the relevant Guarantor or (as the case may be) the Borrower has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) (A) and (B), (ii) (A) and (B) or (as the case may be) (iii) (A), (B) and (C) above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(d), the Company shall be bound to redeem the Notes in accordance with this Condition 5(d).

(e) **Change of Control:** If a Change of Control occurs, each registered holder of the Notes will have the right to require the Company to repurchase all or any part (equal to U.S.$1,000 and any integral multiple of U.S.$1,000 in excess thereof and *provided that* any unpurchased portion of any Note surrendered is in a principal amount of at least U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof) of such holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes plus accrued and unpaid interest to the date of purchase (subject to the right of holders of record on the relevant Record Date to receive interest due on the relevant interest payment date).

Within 30 days following any Change of Control, the Company will provide notice (the ''**Change of Control Offer**'') in accordance with the procedures described under Condition 14 (*Notices*) stating:

(1) that a Change of Control has occurred and that such holder has the right to require the Company to purchase such holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest, and premium, if any, to the date of purchase (subject to the right of holders of Notes of record on a Record Date to receive interest on the relevant interest payment date) (the ''**Change of Control Payment**'');

(2) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is given) (the ''**Change of Control Payment Date**'');

(3) the circumstances and relevant facts regarding the Change of Control; and

(4) the procedures determined by the Company, that a holder of the Notes must follow in order to have its Notes repurchased.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) purchase and pay for all Notes or portions of Notes properly tendered under the Change of Control Offer;

(2) deliver or cause to be delivered to the Principal Paying Agent the Notes so accepted together with a certificate signed by two directors of the Issuer stating the aggregate principal amount of Notes or portions of Notes being purchased by the Company.

The provisions of this Condition 5(e) will be applicable whether or not any other provisions of the Trust Deed are applicable.

The Company will not be required to make a Change of Control Offer upon a Change of Control if another party makes an offer equivalent to a Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Trust Deed applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Company will comply, to the extent applicable, with any applicable securities laws or regulations, including any securities or other applicable laws of the United Kingdom, Luxembourg and the requirements of the Luxembourg Stock Exchange or any other securities exchange on which the Notes are listed, in connection with the repurchase of Notes pursuant to this Condition (e). Holders of Notes will have the opportunity to tender their Notes to the Principal Paying Agent. To the extent that the provisions of any securities or other applicable laws or regulations conflict with provisions of the Trust Deed, the Company will comply with the applicable laws and regulations and will not be deemed to have breached its obligations described in the Trust Deed by virtue of the conflict.

(f) **Purchase:** The Company, each of the Guarantors or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(g) **Cancellation:** All Notes so redeemed or purchased by the Company, each of the Guarantors or any of their respective Subsidiaries may, at their option be cancelled and, if cancelled, and may not be reissued or resold.

6. Payments

(a) **Principal:** Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) **Interest:** Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar

account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) **Payments on business days:** Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, ''**business day**'' means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Note, the Company shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) **Record date:** Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the ''**Record Date**''). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Company or (as the case may be) the Guarantors, or any of them shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Jersey, the United Kingdom or Kazakhstan or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Company or (as the case may be) the Guarantors shall pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) held by a Holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(d) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, ''**Relevant Date**'' means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Company or the Guarantors become subject at any time to any taxing jurisdiction other than Jersey, the United Kingdom or Kazakhstan respectively, references in these Conditions to Jersey, the United Kingdom or Kazakhstan shall be construed as references to Jersey, the United Kingdom or (as the case may be) Kazakhstan and/or such other jurisdiction (each a ''**Relevant Taxing Jurisdiction**'').

8. Events of Default

8.1 Events of Default

If any of the following events occurs, the Trustee at its discretion may, and shall at the written request of the holders of at least 25% in principal amount of the outstanding Notes or if directed by an Extraordinary Resolution (subject, in the case of the happening of any of the events mentioned in paragraph 8.1(c) (*Breach of other obligations*) and, in relation only to a Subsidiary (other than Kazakhaltyn), any of the events mentioned in paragraphs 8.1(d) (*Cross-acceleration*), or 8.1(i) (*Failure to pay final judgments*), to the Trustee having certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders and, in all cases, subject to the Trustee having been indemnified or provided with security to its satisfaction), deliver an Enforcement Notice to the Company and the Borrower:

(a) **Non payment:** the Company fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for the payment thereof;

(b) **Merger, Amalgamation and Consolidation and Change of Control:**

(1) The Company or any Guarantor consolidates with, amalgamates or merges with or into, or sells, assigns, transfers, leases, conveys or otherwise disposes of all or substantially all of its assets to, any Person other than in accordance with the provisions of Condition 3.10 (*Merger, Amalgamation and Consolidation*); or

(2) a Change of Control occurs and the Company does not comply with the provisions of Condition 5(e) (*Change of Control*);

(c) **Breach of other obligations:** the Company, or any of the Guarantors default in the performance or observance of any of its other obligations in respect of the Notes or the Trust Deed and such default: (i) is, in the opinion of the Trustee, incapable of remedy or; (ii) is, in the opinion of the Trustee, capable of remedy, but remains unremedied for 30 days after the Trustee has given written notice thereof to the Company and/or the relevant Guarantor;

(d) **Cross-acceleration:** default under any mortgage, trust deed or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Subsidiaries (or the payment of which is Guaranteed by the Company or any of its Subsidiaries), other than Indebtedness owed to the Company or a Restricted Subsidiary, whether such Indebtedness or Guarantee now exists, or is created after the Issue Date if that default:

(1) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness;

(2) is caused by a failure to pay any amount payable under any Guarantee; or

(3) results in the acceleration of such Indebtedness prior to its maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates to U.S.$5 million or more;

(e) **Insolvency or Bankruptcy:**

(1) a proceeding shall have been instituted or a decree or order shall have been entered for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Company or any Guarantor (other than Visart LLP or Rudnik Vasilevskyi LLP *provided that* Visart LLP or, as the case may be, Rudnik Vasilevskyi LLP is not at that time a Significant Subsidiary) or any Significant Subsidiary of the Company or all or, in the opinion of the Trustee, substantially all of any of their respective properties and assets and such proceeding, decree or order shall not have been rescinded or shall have remained in force undischarged or unstayed for a period of 60 days; or

(2) the Company or any Guarantor or any Significant Subsidiary of the Company shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of it or in respect of its property or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or is (or could be deemed by law or a court to be) insolvent or bankrupt or commences proceedings with a view to the general adjustment of its Indebtedness;

other than in respect of an Exempt Romanshorn Dissolution.

(f) **Enforcement proceeding:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a substantial part, in the opinion of the Trustee, of the property, assets or revenues of the Company or any Guarantor (other than Visart LLP or Rudnik Vasilevskyi LLP *provided that* Visart LLP or, as the case may be, Rudnik Vasilevskyi LLP is not at that time a Significant Subsidiary) or any Significant Subsidiary of the Company and is not discharged or stayed within 60 days;

(g) **Security enforced:** any security interest, present or future, created or assumed by the Company or any Guarantor or any Significant Subsidiary of the Company becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar Person) and the aggregate amount secured by any such security interests so enforced exceeds U.S.$5,000,000 (or its equivalent in any other currency);

(h) **Winding-Up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Company or any Guarantor (other than Visart LLP or Rudnik Vasilevskyi LLP *provided that* Visart LLP or, as the case may be, Rudnik Vasilevskyi LLP is not at that time a Significant Subsidiary) or any Significant Subsidiary of the Company, or the Company or any Guarantor (other than Visart LLP or Rudnik Vasilevskyi LLP *provided that* Visart LLP or, as the case may be, Rudnik Vasilevskyi LLP is not at that time a Significant Subsidiary) or any Significant Subsidiary of the Company, ceases to carry on all or, in the opinion of the Trustee, a substantial part, of its business or operations, except (x) an Exempt Romanshorn Dissolution, or (y) for the purpose of a merger, amalgamation or consolidation of the Company or a Guarantor which is permitted by Condition 3.10 (*Merger, Amalgamation and Consolidation*) or on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders;

(i) **Failure to pay final judgments:** failure by the Company, any Subsidiary or any Guarantors to pay final judgments (in respect of which there is no further right of appeal by the Company, any Subsidiary or any Guarantor) aggregating in excess of U.S.$5,000,000 (net of any amounts that a reputable and creditworthy insurance company has acknowledged liability for in writing), which judgments are not paid, discharged or stayed for a period of 60 days;

(j) **Guarantee subject to judicial proceedings:** except as permitted by the Trust Deed, a Guarantee of the Notes ceases to be in full force and effect or is declared null and void or unenforceable or is found to be invalid or any Guarantor, or any Person acting on behalf of the Company or any Guarantor, shall deny or disaffirm its obligations under the Trust Deed or any Guarantee of the Notes;

(k) **Loan Agreement not in full force and effect:** the Loan Agreement ceases to be in full force and effect or is declared null and void or unenforceable or is found to be invalid or Kazakhaltyn denies its liability under the Note Proceeds Loan or payments under the Note Proceeds Loan become subject to any Lien (other than in respect of the Trust Deed);

(l) **Security Interest not in full force and effect:** any security interest under the Trust Deed shall, at any time, cease to be in full force and effect (other than in accordance with the Trust Deed) for any reason other than satisfaction in full of all obligations of the Company, its Subsidiaries and any Guarantor under the Trust Deed or the release of any such security interest in accordance with the Trust Deed or any such security interest created thereunder or hereunder shall be declared invalid or unenforceable or the Company shall assert that any such security is invalid or unenforceable or any pledgor disaffirms its obligations under the Trust Deed.

8.2 Consequences of delivery of Enforcement Notice

Upon the delivery of an Enforcement Notice:

(a) the Notes shall become immediately due and payable at their principal amount together with accrued and unpaid interest without further action or formality.

(b) the Company will pursuant to the provisions of the Loan Agreement require the Borrower to make all payments of principal, interest or other amounts, if any, to be made pursuant to the Loan Agreement to such account as the Trustee may direct; and

(c) the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, enforce the security created in the Trust Deed in favour of the Noteholders.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Company may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Company, each of the Guarantors and any entity relating to the Company or any of the Guarantors without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Company, the Guarantors and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Company and the Guarantors reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar principal paying agent, agent bank and additional or successor paying agents and transfer agents; *provided, however, that* the Company shall at all times maintain (a) a principal paying agent and a registrar, (b) a paying agent and a transfer agent in Luxembourg and (c), if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Modification and Waiver

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Company and the Guarantors (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a ''**Reserved Matter**'')) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification and waiver:** The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified or provided with security to its satisfaction.

No Noteholder may proceed directly against the Company or any of the Guarantors unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in Luxembourg (which is expected to be the *D'Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

15. Governing Law and Jurisdiction

(a) **Governing law:** The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) **Submission to Jurisdiction; Arbitration:** The Company and each Guarantor has in the Trust Deed: (i) subject to the Trustee's option described in sub-paragraph (ii) below, agreed that any dispute (including a dispute regarding the existence, validity or termination of the Trust Deed or the consequences of its nullity) shall be referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration (LCIA) as at present in force and as modified by the Trust Deed; (ii) agreed that the Trustee may elect by notice that the courts of England shall have exclusive jurisdiction to settle any disputes arising out of or in connection with the Trust Deed or the Notes; (iii) designated DWS ASP Limited to accept service of any process on its behalf in England; and (iv) waived generally all immunity it or its assets or revenues may otherwise have in any jurisdiction, including immunity in respect of the giving of any relief by way of injunction or order for specific performance or for the recovery of assets or revenues and the issue of any process against its assets or revenues for the enforcement of a judgment or, in an action in rem, for the arrest, detention or sale of any of its assets and revenues.

(c) **Currency Indemnity:** If any sum due from the Company or a Guarantor in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the ''**first currency**'') in which the same is payable under these Conditions or such order or judgment into another currency (the ''**second currency**'') for the purpose of: (a) making or filing a claim or proof against the Company or a Guarantor; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Notes, the Company or Guarantor shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Company or Guarantor and delivered to the Company or Guarantor or to the specified office of the Registrar or any Paying or Transfer Agent with its specified office in London against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Company and each Guarantor and shall give rise to a separate and independent cause of action.

16. Further Issues

The Company may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes (the ''**Further Notes**''). The Company may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment by way of security in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Security Interests in relation to the Issuer's rights under the original Loan Agreement which will, together with the Security Interests referred to in these Conditions, secure both the Notes and such further Notes.

17. Definitions

17.1 Definitions

''**Additional Assets**'' means:

(1) any property or assets (other than Indebtedness and Capital Stock) to be used by the Company or a Restricted Subsidiary in a Permitted Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or a Restricted Subsidiary of the Company; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary of the Company;

provided, however, that, in the case of paragraphs (2) and (3), such Restricted Subsidiary is primarily engaged in a Permitted Business.

''**Affiliate**'' of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, ''**control**'' when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms ''**controlling**'' and ''**controlled**'' have meanings correlative to the foregoing; *provided that* beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control.

''**Affiliate Transaction**'' has the meaning given in Condition 3.7 (*Limitation on Affiliate Transactions*).

''**Agency**'' means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

''**Agent**'' means the Principal Paying Agent, the Registrar, the Transfer Agents and the Paying Agents.

''**Applicable Premium**'' means with respect to any Note on any redemption date, the greater of:

(1) 1.0% of the principal amount of the Note; and

(2) the excess of:

(a) the present value at such redemption date of (i) 104.688 per cent. of the principal amount of the Note, *plus* (ii) all required interest payments due on the Note up to and including 06 November, 2010 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over

(b) the principal amount of the Note, if greater.

''**Approved Jurisdiction**'' means the United States of America, Kazakhstan, Liechtenstein, Iceland, Norway, Switzerland, Canada, Japan, Jersey and any member state of the European Union as constituted on the Issue Date.

''**Approved Lender**'' has the meaning set forth in ''**Cash Equivalents**'';

''**Asset Disposition**'' means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases, transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a ''**disposition**'') by the Company or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction.

Notwithstanding the preceding, the following items shall not be deemed to be Asset Dispositions:

(1) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Restricted Subsidiary;

(2) the sale of Cash Equivalents in the ordinary course of business;

(3) a disposition of inventory or other assets in the ordinary course of business;

(4) a disposition of obsolete or worn out equipment or equipment that is no longer useful in the conduct of the business of the Company and its Restricted Subsidiaries and that is disposed of in each case in the ordinary course of business;

(5) an issuance of Capital Stock by a Restricted Subsidiary of the Company to the Company or to a Restricted Subsidiary;

(6) a disposition subject to Condition 3.2 (*Limitation on Restricted Payments*);

(7) in addition to dispositions covered by the other clauses of this paragraph, dispositions of assets in a single transaction or series of related transactions with an aggregate fair market value in any calendar year of not more than U.S.$1 million;

(8) dispositions in connection with Permitted Liens;

(9) the licensing or sublicensing of intellectual property or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business which do not materially interfere with the business of the Company and its Restricted Subsidiaries;

(10) dispositions of assets or Capital Stock by the Company or any Restricted Subsidiary in connection with the making of an Investment permitted under paragraph (11) of the definition of ''**Permitted Investments**'';

(11) the lease or sub-lease of any real property in the ordinary course of business that does not materially interfere with the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries; and

(12) foreclosure on assets.

''**Asset Disposition Offer**'' has the meaning given in Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*).

''**Asset Disposition Offer Amount**'' has the meaning given in Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*).

''**Asset Disposition Offer Period**'' has the meaning given in Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*).

''**Asset Disposition Purchase Date**'' has the meaning given in Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*).

''**Attributable Indebtedness**'' in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended).

''**Average Life**'' means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or

redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (2) the sum of all such payments.

''**Board of Directors**'' means the board of directors of the Company or any committee thereof duly authorized to act on behalf of such board.

''**Borrower**'' has the meaning given in the introduction to these Conditions.

''**Business Day**'' means a day other than a Saturday, Sunday or other day on which banking institutions in the State of New York, Astana, London or Luxembourg or a place of payment are authorized or required by law to close.

''**Capital Stock**'' of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

''**Capitalized Lease Obligations**'' means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation will be the capitalized amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

''**Cash Equivalents**'' means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by an Approved Jurisdiction or any Agency or instrumentality thereof, *provided that* the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) U.S. dollar denominated (or foreign currency fully hedged) time deposits, certificates of deposit, Eurodollar time deposits or Eurodollar certificates of deposit of (i) any commercial bank of recognised standing organised under the laws of the United States or a state thereof or a member state of the European Union, having capital and surplus in excess of U.S.$500 million or (ii) any bank whose short-term commercial paper rating from Standard & Poor's is at least A-1 or the equivalent thereof or from Moody's is at least P-1 or the equivalent thereof (any such bank being an ''**Approved Lender**''), in each case with maturities of not more than twelve months from the date of acquisition;

(c) commercial paper and variable or fixed rate Notes issued by any Approved Lender (or by the parent company thereof) or commercial paper or any variable rate Notes issued by, or guaranteed by, any Approved Jurisdiction corporation rated A-1 (or the equivalent thereof) by Standard & Poor's or P-1 (or the equivalent thereof) by Moody's and maturing within twelve months of the date of acquisition;

(d) interests in money market mutual funds which invest solely in assets or securities of the type described in subparagraphs (a), (b) or (c) hereof; and

(e) deposits available for withdrawal on demand with any commercial bank that is not an Approved Lender but which is organised under the laws of any country in which the Company or any Restricted Subsidiary maintains its chief executive office or conducts material operations, *provided that*:

  (1) all such deposits are required to be made in such accounts in the ordinary course of business; and

  (2) such non-Approved Lender has total assets in excess of $500 million, except that the restriction contained in this sub-condition (e)(2) shall not apply in respect of deposits made with any commercial bank which is a branch or subsidiary of an Approved Lender or a holding company of an Approved Lender.

''**Change of Control**'' means the occurrence of any of the following events:

(1) any ''**person**'' or ''**group**'' of related persons, other than one or more Permitted Holders, is or becomes the beneficial owner, directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company and the Permitted Holders beneficially own, directly or

indirectly, in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Company than such person or group;

(2) the sale, lease, transfer, conveyance or other disposition (other than by way of amalgamation, merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole to any **''person''** other than a Permitted Holder;

(3) the replacement of a majority of the Board of Directors of the Company over a two year period from the directors who constituted the Board of Directors of the Company at the beginning of such period with directors whose replacement shall not have been approved (by recommendation, nomination or election, as the case may be) by a vote of at least a majority of the Board of Directors of the Company then still in office who either were members of such Board of Directors at the Issue Date or whose election as a member of such Board of Directors was previously so approved; or

(4) the adoption by the shareholders of the Company of a plan relating to the liquidation or dissolution of the Company.

For purposes of this definition, (a) ''**person**'' means any individual, company, corporation, firm partnership, joint venture, association, state or agency having a separate legal personality; (b) ''**group**'' means any individual, company, corporation, firm partnership, joint venture, association, state or agency having separate legal personality acting in concert as a partnership, syndicate, or other consortium for the purpose of acquiring, holding or disposing of Voting Stock of the Company; (c) ''**beneficial owner**'' means a person with a right to acquire Voting Stock, except that a person shall be deemed to have ''**beneficial ownership**'' of all shares that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time; and (d) a person will be deemed beneficially to own any Voting Stock of an entity held by a parent entity, if such person is the beneficial owner, directly or indirectly, of more than 35% of the voting power of the Voting Stock of such parent entity and the Permitted Holders beneficially own, directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent entity.

''**Change of Control Offer**'' has the meaning given in Condition 5(e) (*Change of Control*).

''**Change of Control Payment**'' has the meaning given in Condition 5(e) (*Change of Control*).

''**Change of Control Payment Date**'' has the meaning given in Condition 5(e) (*Change of Control*).

''**Charged Property**'' has the meaning given in the introduction to these Conditions.

''**Common Stock**'' means with respect to any Person, any and all shares, interest or other participations in, and other equivalents (however designated and whether voting or nonvoting) of such Person's common stock whether or not outstanding on the Issue Date, and includes, without limitation, all series and classes of such common stock.

''**Commodity Hedging Agreements**'' means, in respect to any Person, any forward, futures, spot-deferred or option contract or other similar agreement or arrangement to which such Person is a party or a beneficiary entered into for protection against or to benefit from fluctuations in the price of gold or such other commodity produced or used by the Company or its Restricted Subsidiaries pursuant to a Permitted Business.

''**Consolidated EBITDA**'' for any period with respect to any specified Person means, without duplication, the Consolidated Net Income for such period of such Person, plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) Consolidated Income Taxes;

(3) consolidated depreciation expense;

(4) consolidated depletion expense;

(5) consolidated amortization of intangibles;

(6) other non-cash charges reducing Consolidated Net Income (excluding any such non-cash charge to the extent it represents an accrual of or reserve for cash charges in any future period or

amortization of a prepaid cash expense that was paid in a prior period not included in the calculation) less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period); and

(7) minority interest in (income)/loss of consolidated subsidiaries.

In each case on a consolidated basis and in accordance with IFRS.

''**Consolidated Income Taxes**'' means, with respect to any Person for any period, taxes imposed upon such person or other payments required to be made by such Person by any governmental authority which taxes or other payments are calculated by reference to the income or profits of such Person or person and its Restricted Subsidiaries (to the extent such income or profits were included in computing Consolidated Net Income for such period), regardless of whether such taxes or payments are required to be remitted to any governmental authority.

''**Consolidated Interest Expense**'' means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, whether paid or accrued, plus, to the extent not included in such interest expense:

(1) interest expense attributable to Capitalized Lease Obligations and the interest portion of rent expense associated with Attributable Indebtedness in respect of the relevant lease giving rise thereto, determined as if such lease were a capitalized lease in accordance with IFRS and the interest component of any deferred payment obligations;

(2) amortization of debt discount and debt issuance cost;

(3) non-cash interest expense;

(4) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(5) interest actually paid by the Company or any such Restricted Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person;

(6) net costs associated with Hedging Obligations;

(7) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period;

(8) all dividends paid or payable in cash, Cash Equivalents or Indebtedness or accrued during such period on any series of Disqualified Stock of such Person or on Preferred Stock of its Restricted Subsidiaries payable to a party other than the Company or a Restricted Subsidiary; and

(9) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust,

provided, however, that there will be excluded therefrom any such interest expense of any Unrestricted Subsidiary to the extent the related Indebtedness is not Guaranteed or paid by the Company or any Restricted Subsidiary.

For purposes of the foregoing, total interest expense will be determined after giving effect to any net payments made or received by the Company and its Subsidiaries with respect to Interest Rate Agreements.

''**Consolidated Net Income**'' means, for any period, the net income (loss) (being income (loss) attributable to equity shareholders of the Company) of the Company and its consolidated Restricted Subsidiaries determined in accordance with IFRS; *provided, however, that* there will not be included in such Consolidated Net Income:

(1) any net income (loss) of any Person if such Person is not a Restricted Subsidiary, except that:

  (a) subject to the limitations contained in paragraphs (3), (4) and (5) below, the Company's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or

other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in paragraph (2) below); and

(b) the Company's equity in a net loss of any such Person (other than an Unrestricted Subsidiary) for such period will be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from the Company or a Restricted Subsidiary;

(2) any net income (but not loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(a) subject to the limitations contained in paragraphs (3), (4) and (5) below, the Company's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or distribution paid or permitted to be paid, directly or indirectly, by loans, advances, intercompany transfers or otherwise (for so long as permitted) to the Company or a Restricted Subsidiary of the Company (subject, in the case of such a dividend or distribution to another Restricted Subsidiary, to the limitation contained in this clause); and

(b) the Company's equity in a net loss of any such Restricted Subsidiary for such period will be included in determining such Consolidated Net Income;

(3) any gain (loss) realized upon the sale or other disposition of any property, plant or equipment of the Company or its consolidated Restricted Subsidiaries (including pursuant to any Sale/Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business and any gain (loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(4) any extraordinary gain or loss;

(5) any foreign exchange gains or losses; and

(6) the cumulative effect of a change in accounting principles.

''**Credit Facility**'' means a facility in the form of one or more loan agreements, revolving credit facilities, overdraft facilities, working capital facilities, syndicated credit facilities, letters of credit and other facilities provided by commercial banks and other financial institutions as each such facility may be amended, restated, modified, renewed, refunded, replaced, restructured or refinanced in whole or in part from time to time.

''**Currency Agreement**'' means in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary.

''**Custodian**'' means any receiver, trustee, assignee, liquidator, examiner, administrator, sequestration or similar official under any bankruptcy, insolvency, examination, court, practice, or similar law.

''**Default**'' means any event which is, or after notice, certification or passage of time or both would be, an Event of Default.

''**Disqualified Stock**'' means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of the Company or a Restricted Subsidiary); or

(3) is redeemable at the option of the holder of the Capital Stock thereof, in whole or in part,

in each case, on or prior to the date that is 91 days after the date (a) on which the Notes mature or (b) on which there are no Notes outstanding, *provided that* only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the

holder thereof prior to such date will be deemed to be Disqualified Stock; *provided, further, that* any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Company to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (each defined in a substantially identical manner to the corresponding definitions in these Conditions) shall not constitute Disqualified Stock if the terms of such Capital Stock (and all such securities into which it is convertible or for which it is exchangeable) provide that the Company may not repurchase or redeem any such Capital Stock (and all such securities into which it is convertible or for which it is exchangeable) pursuant to such provision prior to compliance by the Company with Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*) and 5(e) (*Change of Control*) hereof and such repurchase or redemption complies with Condition 3.2 (*Limitation on Restricted Payments*) hereof.

''**Enforcement Notice**'' means a notice delivered by the Trustee to the Issuer and the Borrower in accordance with Condition 8 (*Events of Default*) which declares the Notes to be immediately due and payable.

''**Event of Default**'' means any one of the events or circumstances described in Condition 8.1 (*Events of Default*) but, in the case of any of the events described in paragraph 8.1(c) (*Breach of other Obligations*) and in relation only to a Subsidiary (other than Kazakhaltyn) any of the events described in paragraphs 8.1(d) (*Cross acceleration*) or 8.1(i) (*Failure to pay judgements*), only if such event is, pursuant to the provisions of Condition 8.1 (*Events of Default*), certified by the Trustee to be materially prejudicial to the interests of the Noteholders.

''**Excess Proceeds**'' has the meaning given in Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*).

''**Exempt Romanshorn Dissolution**'' means a dissolution and liquidation of Romanshorn in accordance with the laws of the State of Kentucky of the United States of America provided that:

(a) it is authorized pursuant to a resolution of the Company in its capacity as sole member of Romanshorn and effected by the filing of Articles of Dissolution with the Kentucky Secretary of State by or on behalf of the Company and not through any petition or claim by any other person or party; and

(b) it results in (i) all Capital Stock of Kazakhaltyn and any other Restricted Subsidiary held by Romanshorn being transferred to the Company and (ii) the other net assets of Romanshorn being transferred to the Company; and

(c) it is carried out by the Company in its capacity as the sole member of Romanshorn on a voluntary basis and whilst Romanshorn is solvent.

''**General Partner**'' has the meaning given in the definition of ''Indebtedness''.

''**Government Obligations**'' means direct non-callable and non-redeemable obligations (in each case, with respect to the issuer thereof) of any member state of the European Union that is a member of the European Union on the Issue Date or of the United States of America (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is secured by the full faith and credit of the applicable member state or of the United States of America, as the case may be.

''**Guarantee**'' means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however, that* the term ''**Guarantee**'' will not include endorsements for collection or deposit in the ordinary course of business. The term ''**Guarantee**'' used as a verb has a corresponding meaning; and the term ''**Guaranteed**'' has meaning correlative to the foregoing.

''**Guarantees of the Notes**'' has the meaning given in Condition (1)(c) (*Guarantee of the Notes*).

''**Guarantor**'' has the meaning given in the introduction to these Conditions.

''**Hedging Obligations**'' of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement.

''**Holder**'' has the meaning given in Condition 2(a) (*Register, Title and Transfers*).

''**IFRS**'' means International Financial Reporting Standards (IFRSs and IFRIC interpretation) as adopted by the European Union, consistently applied and which are in effect from time to time.

''**Incur**'' means issue, create, assume, Guarantee, incur or otherwise become liable for; *provided, however, that* any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by amalgamation, merger, consolidation, acquisition or otherwise) will be deemed to be incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary; and the terms ''**Incurred**'' and ''**Incurrence**'' have meanings correlative to the foregoing.

''**Indebtedness**'' means, with respect to any Person on any date of determination (without duplication):

(1) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(2) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) the principal component of all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (including reimbursement obligations with respect thereto except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of Incurrence);

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;

(5) Capitalized Lease Obligations and all Attributable Indebtedness of such Person;

(6) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however, that* the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons;

(8) the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

In addition, ''**Indebtedness**'' of any Person shall include Indebtedness described in the preceding paragraph that would not appear as a liability on the balance sheet of such Person if:

(1) such Indebtedness is the obligation of a partnership or Joint Venture that is not a Restricted Subsidiary;

(2) such Person or a Restricted Subsidiary of such Person is a general partner of the Joint Venture (a ''**General Partner**''); and

(3) there is recourse, by contract or operation of law, with respect to the payment of such Indebtedness to property or assets of such Person or a Restricted Subsidiary of such Person; and then such Indebtedness shall be included in an amount not to exceed:

(a) the lesser of (i) the net assets of the General Partner and (ii) the amount of such obligations to the extent that there is recourse, by contract or operation of law, to the property or assets of such Person or a Restricted Subsidiary of such Person; or

(b) if less than the amount determined pursuant to clause (a) immediately above, the actual amount of such Indebtedness that is recourse to such Person or a Restricted Subsidiary of such Person, if the Indebtedness is evidenced in writing and is for a determinable amount and the related interest expense shall be included in Consolidated Interest Expense to the extent actually paid by the Company or its Restricted Subsidiaries.

''**Interest Rate Agreements**'' means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary.

''**Investment**'' means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan (other than advances to customers in the ordinary course of business) or other extension of credit (including by way of Guarantee or similar arrangement, but excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such Person and all other items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS; *provided that* none of the following will be deemed to be an Investment:

(1) Hedging Obligations entered into in the ordinary course of business and in compliance with the Trust Deed;

(2) endorsements of negotiable instruments and documents in the ordinary course of business; and

(3) an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of common equity securities of the Company.

For purposes of Condition 3.2 (*Limitation on Restricted Payments*):

(1) ''**Investment**'' will include the portion (proportionate to the Company's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary of the Company at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided, however, that* upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company will be deemed to continue to have a permanent ''**Investment**'' in an Unrestricted Subsidiary in an amount (if positive) equal to (a) the Company's ''**Investment**'' in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets (as conclusively determined by the Board of Directors of the Company in good faith) of such Subsidiary at the time that such Subsidiary is so redesignated a Restricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors of the Company. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Voting Stock of any Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such entity is no longer a Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value (as conclusively determined by the Board of Directors of the Company in good faith) of the Capital Stock of such Subsidiary not sold or disposed of.

''**Issue Date**'' means the date on which the Notes are originally issued.

''**Joint Venture**'' means any joint venture with respect to which (i) the Company or any Restricted Subsidiary is the beneficial owner of at least a 35% voting interest; and (ii) the consent of the Company or

a Restricted Subsidiary is required for all decisions submitted or required to be submitted for a vote of equity owners.

''**Kazakhaltyn**'' means JSC Kazakhaltyn MMC.

''**KZT Bonds**'' means the KZT denominated bonds issued by Kazakhaltyn in April 2004 and listed on the Kazakhstan Stock Exchange.

''**Leverage Ratio**'', as of any date of determination, means the ratio of:

(1) the sum of the aggregate outstanding Indebtedness of the Company and its Restricted Subsidiaries as of the date of calculation on a consolidated basis in accordance with IFRS; to

(2) Consolidated EBITDA of the Company and its Restricted Subsidiaries for the period of the most recent two semi-annual financial periods ending prior to the date of such determination (or, in respect of any date of determination falling in the period from the Issue Date to the date on which the Company publishes its audited consolidated financial statements for the year ended 31 December 2006, Consolidated EBITDA of the Company and its Restricted Subsidiaries for the first six months of 2006 multiplied by two) *provided, however, that*:

(3) if the Company or any Restricted Subsidiary:

  (a) has Incurred any Indebtedness since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Leverage Ratio is an Incurrence of Indebtedness, Indebtedness, at the end of such period, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving effect on a *pro forma* basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period (except that in making such computation, the amount of Indebtedness under any revolving credit facility outstanding on the date of such calculation will be deemed to be:

    (i) the average daily balance of such Indebtedness during such two semi-annual financial periods or such shorter period for which such facility was outstanding; or

    (ii) if such facility was created after the end of such two semi-annual financial periods, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation),

  and to the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period; or

  (b) has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the period that is no longer outstanding on such date of determination or if the transaction giving rise to the need to calculate the Leverage Ratio involves a discharge of Indebtedness (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and the related commitment terminated), Indebtedness, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving effect on a *pro forma* basis to such discharge of such Indebtedness, including with the proceeds of such new Indebtedness, as if such discharge had occurred on the first day of such period;

(4) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition or disposed of any company, division, operating unit, segment, business, group of related assets or line of business, or if the transaction giving rise to the need to calculate the Leverage Ratio is such an Asset Disposition:

  (a) Indebtedness at the end of such period will be reduced by an amount equal to the Indebtedness discharged, defeased or retired with the Net Available Cash of such Asset Disposition and the assumption of Indebtedness by the transferee;

  (b) the Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto for such period; and

(c) Consolidated Interest Expense for such period will be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(5) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) will have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary, or is merged or amalgamated with or into the Company) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of a company, division, operating unit, segment, business or group of related assets or line of business, Indebtedness, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving *pro forma* effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period;

(6) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) will have Incurred any Indebtedness or discharged any Indebtedness or made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to paragraphs (3), (4) or (5) above if made by the Company or a Restricted Subsidiary during such period, Indebtedness, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving *pro forma* effect thereto as if such Incurrence of Indebtedness or Asset Disposition or Investment occurred on the first day of such period.

The *pro forma* calculations will be determined in good faith by a responsible financial or accounting officer of the Company (including *pro forma* expense and cost reductions calculated on a basis consistent with IFRS). If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months). If any Indebtedness that is being given *pro forma* effect bears an interest rate at the option of the Company, the interest rate shall be calculated by applying such optional rate chosen by the Company.

''**Lien**'' means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

''**Loan**'' and ''**Loan Agreement**'' have the meanings given in the introduction to these Conditions.

''**Maturity Date**'' has the meaning given in Condition 5(a) (*Scheduled Redemption*).

''**Net Available Cash**'' from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses incurred, and all national, provincial, foreign and local taxes required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or Joint Ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

''**Net Cash Proceeds**'', with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually incurred and paid in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

''**Non-Recourse Debt**'' means Indebtedness:

(1) as to which neither the Company nor any Restricted Subsidiary (a) provides any Guarantee or credit support of any kind (including any undertaking, guarantee, indemnity, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable (as a guarantor or otherwise); and

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any Restricted Subsidiary to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

''**Notes**'' has the meaning given in the introduction to these Conditions.

''**Offering Circular**'' means the Offering Circular, dated 31 October 2006, relating to the Notes.

''**Opinion of Counsel**'' means a written opinion from legal counsel who is acceptable to the Trustee who may in the Trustee's discretion be a legally qualified employee of or counsel to the Company.

''**Permitted Business**'' means (a) any business conducted by the Company and any of its Restricted Subsidiaries on the Issue Date, any reasonable extension of such business (which shall include any mining business) and (b) any business reasonably related, ancillary or complementary thereto.

''**Permitted Holders**'' means (a) Dr. Kanat Assaubayev, Mrs. Marussya Assaubayev, Mr. Baurzhan Assaubayev, Mr. Aidar Assaubayev and Mr. Sanzhar Assaubayev, and (b) trusts, the only beneficiaries of which are persons described in (a) above, their spouses and lineal descendants, *provided that* the applicable person described in clause (a), to the extent living, retains control over dispositions; the estate of any of the persons described in (a) above, and partnerships, corporations, and limited liability companies which are controlled by the persons described in (a) above.

''**Permitted Industry Investments**'' means entry into operating agreements, joint ventures, working interests, royalty interest, mineral leases, unitization agreements, farm-in agreements, farm-out agreements, pooling arrangements, contracts for the sale, transportation, storage or exchange of minerals, production sharing agreements, production sales and marketing agreements, development agreements, area of mutual interest agreements, joint bidding agreements, service contracts, partnership agreements (whether general or limited), limited liability company agreements, subscription agreements, stock purchase agreements, stockholder agreements or other similar or customary agreements, transactions, properties, interest or arrangements, and Investments and expenditures (including, without limitation, capital expenditures) in connection therewith or pursuant thereto, in each case made or entered into in the ordinary course of, and consistent with customary practice in the mining industry in respect of, a Permitted Business.

''**Permitted Investment**'' means an Investment by the Company or any Restricted Subsidiary in:

(1) a Restricted Subsidiary or a Person which will, upon the making of such Investment, become a Restricted Subsidiary; *provided, however*, that the primary business of such Restricted Subsidiary is a Permitted Business;

(2) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary *provided, however*, that such Person's primary business is a Permitted Business;

(3) cash and Cash Equivalents;

(4) receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however*, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to, or any Guarantee provided for the benefit of, employees of the Company and its Restricted Subsidiaries *provided that* the aggregate amount of such loans or advances and the principal component of Indebtedness guaranteed by the Company or any Restricted Subsidiary does not exceed U.S.$1 million at any one time outstanding with respect to all such loans, advances or Guarantees made since the Issue Date;

(7) capital stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of a debtor;

(8) Investments made as a result of the receipt of non-cash consideration from an Asset Disposition that was made pursuant to and in compliance with Condition 3.6 (*Limitation on Sales of Assets and Subsidiary Stock*);

(9) Investments in existence on the Issue Date;

(10) Hedging Obligations, Incurred in compliance with Condition 3.1 (*Limitation on Indebtedness*);

(11) Permitted Industry Investments, *provided that* the aggregate amounts paid in respect of Permitted Industry Investments in any 12 month period beginning on (and including) 1 July in each year and ending on (and including) 30 June in the following year, do not exceed an amount equal to five per cent. of the consolidated total assets (net of deferred taxation related to all or any of such assets) of the Company as shown on its audited balance sheet as at the date of the Company's latest annual financial statements dated prior to the beginning of the relevant 12 month period;

(12) Guarantees issued in accordance with Condition 3.1 (*Limitation on Indebtedness*);

(13) repurchases of the Notes; and

(14) loans or advances to the Company in compliance with Condition 3.1(b)(2).

''**Permitted Liens**'' means, with respect to any Person:

(1) Liens securing Indebtedness and other obligations under a Credit Facility Incurred in accordance with Condition 3.1(b)(1) (*Limitation on Indebtedness*);

(2) Liens securing Indebtedness and other obligations Incurred in accordance with Condition 3.1(b)(11) (*Limitation on Indebtedness*);

(3) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or Government Obligations to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(4) Liens imposed by law, including carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings if a reserve or other appropriate provisions, if any, as shall be required by IFRS shall have been made in respect thereof;

(5) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non payment or which are being contested in good faith by appropriate proceedings provided appropriate reserves required pursuant to IFRS have been made in respect thereof;

(6) Liens in favour of issuers of surety or performance bonds or letters of credit or bankers' acceptances issued pursuant to the request of and for the account of such Person in the ordinary course of its business; *provided, however, that* such letters of credit do not constitute Indebtedness;

(7) encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(8) Liens securing Hedging Obligations so long as the related Indebtedness is, and is permitted to be under the Trust Deed, secured by a Lien on the same property securing such Hedging Obligation;

(9) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries;

(10) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(11) Liens for the purpose of securing the payment of all or a part of the purchase price of, or Capitalized Lease Obligations with respect to, assets or property acquired or constructed in the ordinary course of business, *provided that*:

  (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under these Conditions and does not exceed the cost of the assets or property so acquired or constructed; and

  (b) such Liens are created within 180 days of construction or acquisition of such assets or property and do not encumber any other assets or property of the Company or any Restricted Subsidiary other than such assets or property and assets affixed or appurtenant thereto;

(12) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution; *provided that* such deposit account is not intended by the Company or any Restricted Subsidiary to provide collateral to the depository institution;

(13) Liens existing on the Issue Date;

(14) Liens on property or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary; *provided, however, that* such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming a Restricted Subsidiary; *provided further, however, that* any such Lien may not extend to any other property owned by the Company or any Restricted Subsidiary;

(15) Liens on property at the time the Company or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Company or any Restricted Subsidiary; *provided, however, that* such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition; *provided further, however, that* such Liens may not extend to any other property owned by the Company or any Restricted Subsidiary;

(16) Liens securing Indebtedness or other obligations of a Restricted Subsidiary owing to the Company or another Restricted Subsidiary *provided that* any such Liens shall be expressly subordinate to any Liens securing the Notes and the Guarantees of the Notes;

(17) Liens securing the Notes or any Guarantee of the Notes;

(18) Liens securing Refinancing Indebtedness incurred to refinance Indebtedness that was previously so secured, *provided that* any such Lien is limited to all or part of the same property or assets (plus improvements, replacement accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure)

the Indebtedness being refinanced or is in respect of property that is the security for a Permitted Lien hereunder;

(19) Any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(20) Any Lien created by the operation of a reservation of title clause contained in a vendor's or supplier's standard terms and conditions of sale in respect of goods acquired by the Company or a Restricted Subsidiary in the ordinary course of business; and

(21) Liens over Related Loan Agreements, provided that (i) such Lien secures Indebtedness in the form of bonds, notes or other securities that are, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange (''**Relevant Securities**'') and (ii) such Indebtedness was incurred in compliance with Condition 3.1(a) (*Limitation on Indebtedness*).

''**Person**'' means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision hereof or any other entity.

''**Preferred Stock**'' as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

''**Principal Paying Agent**'' has the meaning given in the introduction to these Conditions.

''**Record Date**'' has the meaning given in Condition 6(f) (*Record Date*).

''**Refinancing Indebtedness**'' means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) (collectively, ''**refinance,**'' ''**refinances,**'' and ''**refinanced**'' shall have a correlative meaning) any Indebtedness existing on the Issue Date (other than Indebtedness represented by KZT Bonds) or Incurred in compliance with the Trust Deed (including Indebtedness of the Company that refinances Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness, *provided, however, that*:

(1) (a) if the Stated Maturity of the Indebtedness being refinanced is earlier than the Stated Maturity of the Notes, the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being refinanced or (b) if the Stated Maturity of the Indebtedness being refinanced is later than the Stated Maturity of the Notes, the Refinancing Indebtedness has a Stated Maturity at least 91 days later than the Stated Maturity of the Notes;

(2) the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being refinanced;

(3) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and fees incurred in connection therewith); and

(4) if the Indebtedness being refinanced is subordinated in right of payment to the Notes or a Guarantee of the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes or such Guarantee of the Notes, as the case may be, on terms at least as favourable to the holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

''**Related Loan Agreement**'' means an agreement between an issuer of Relevant Securities and the Company or a Guarantor pursuant to which the gross or net proceeds of an issue of Relevant Securities are lent to the Company or such Guarantor provided that the principal amount which the Company or such Guarantor is required to repay under the agreement does not exceed the gross proceeds of the issue of the Relevant Securities plus any additional amounts in respect of taxation or premium payable by the issuer of the Relevant Securities pursuant to the original terms of issue of the Relevant Securities.

''**Relevant Securities**'' has the meaning given in the definition of Permitted Liens.

''**Relevant Taxing Jurisdiction**'' has the meaning given in Condition 7 (*Taxation*).

''**Restricted Investment**'' means any Investment other than a Permitted Investment.

''**Restricted Payment**'' has the meaning given in Condition 3.2 (*Limitation on Restricted Payments*).

''**Restricted Subsidiary**'' means any Subsidiary of the Company other than an Unrestricted Subsidiary.

''**Restricted Subsidiary Affiliate Transaction**'' has the meaning given in Condition 3.7 (*Limitation on Affiliate Transactions*).

''**Sale/Leaseback Transaction**'' means an arrangement relating to property now owned or hereafter acquired whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or a Restricted Subsidiary leases it from such Person.

''**Security Interests**'' has the meaning given in the introduction to these Conditions.

''**Significant Subsidiary**'' of a Person means a Subsidiary of such Person:

(1) whose gross assets then equal or exceed 5 per cent. of the gross assets of the Company and its consolidated Restricted Subsidiaries; or

(2) whose revenues then equal or exceed 5 per cent. of the revenues of the Company and its consolidated Restricted Subsidiaries; or

(3) whose Consolidated EBITDA then equal or exceed 5 per cent. of the Consolidated EBITDA of the Company.

For this purpose:

(1) the gross assets or revenues of a Subsidiary will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Company have been based;

(2) if a Subsidiary becomes a Subsidiary of the Company or a Guarantor after the date on which the latest audited financial statements of the Company have been prepared, the gross assets or revenues of that Subsidiary will be determined from its latest audited financial statements;

(3) the gross assets or revenues of the Company and its consolidated Restricted Subsidiaries will be determined from its latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or profits of any company or business subsequently acquired or disposed of; and

(4) if a Significant Subsidiary disposes of all or substantially all of its assets to another Subsidiary, the acquiring Subsidiary (if it is not already) will immediately become a Significant Subsidiary until the date of the next audited financial statements of the Company; thereafter the subsequent financial statements of those Subsidiaries and the Company will be used to determine whether those Subsidiaries are Significant Subsidiaries or not.

The Company shall determine whether any subsidiary is a Significant Subsidiary, provided that if there is a dispute as to whether or not a company is a Significant Subsidiary, a certificate of two Authorised Signatories of the Company will be, in the absence of manifest error, conclusive.

''**Stated Maturity**'' means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

''**Subordinated Obligation**'' means (in respect of the Company) any Indebtedness of the Company (whether outstanding on the Issue Date or thereafter Incurred), which is subordinate or junior in right of payment to the Notes pursuant to a written agreement and/or (in respect of the Guarantors) any Indebtedness of any Guarantor (whether outstanding on the Issue Date or thereafter Incurred), which is subordinate or junior in right of payment to the Guarantees of the Notes, in each case pursuant to a written agreement.

''**Subordinated Shareholder Indebtedness**'' means subordinated indebtedness issued by the Company to any Permitted Holder or any shareholder of the Company that by its terms:

(i) does not (including upon the happening of any event) mature and is not (including upon the happening of any event) mandatorily redeemable, pursuant to a sinking fund obligation or

otherwise, or redeemable at the option of the holder in whole or in part, and does not include any provision requiring re-purchase by the Company or any Subsidiary (including upon the happening of any event) prior to the date that is one year after the date on which the Notes mature;

(ii) does not (including upon the happening of any event) require or provide for the payment in cash or otherwise, of interest or any other amounts prior to its final stated maturity (provided that interest may accrete while such subordinated indebtedness is outstanding and accreted interest may become due upon acceleration of its maturity as permitted by clause (iii) of this definition and any interest may be satisfied at any time by the issue to the holders thereof of additional Subordinated Shareholder Indebtedness);

(iii) does not provide (including upon the happening of any event) for the acceleration of its maturity or the exercise of remedies prior to the date that is one year after the date on which the Notes mature and are repaid other than by converting it into Capital Stock (other than Disqualified Stock) of the Company;

(iv) is not secured by a Lien on any asset of the Company or any Restricted Subsidiary and is not Guaranteed by any Restricted Subsidiary;

(v) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or the Guarantees of the Notes;

(vi) is not (including upon the happening of any event) mandatorily convertible or exchangeable or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date that is one year after the date on which the Notes mature other than into or for Capital Stock (other than Disqualified Stock) of the Company; and

(vii) such Subordinated Shareholder Indebtedness shall be fully subordinated and junior in right of payment to the Notes, pursuant to subordination, payment blockage and enforcement limitation terms,

provided that, no Indebtedness shall be treated as Subordinated Shareholder Indebtedness unless a signed Opinion of Counsel shall have been delivered to the Trustee stating that such Indebtedness complies with this definition.

''**Subsidiary**'' of any Person means (i) any corporation, association, partnership, joint venture, limited liability company or other business entity of which more than 50% of the total voting power of shares or Capital Stock or other interests (including partnership and joint venture interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person and (ii) any corporation, association, partnership, joint venture, limited liability company or other business entity which is consolidated with the Company and its Subsidiaries in accordance with IFRS. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Company.

''**Subsidiary Guarantee**'' means a Guarantee given by a Subsidiary Guarantor.

''**Subsidiary Guarantor**'' means any Guarantor that (a) is a Subsidiary of the Company, and (b) is not Kazakhaltyn.

''**Successor Company**'' has the meaning given in Condition 3.10 (*Merger, Amalgamation and Consolidation*).

''**Transferred Rights**'' has the meaning given in the introduction to these Conditions.

''**Treasury Rate**'' means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to 06 November, 2010, *provided however*, that if the period from the redemption date to 06 November, 2010 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

''**Unrestricted Subsidiary**'' means:

(1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of the Company in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Company may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger or consolidation or Investment therein) to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of or have any Investment in, or own or hold any Lien on any property of, any other Subsidiary of the Company or any Restricted Subsidiary which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary;

(2) all the Indebtedness of such Subsidiary and its Subsidiaries shall, at the date of designation, and will at all times thereafter, consist of Non-Recourse Debt;

(3) such designation and the Investment of the Company in such Subsidiary complies with Condition 3.2 (*Limitation on Restricted Payments*);

(4) such Subsidiary, either alone or in the aggregate with all other Unrestricted Subsidiaries, does not operate, directly or indirectly, all or substantially all of the business of the Company and its Subsidiaries;

(5) such Subsidiary is a Person with respect to which neither the Company nor any of its Restricted Subsidiaries has any direct or indirect obligation:

  (a) to subscribe for additional Capital Stock of such Person; or

  (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(6) on the date such Subsidiary is designated an Unrestricted Subsidiary, such Subsidiary is not a party to any agreement, contract, arrangement or understanding with the Company or any Restricted Subsidiary unless such agreement complies with Condition 3.7 (*Limitation on Affiliate Transactions*).

The Board of Directors of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* immediately after giving effect to such designation, no Default shall have occurred and be continuing or would occur as a consequence thereof and the Company could incur at least U.S.$1.00 of additional Indebtedness under Condition 3.1(a) (*Limitation on Indebtedness*) hereof on a *pro forma* basis taking into account such designation.

''**Voting Stock**'' of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of members of the board of directors or a management board, directors or persons acting in a similar capacity or similar corporate bodies.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate which will registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for individual note certificates (''**Individual Note Certificates**'') if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of for Euroclear, Clearstream, Luxembourg or any other clearing system (an ''**Alternative Clearing System**''), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; provided, however that, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Exercise of put option: In order to exercise the option contained in Condition 5(e) (Change of Control) the Holder of the Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note Certificate and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

LOAN AGREEMENT

The following is a text of the Loan Agreement, which (subject to completion and amendment) is substantially in the form in which it will be entered into, save for the signature page.

THIS AGREEMENT is made on 06 November 2006

BETWEEN

(1) **KAZAKHGOLD GROUP LIMITED,** a company incorporated with limited liability under the laws of Jersey (the ''**Lender**''); and

(2) **JSC KAZAKHALTYN MMC,** a company incorporated with limited liability under the laws of Kazakhstan (the ''**Borrower**'');

WHEREAS:

(A) The Borrower has requested that the Lender make available a loan facility in the amount of U.S.$200,000,000 on the terms and conditions of this Agreement.

(B) Accordingly, the Lender has agreed to issue U.S.$200,000,000 9.375 per cent. Senior Notes due 2013 (the ''**Notes**'') pursuant to a trust deed dated of even date herewith (the ''**Trust Deed**'') between the Lender (as Issuer), the Borrower (as a Guarantor), The Bank of New York, as trustee representing the interests of the holders of Notes (the ''**Trustee**'') and the other Guarantors specified therein in order to fund the loan.

(C) The Lender has agreed to on-lend the proceeds of the issue of the Notes to the Borrower on the terms and conditions of this Agreement.

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

Capitalised terms and expressions used in this Agreement which have not been given a specific meaning hereunder shall have the meaning given to such terms and expressions in the terms and conditions of the Notes (the ''**Conditions**'').

1.2 Interpretation

Unless the context otherwise requires,

(a) a term has the meaning assigned to it;

(b) ''or'' is not exclusive;

(c) words in the singular include the plural, and in the plural include the singular;

(d) provisions apply to successive events and transactions; and

(e) references to ''U.S.$'' or ''U.S. dollars'' are to United States dollars.

1.3 Headings

Clause and Schedule headings are for ease of reference only and shall not affect the construction of this Agreement.

1.4 Amended Documents

Except where the contrary is indicated, any reference in this Agreement to this Agreement or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE LOAN

Unless otherwise agreed, the Lender agrees to make available to the Borrower a loan facility in an amount of U.S.$200,000,000 on and pursuant to the terms of this Agreement, to be made by way of a single advance (the ''**Loan**'').

3. PURPOSE OF LOAN

The proceeds of the Loan made by the Lender to the Borrower under this Agreement are to be utilised by the Borrower as follows:

3.1 at least U.S.$120 million will be invested over the next three years in the construction of:

(a) a new CIP plant at Aksu with throughput capacity of approximately 4.0 million tonnes per annum;

(b) a new CIP plant at Bestobe with throughput capacity of approximately 4.0 million tonnes per annum;

(c) a new CIP plant at Zholymbet with a throughput capacity of approximately 4.0 million tonnes per annum; and

3.2 the remainder to fund exploration and development of existing mine sites, for general corporate purposes, including, but not limited to the refinancing of existing indebtedness, any additional requirements of the modernisation programme and for selective future acquisitions.

4. DRAWDOWN

4.1 The Lender agrees that it will make the Loan to the Borrower.

4.2 The Loan will be paid, as per the instructions of the Borrower, by transferring the full amount of the Loan to such an account notified to the Lender by the Borrower.

4.3 Once the Loan referred to in Clause 4.1 has been made and the amount thereof has been paid in accordance with Clause 4.2, the parties hereto confirm that the Loan has been fully drawn down. The Loan shall be fully drawn at all times by the Borrower hereunder save for any early amortisation or prepayment permitted or required under the terms of this Agreement.

5. INTEREST AND PREMIUM

5.1 Regular Interest

The Borrower shall pay interest on the outstanding principal amount of the Loan from 6 November 2006 (the ''**Closing Date**'') at the rate of 10.125 per cent. per annum (the ''**Rate of Interest**'') payable in arrear on 6 May and 6 November in each year (each, an ''**Interest Payment Date**'').

Interest shall be calculated by applying the Rate of Interest to the outstanding principal amount of the Loan, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where ''**Day Count Fraction**'' means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

In the event that the Borrower repays any principal amount of the Loan other than on an Interest Payment Date, the Borrower shall also pay interest accrued and unpaid on such principal amount to, but excluding, the date of such repayment.

5.2 Premium

If the Lender is obliged under the terms and conditions of the Notes to pay any redemption or purchase premium in respect of Notes to be redeemed or repurchased, the Borrower agrees to pay the Lender a repayment premium of an equivalent amount in respect of that part of the Loan which the Borrower prepays pursuant to the terms of this Agreement in order to facilitate any such redemption or repurchase.

5.3 Waiver

5.3.1 Unless the Notes have become immediately due and payable in accordance with the Conditions, the Lender may waive its right to receive from the Borrower all or any part of any payment of interest payable under Clause 5.1 (*Regular Interest*), all or any part of any redemption or purchase premium payable under Clause 5.2 (*Premium*) or all or any part of any principal amount payable under Clause 6.1(i) (*Repayment*) or Clause 6.2 (*Prepayment*) (each such amount to be waived, the ''**Waived Amount**''), *provided that,* the Lender may not grant any such waiver any earlier than

the fourteenth day prior to the date on which the relevant Waived Amount is due and payable hereunder.

5.3.2 Any such waiver shall be deemed to extinguish all obligations of the Borrower under this Agreement to pay such Waived Amount for all purposes *provided that*:

(i) by no later than the third Business Day prior to the date on which the payment corresponding to the relevant Waived Amount is due under the Notes, the Lender has delivered to the Trustee a certificate, which shall be substantially in the form set out in the Schedule (*Form of Waiver*) hereto, certifying that it has sufficient funds, in an amount equal to the relevant Waived Amount, credited to its account for the purpose of making the corresponding payment under the Notes; and

(ii) such waiver will only become effective once the payment corresponding to the relevant Waived Amount has been made under the Notes. If such payment corresponding to the relevant Waived Amount is not made under the Notes, that Waived Amount will become due and payable hereunder as if no waiver had been granted.

6. REPAYMENT AND PREPAYMENT

6.1 Repayment

The Loan shall be immediately due and repayable on the earlier to occur of (i) 06 November 2013 (the ''**Maturity Date**''); or (ii) the date upon which the Notes become immediately due and payable in accordance with the Conditions, whereupon the Borrower shall repay the Loan together with all interest accrued and due on the Loan and any other amounts due or owing under this Agreement.

6.2 Prepayment in the event of early redemption of Notes

In the event that the Notes are to be redeemed in whole or, as the case may be, in part prior to the Maturity Date:

(i) the Lender shall notify the Borrower of the amount which is to be prepaid and the relevant redemption date in a written notice by the Lender to the Borrower (with a copy to the Trustee), including computation of such amount, given at least five (5) Business Days prior to the date upon which the prepayment is due to be made;

(ii) the Borrower shall on or before the date that such Notes are scheduled to be redeemed (a) if the Notes are to be redeemed in whole, prepay the Loan in full together with all accrued and unpaid interest, premium and any other amounts outstanding hereunder; and (b) if the Notes are to redeemed in part, prepay such part of the Loan as bears the same proportion to the outstanding principal amount of the Loan as the Notes to be redeemed bear to the outstanding principal amount of the Notes, together with any interest, premium or other amounts due hereunder.

(iii) the Lender agrees that it shall not demand prepayment of the Loan, and the Lender and Borrower agree that the Borrower shall not make prepayment of the Loan, in an amount which exceeds the aggregate amount that is due and payable pursuant to the terms and conditions of the Notes and/or any contract entered into by the Lender for the purchase and cancellation of any Notes.

6.3 Certificate as to amounts due

A certificate from the Lender as to such amount at any time due from the Borrower shall in the absence of manifest error be conclusive.

6.4 Reduction of Loan upon Cancellation of Notes

The Lender, the Borrower, each of the Guarantors or any of their respective Subsidiaries may from time to time purchase Notes in the open market or otherwise at any price. If such Notes are surrendered by the Lender, the Borrower, a Guarantor or any of their respective Subsidiaries for cancellation (together with an authorisation addressed to the Registrar to cancel such Notes), the Lender may by written notice to the Borrower deem the loan to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes so cancelled.

7. PAYMENTS

7.1 Taxes

Unless required by law, all payments made by the Borrower hereunder shall be made free and clear of and without any deduction for or on account of any tax, set-off or counterclaim. If any withholding or deduction for or on account of tax is required to be made from a payment hereunder, the amounts due from the Borrower shall be increased to such amount as shall ensure the Lender receives the same amount (after all deductions and withholdings) as if no withholding or deduction had been required.

If at any time, the Borrower is required by law to make any deduction or withholding in respect of any sum owed by it in accordance with this Agreement (or if thereafter, there is any variation in the rates or manner in which such deductions or withholdings have to be calculated), the Borrower shall immediately notify the Lender.

If the Borrower makes a payment in accordance with this Agreement in respect of which it is required to make any deduction or withholding, it shall pay to the tax authorities or other competent authority the total amount which is required to be deducted or withheld within the time allowed for such payment in accordance with applicable law and shall deliver to the Lender within thirty (30) days of making such payment to the competent authority, the original payment receipt (or a certified copy thereof or other appropriate document) issued by such authority evidencing the payment to it of all the sums required to be deducted or withheld in respect of such payment.

7.2 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds not later than 10.00 a.m. (New York City time) two Business Days prior to such date (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars) to the such account or accounts and in accordance with such other instructions as the Lender shall notify to the Borrower.

8. INDEMNITY

The Borrower undertakes to indemnify and hold harmless the Lender in respect of all costs, claims, losses, damages, expenses (including legal fees) or liabilities, in addition to any Value Added Tax (VAT) or other tax applicable thereto which it may suffer or which is caused to it as a result of any breach by the Borrower of any of the obligations assumed by it in this Agreement.

9. FEES AND COMMISSIONS

9.1 Fees and Expenses

The Borrower will pay to the Lender a commission and an amount in respect of certain fees and expenses as separately agreed by the Lender and the Borrower. An amount equal to such fees and expenses shall be deducted from the Loan to be advanced to the Borrower hereunder.

10. ASSIGNMENTS AND TRANSFERS

10.1 Binding Agreement

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

10.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder except where such rights, benefits and obligations are assigned or transferred as part of any consolidation, amalgamation or merger permitted under Condition 3.10(c).

10.3 Assignments by the Lender

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee, of the Lender's rights and benefits under this Agreement, and (ii) the absolute assignment by

way of security by the Lender to the Trustee of certain rights, interest and benefits under this Agreement, in each case, pursuant to Clause 5 of the Trust Deed.

11. AMENDMENTS

So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Lender and the Borrower will not, agree to any amendments to or any modification or waiver of (excluding any waiver granted in accordance with Clause 5.3 (*Waiver*)), or authorise any breach or proposed breach of, the terms of this Agreement.

12. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

12.1 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

12.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

13. NOTICES

13.1 Communications in Writing

Each communication and document to be made or delivered hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, by hand or by courier addressed as follows:

if to the Borrower:
JSC Kazakhaltyn MMC
Building 6
Micro District
4, Stepnogorsk, 474465
Kazakhstan

Fax number: +7 31 645 59466
Attention: The President

if to the Lender:

KazakhGold Group Limited
20 Richbourne Court
Harrowby Street
London W1H 5PT
United Kingdom

Fax number: +44 (0) 1534 602 828
Attention: Linda Bennett

13.2 Delivery

Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by fifteen (15) days' written notice to the same specified another address or fax number, be made or delivered to that other party at the address or fax number specified in Clause 13.1 (*Communications in Writing*) and shall be effective upon receipt by the addressee on a business day in the city of the recipient; provided, however that (i) any such communication or document which would otherwise take effect after 4:00 p.m. on any particular day shall not take effect until 10:00 a.m. on the immediately succeeding business day in the city of the addressee and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of

the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

14. GOVERNING LAW

This Agreement is governed by and shall be construed in accordance with English law.

15. ARBITRATION

15.1 Arbitration

Subject to Clause 15.4 (*Lender's Option*) any dispute (a ''**Dispute**'') arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement or the consequences of its nullity) shall be referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration (LCIA).

15.2 Formation of arbitral tribunal, seat and language of arbitration

15.2.1 The arbitral tribunal shall consist of a sole arbitrator.

15.2.2 The seat of arbitration shall be London, England.

15.2.3 The language of the arbitration shall be English.

15.3 Recourse to Courts

For the purposes of arbitration pursuant to this Clause 15 (*Arbitration*), the parties hereto exclude the jurisdiction of the Courts under Sections 45 and 69 of the Arbitration Act 1996.

15.4 Lender's Option

Before the Lender has filed a Request for Arbitration or Response (as the case may be), the Lender may by notice in writing to the Borrower require that all Disputes or a specific Dispute be heard by a court of law. If the Lender gives such notice, the Dispute to which such notice refers shall be determined in accordance with Clause 16 (*Jurisdiction of English Courts*).

16. JURISDICTION OF ENGLISH COURTS

16.1 Jurisdiction

In the event that the Lender issues a notice pursuant to Clause 15.4 (*Lender's Option*), the following provisions in Clauses 16.1 (*Jurisdiction*) and 16.2 (*Process Agent*) shall apply:

16.1.1 Subject to Clause 16.1.3, the Courts of England shall have exclusive jurisdiction to settle any such Dispute.

16.1.2 The parties agree that the Courts of England are the most appropriate and convenient courts to settle such Disputes and accordingly no party will argue to the contrary.

16.1.3 This Clause 16.1 (*Jurisdiction*) is for the benefit of the Lender only. As a result, and notwithstanding Clause 16.1.1, the Lender may take proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent proceedings in any number of jurisdictions.

16.2 Process Agent

The Borrower agrees that the documents which start any proceedings before the English courts in connection with this Agreement and any other documents required to be served in relation to those proceedings may be served on it by being delivered to DWS ASP Limited at One Fleet Place, London EC4M 7WS or, if different, its registered office for the time being or at any address of the Borrower in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Borrower, the Borrower shall, on the written demand of the Lender addressed and delivered to the Borrower appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice addressed to the Borrower and delivered to the Borrower. Nothing in this paragraph shall affect the right of the Lender to serve process in any other manner permitted by law. This clause applies to proceedings in England and to proceedings elsewhere.

17. WAIVER OF IMMUNITY

The Borrower waives generally all immunity it or its assets or revenues may otherwise have in any jurisdiction, including immunity in respect of:

17.1.1 the giving of any relief by way of injunction or order for specific performance or for the recovery of assets or revenues; and

17.1.2 the issue of any process against its assets or revenues for the enforcement of a judgment or, in an action *in rem,* for the arrest, detention or sale of any of its assets and revenues.

18. RIGHTS OF THIRD PARTIES

Other than the Trustee, a Person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

19. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

TAXATION

The following is a general description of certain Jersey, the United Kingdom and Kazakhstan tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Jersey, the United Kingdom and Kazakhstan of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Withholding Tax

The Notes will constitute ''quoted Eurobonds'' provided they are and continue to be listed on a recognised stock exchange. On the basis of HM Revenue and Customs' published interpretation of the relevant legislation, securities which are to be listed on a stock exchange in a country which is a member state of the European Union or which is part of the European Economic Area will satisfy this requirement if they are listed by a competent authority in that country and are admitted to trading on a recognised stock exchange in that country; securities which are to be listed on a stock exchange in any other country will satisfy this requirement if they are admitted to trading on a recognised stock exchange in that country. The Luxembourg Stock Exchange is a recognised stock exchange for these purposes. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the exemption for quoted Eurobonds described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

Provision of Information

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by any person in the United Kingdom acting on behalf of Issuer (a ''paying agent''), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a ''collecting agent''), then, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to HM Revenue and Customs may, in certain cases, be passed by HM Revenue and Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

Other Rules Relating to United Kingdom Withholding Tax

If Notes are issued at an issue price of less than 100 per cent of their principal amount, any discount element on any such Notes will not be subject to United Kingdom withholding tax, but may be subject to reporting requirements as outlined above.

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to ''interest'' above mean ''interest'' as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of ''interest'' or principal'' which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

Kazakhstan Taxation

The following is a general summary of the tax consequences under Kazakhstan tax law as of the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of the Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of a Note or a prospective holder and in a view of its general nature, it should be treated with corresponding caution. Holders of the Notes should consult their tax advisers with regard to the tax consequences of investing in the Notes. Except as otherwise indicated, this summary only addresses the Republic of Kazakhstan tax legislation as in effect as of the date hereof and as interpreted in published case law until this date.

Under Kazakhstan law as currently in effect, payments of interest and principal on the Notes by the Issuer to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in or otherwise has no taxable presence in Kazakhstan (together, ''**Non-Kazakhstan Holders**'') will not be subject to taxation in Kazakhstan and no Kazakhstan withholding tax will be deducted from such payments. In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to the Republic of Kazakhstan income or profits tax. Interest payable by the Issuer to residents of Kazakhstan or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, ''**Kazakhstan Holders**''), other than individuals, will be subject to Kazakhstan income tax. Gains realised by Kazakhstan Holders from the disposal, sale, exchange or transfer of the Notes will be subject to Kazakhstan income tax.

Payments of interest from Kazakhaltyn to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax at a rate of 15 per cent. Such withholding tax may be reduced under the Kazakhstan-UK Tax Treaty to a rate of 10 per cent., although there can be no assurance that such relief will be obtained. Payments of principal from Kazakhaltyn to the Issuer to fund the Issuer's obligations to make payments of principal under the Notes are not subject to withholding tax in the Republic of Kazakhstan. Kazakhaltyn will agree to ensure in the loan agreement to be entered into on or about the Closing Date between the Issuer and Kazakhaltyn to pay such additional amounts in respect of such withholding as shall be necessary to ensure that the Issuer receives the full amount of the payment required as if no such deduction were required. The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts of Kazakhstan and, as such, there may be doubt as to whether they would enforce such an agreement.

Payments of interest under the Guarantee to Non-Kazakhstan Holders or Kazakhstan Holders, other than individuals, banks resident in Kazakhstan and Kazakhstan investment funds or accumulative pension funds, will be subject to Kazakhstan withholding tax at a rate of 15 per cent., unless reduced by an applicable double taxation treaty in the case of Non-Kazakhstan Holders. Kazakhaltyn will agree in the Trust Deed and the Guarantee to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions. See also *''Terms and Conditions of the Notes—Condition 7''*. The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts of Kazakhstan and, therefore, there may be some doubt as to whether they would enforce such an agreement. Payments, if any, under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan tax treaty may be subject to a reduced rate of withholding tax. For example, Noteholders entitled to the benefits of the Kazakhstan tax treaty with Germany, Italy, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax of 10%.

Jersey

The following summary of the anticipated tax treatment in Jersey of the Issuer is based on Jersey taxation law and practice in force at the date of this document and does not constitute legal or tax advice. Prospective investors should consult their professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes under the laws of the jurisdictions in which they may be liable to taxation. Prospective investors should be aware that tax rules and practice and their interpretation may change.

The Issuer has been granted exempt company status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended for the current calendar year. The effect of such special status is that the Issuer is treated as a non-resident company for the purposes of Jersey tax laws and is therefore exempt from Jersey income tax on its profits arising outside Jersey (and, by concession, on bank deposit interest arising in Jersey) and from any obligation to withhold Jersey income tax from any interest or dividend payments made by it. Such status is applied for on an annual basis (together with payment of the required charge, currently £600). The retention of exempt company status is conditional upon the Comptroller of Income Tax in Jersey being satisfied that no Jersey resident has a beneficial interest in the Issuer, except as permitted by concessions granted by the Comptroller of Income Tax.

As an exempt company, payments in respect of the Notes will not be subject to taxation in Jersey, no withholding will be required for or on account of Jersey income tax on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Jersey income tax, in each case in the hands of persons not resident for income tax purposes in Jersey. As at the date of this Prospectus, Jersey has no capital gains tax and no inheritance tax or gift tax.

No stamp duty or similar taxes are payable in Jersey in connection with the issue, redemption or sale of the Notes.

Probate or letters of administration normally will be required to be obtained in Jersey on the death of an individual having Jersey situate estate including Notes. Stamp duty is payable in Jersey on the registration of such probate or letters of administration on the value of the individual's estate in Jersey.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, agreed to adopt similar measures with effect from 1 July 2005 (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

Jersey is not subject to the EU Savings Tax Directive. However, in keeping with Jersey's policy of constructive international engagement, the States of Jersey has introduced a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent situate in Jersey (the terms ''beneficial owner'' and ''paying agent'' are defined in the EU Savings Tax Directive). The retention tax system will apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. The transitional period will end only after all EU Member States apply automatic exchange of information and the EU Member States unanimously agree that the United States of America has committed to exchange of information upon request. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

Under the implementation of the retention tax system in Jersey the Issuer will not be obliged to levy retention tax in respect of interest payments made by it to a paying agent.

European Union Code of Conduct on Business Taxation

On 3 June 2003, the European Union Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation (the ''**Code**''). Jersey is not a member of the European Union, however, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime by 1 January, 2008 with a general zero rate of corporate tax.

SUBSCRIPTION AND SALE

ING Bank N.V., London Branch (the ''**Manager**'') has, in a subscription agreement dated 31 October 2006 (the ''**Subscription Agreement**'') and made between the Issuer, the Guarantors and the Manager upon the terms and subject to the conditions contained therein, agreed to subscribe the Notes at their issue price of 100.00 per cent. of their principal amount. The Issuer (failing which, the Guarantors) has also agreed to reimburse the Manager, for certain of its expenses incurred in connection with the management of the issue of the Notes. The Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes:

(i) as part of their distribution at any time; or

(ii) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has further represented, warranted and undertaken that:

(i) ***Financial Promotion:*** 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 Financial Services and Markets Act 2000 (the ''**FSMA**'')) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(ii) ***General compliance:*** it has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Jersey

The Manager has represented that Notes may not be:

(i) offered to, sold to or purchased by persons resident for income tax purposes in Jersey other than financial institutions in the normal course of business; and

(ii) transferred to a person resident for income tax purposes in Jersey (other than a financial institution in the normal course of business) unless the registrar of the Notes is satisfied that the beneficial owner thereof is not resident in Jersey for income tax purposes (where registered form only.)

Kazakhstan

The Manager 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 Notes 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.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantors or the Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantors and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

Italy

Each Manager has acknowledged and agreed that no prospectus has been nor will be published in Italy in connection with the offering of the Notes and that such offering has not been cleared by the Italian Securities Exchange Commission (Commissione Nazionale per le SocietÃ e la Borsa, the ''**CONSOB**'') pursuant to Italian securities legislation and, accordingly, has represented and agreed that the Notes may not and will not be offered, sold or delivered, nor may or will copies of the Notes or any other documents relating to the Notes or the offering thereof be distributed in Italy, except

(a) to professional investors (operatori qualificati), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended, (the ''**Regulation No. 11522**'');

(b) in other circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the ''**Italian Finance Law**'') and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended,

provided that in any case, the Notes cannot be placed, sold or offered to individuals resident or located in Italy in the primary nor in the secondary market.

Each Manager has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes or the offering of the Notes in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Finance Law, Legislative Decree No. 385 of September 1, 1993, as amended (the ''**Italian Banking Law**''), Regulation No. 11522, and any other applicable laws and regulations;

(b) in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy, pursuant to which the issue or the offer of securities in Italy may need to be preceded and followed by appropriate notices to be filed with the Bank of Italy depending, among other things, on the aggregate amount of the securities issued or offered in Italy and their characteristics; and

(c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based in laws which are superseded at any time pursuant to the implementation of the Prospectus Directive in Italy, such requirements shall be replaced by the applicable requirements under the relevant implementing measures of the Prospectus Directive in Italy.

GENERAL INFORMATION

1. Authorisation

The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 6 October 2006. The giving of the Guarantees of the Notes has been authorised by a resolution of the Board of Directors of Kazakhaltyn dated 26 October 2006. Rudnik Vasilevskyi LLP and Visart LLP are partnerships and as such do not authorise corporate action by way of resolution.

2. Legal and Arbitration Proceedings

Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, any of the Guarantors, any of their respective subsidiaries or any of their respective assets, nor is the Issuer or any of the Guarantors aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. Material Change

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of (a) the Issuer or Kazakhaltyn or the Group since 31 December 2005 or (b) Rudnik Vasilevskyi LLP or Visart LLP since their dates of acquisition by the Group, that is material in the context of the issue of the Notes.

4. Documents on Display

For so long as any of the Notes are outstanding, copies of the following documents are free for inspection and available free of charge during normal business hours at the Specified Office of each Paying Agent:

(a) the documentation incorporating or establishing the Issuer and each of the Guarantors;

(b) all future annual and interim (if any) financial statements of the Issuer and the Guarantors;

(c) the Paying Agency Agreement;

(d) the Trust Deed;

(e) the Loan Agreement;

(f) the audited consolidated financial statements of the Issuer since its incorporation on 26 September 2005 to 31 December 2005 and the unaudited consolidated financial statements of the Issuer for the six month period ended 30 June 2006; and

(g) the audited consolidated financial statements of JSC Kazakhaltyn MMC for the years ended 31 December 2004 and 2005.

5. Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN will be XS0273371632 and the common code will be 027337163.

6. Information relating to the Issuer

Incorporation, Status and Objects

KazakhGold Group Limited was incorporated under the Companies (Jersey) Law 1991 on 26 September 2005 as a private company. It was re-registered as a public company on 18 November 2005 and its registered number is 91264. It was formed as a holding company for the Group's assets and to facilitate its offer of global depository receipts on the London Stock Exchange on 1 December 2005. The Group's principal operating subsidiary, Kazakhaltyn, is the ultimate successor company to the Kazakh state-owned enterprise, OJSC Kazakhaltyn and owns and operates gold mining assets in Northern and Eastern Kazakhstan. Kazakhaltyn acquired, in 2005, two Kazakh limited liability partnerships with mining assets, Visart LLP and Rudnik Vasilevskyi LLP. Kazakhaltyn is wholly-owned by Romanshorn LC AG. Romanshorn LC AG is wholly-owned by KazakhGold Group Limited, following a transfer by Dr Kanat Assaubayev and Mrs Marussya Assaubayeva of their entire interest in Romanshorn LC AG, being the entire issued units in Romanshorn LC AG, for nil consideration, via nominees, to KazakhGold Group Limited on 12 October 2005.

Share Capital

The Issuer completed an Initial Public Offering of GDRs, which were admitted to the Main Market of the London Stock Exchange on 30 November 2005. The offer of 13,100,000 GDRs at U.S.$15 each raised a net U.S.$98.2 million. The authorised and issued share capital of the Issuer at 30 June 2006 is £10,000 and £8,000, respectively. As at 30 June 2006 the Executive Directors, together with Sanzhar Kanatovich Assaubayev) in aggregate own directly or indirectly 60.2% of the Issuer.

Registered Office

La Motte Chambers, St. Helier, Jersey JE1 1BJ, Channel Islands.

Auditors

KazakhGold has appointed BDO Stoy Hayward LLP as its auditors.

Financial Year

The financial year for the KazakhGold Group is 1 January to 31 December.

7. Information Relating to the Guarantors

1. JSC Kazakhaltyn MMC

Incorporation, Status and Objects

Following a tender won by Askamsnab LLP Kazakhaltyn was initially incorporated as a limited liability partnership on 10 September 1999 under the name Kazakhaltyn Mining and Processing Company Limited Liability Partnership. Due to the change of participants and change of the name to Kazakhaltyn Mining and Processing Concern Limited Liability Partnership Kazakhaltyn was re-registered with the justice authorities on 25 January 2001. For the purposes of listing bonds on Kazakhstan Stock Exchange on 9 July 2001 Kazakhaltyn LLP was transformed into an open joint stock company under the name Kazakhaltyn Mining Metallurgical Concern Open Joint Stock Company. Following the adoption of a new Law on Joint Stock Companies on 13 May 2003, OJSC Kazakhaltyn Mining Metallurgical Concern adopted a new charter and was renamed Kazakhaltyn Mining Metallurgical Concern Joint Stock Company.

In accordance with its charter, Kazakhaltyn has unrestricted corporate capacity and may conduct any business activity that is not prohibited by law. The charter also lists specific activities which may be conducted by Kazakhaltyn, in particular:

(a) exploration for, mining and refining of gold ore;

(b) gold production;

(c) refining, storage and sale of gold and other precious metals;

(d) export of gold and other precious metals and stones; and

(e) transactions with the refined precious metals and stones.

Share Capital

Kazakhaltyn's authorised and issued share capital as at 30 June 2006 was KZT 3,000,000,000 and KZT 1,539,000,000.

Auditors

Kazakhaltyn has appointed BDO Kazakhstan Audit LLP as its auditors.

Financial Year

Kazakhaltyn's financial year corresponds to the calendar year. Since the date of its incorporation as an open joint stock company on 9 July 2001 Kazakhaltyn has published annual audited financial statements on a regular basis. As a company which has its bonds listed on the Kazakhstan Stock Exchange (''**KASE**'') Kazakhaltyn has to provide KASE with reports including quarterly and annual financial statements, which are published by KASE on its web-site. The latest audited accounts of Kazakhaltyn dated 31 December 2005 have been prepared for the period commencing 1 January 2004 and ending 31 December 2005.

2. Visart LLP

Incorporation, Status and Objects

Visart Limited Liability Partnership (''**Visart**'') is a partnership established in Kazakhstan with its registered office at 42/44 Abai Avenue Almaty 050022 Kazakhstan. Visart is wholly owned by Kazakhaltyn and has exploration and mining rights over the Akzhal gold deposit in Kazakhstan.

Incorporation, Status and Objects

Visart was initially registered on 24 November 2000. Following the acquisition of an entire participating interest in it by Kazakhaltyn, Visart was re-registered with the justice authorities on 18 July 2005.

In accordance with its charter, Visart has unrestricted corporate capacity and may conduct any business activity that is not prohibited by law. The charter also lists specific activities which may be conducted by Visart, in particular:

(a) subsurface use, exploration and mining works;

(b) refinery of minerals; and

(c) refining, storage and sale of gold and other precious metals.

Directors and Secretary

In accordance with its charter Visart is managed by its sole participant, Kazakhaltyn, and a director who represents the executive body of Visart. Mr Pavel Valitov is the current director of Visart.

Auditors

Visart has appointed BDO Kazakhstan Audit LLP as its auditors.

Financial Year

Visart's financial year corresponds to the calendar year, however to date no Visart financial accounts have been audited.

3. Rudnik Vasilevskyi LLP

Overview

Rudnik Vasilevskyi Limited Liability Partnership (''**Rudnik Vasilevskyi**'') is a partnership established in Kazakhstan with its registered office at 7 Mustafa Ozturk Street Almaty 050057 Kazakhstan. Rudnik Vasilevskyi is wholly owned by Kazakhaltyn and has exploration and mining rights over the Vasilevskoye gold deposit in Kazakhstan.

Incorporation and Status

Rudnik Vasilevskyi was initially registered on 18 November 2003. Following the acquisition of an entire participating interest in Rudnik Vasilevskyi by Kazakhaltyn, it was re-registered with the justice authorities on 15 July 2005.

Objects

In accordance with its charter, Rudnik Vasilevskyi has unrestricted corporate capacity and may conduct any business activity that is not prohibited by law. The charter also lists specific activities which may be conducted by Rudnik Vasilevskyi, in particular:

(a) subsurface use, exploration and mining works;

(b) refinery of minerals; and

(c) refining, storage and sale of gold and other precious metals.

Directors and Secretary

In accordance with its charter Rudnik Vasilevskyi is managed by its sole participant, Kazakhaltyn, and a director who represents the executive body of Rudnik Vasilevskyi. Mr Pavel Valitov is the current director of Rudnik Vasilevskyi

Auditors

Rudnik Vasilevskyi has appointed BDO Kazakhstan Audit LLP as its auditors.

Financial Year

Rudnik Vasilevskyi's financial year corresponds to the calendar year. Rudnik Vasilevskyi does not have any audited financial statements.

DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document unless the context requires otherwise. Please refer to the *''Terms and Conditions of the Notes''* for further Definitions.

''ABM SK Trust''	The ABM SK Trust, a Jersey discretionary trust
''Agents''	The Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an **''Agent''** is to any of them
''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 Issuer
''Assays''	an analytical procedure to test the properties and/or composition of ore to test its purity or fineness
''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
''Company''	KazakhGold Group Limited
''Conditions''	the Terms and Conditions of the GDRs
''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
''Directors''	directors of the Company, including both 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
''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
''Group''	the Company and its subsidiaries and subsidiary undertakings, from time to time

''IFRS''	International Financial Reporting Standards
''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
''KZT''	the lawful currency of Kazakhstan
''Labour Law''	the ''Law on Labour in the Republic of Kazakhstan'' dated 10 December 1999
''London Stock Exchange''	London Stock Exchange plc
''Manager''	ING Bank N.V., London Branch
''MCI''	monthly calculation index
''NBK''	the National Bank of Kazakhstan
''Non-Executive Directors''	Lord Daresbury, Mr. Toktarkhan Kozhagapanov, Mr. David Netherway and Mr. Stephen Oke
''NUP''	Natural Use Permit
''OJSC''	Open Joint Stock Company
''Proceedings''	any legal action or proceedings arising out of or in connection with the GDRs
''Register''	the books of the Depositary registering the Holders of the GDRs
''Regulation S''	Regulation S under the Securities Act
''SDRT''	stamp duty reserve tax
''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
''Stabilising Manager''	ING Bank N.V., London Branch
''Subsurface Law''	Edict No. 2828 of the President of the Republic of Kazakhstan ''Concerning Subsurface and Subsurface Use'' adopted on 27 January 1996
''Tax Code''	Tax Code No. 209 dated 12 June 2001 (as amended)
''Tenge''	the lawful currency of Kazakhstan
''UK'' or ''United Kingdom''	the United Kingdom of Great Britain and Northern Ireland
''US dollars''	the lawful currency of the United States
''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

GLOSSARY

''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)
''Category C_2''	Soviet ''ore reserves extrapolated from Category C1 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 P1 to P3, 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 $^1/_{16}$mm
''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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APPENDIX A: COUNTRY OVERVIEW

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 experienced, strong economic growth, with GDP increasing by 9.3% in 2003, by 9.4% in 2004 and by 9.4% in 2005. Kazakhstan has been recognised by both the European Union and the United Stated 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 December 2005, 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 which returned him to office for a seven year term which expired in 2006 and he was re-elected again in December 2005 for another seven years.

Whilst the Kazakh constitution provides for separation considerable control over all three branches of government 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 European Bank for Reconstruction and Development and Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation, 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, Kyrgyz Republic 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 fiscal, 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 2001 to 2005:

	Average unless otherwise specified				
	2001	**2002**	**2003**	**2004**	**2005**
Population (millions end of year)[1]	14.9	14.9	15.0	15.0	15.2
GDP (KZT billion)	3,251	3,776	4,612	58,70	7,453
GDP (U.S.$ billions)[1]	22.1	24.7	30.7	40.8	56.1
GDP per capita (U.S.$)[1]	1,483	1,658	2,689	2,720	3,688
GDP (per cent. change from the previous year)	13.5	9.8	9.3	9.4	9.4
Volume of Industrial Production (per cent. Change from the previous year)	13.8	10.5	9.1	10.1	4.6
Consumer Price Index (per cent. change from the previous year)[2]	6.4	6.6	6.8	6.7	
Trade balance (U.S.$ billions)[4]	1,320	2,301	3,679	6,786	10,322
Trade balance (per cent. of GDP)	6.0	9.3	12.9	16.6	18.3
Gross Foreign Debt (U.S.$ millions)[4]	15,157	18,197	22,884	32,017	41,516
Gross Foreign Debt (per cent. of GDP)	68.6	73.7	74.5	78.5	74.0
Total gross direct investment from abroad (U.S.$ millions)	4,556	4,106	4,624	8,293	6,416.4
Total gross direct investment from abroad (per cent. of GDP)	20.6	16.6	15.1	20.3	11.4
Gross direct investment from abroad—Mining and Quarrying (U.S.$ millions)	3,088.9	2,123.4	2,188.3	5,268.4	1,766.4
Budget Deficit(–)/Surplus (per cent. of GDP)	(0.4)	(0.03)	(1.0)	(0.3)	(0.6)
Unemployed (thousands)[2]	216	194	143	118	
Registered unemployment rate (percentage of economically active population)[3]	2.9	2.6	1.8	1.5	1.2
Average monthly nominal wage (KZT)[3]	21,183	24,388	28,192	32,652	44,956
Average monthly nominal wage (per cent. change from previous year)[3]	117	117.1	115.6	126.5	20.5

Source: The NBK, save for population figures, GDP per capita (U.S.$) 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.

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 0.5% of the value of the property to KZT 23,300 Tenge plus 0.5% of the amount of the value of the property which is in excess of KZT 10 million). 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 Kazakhstan/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 U.S.$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 paragraph 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 V III or impose any import restrictions. in accordance win 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.

INDEX TO FINANCIAL INFORMATION

Contents

Accountant's review report and unaudited consolidated interim financial information on the Company for the six months ended 30 June 2006 . . . . . F-2

Accountant's report and consolidated financial information on the Company for the period from its date of incorporation, 26 September 2005, to 31 December 2005 . . . . . F-10

Accountant's report and consolidated financial information on Kazakhaltyn for the years ended 31 December 2003, 2004, 2005 . . . . . F-33

ACCOUNTANT'S REVIEW REPORT AND UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION ON THE COMPANY FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below is the independent accountant's review report to the Company and unaudited consolidated interim financial information on the Company for the six months ended 30 June 2006 which has been extracted without material adjustment from the interim financial statements of the Company for the six months period ended 30 June 2006.

Independent Accountant's review report to KazakhGold Group Limited

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 on pages F-3 to F-9.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority 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 the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with 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 Group 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 International Standards on Auditing (United Kingdom and Ireland) 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 2006.

BDO Stoy Hayward LLP
Chartered Accountants
London

27 September 2006

Consolidated income statement

	Note	Six months to 30 June 2006	26 September to 31 December 2005
		Unaudited US$000	Audited US$000
Revenue	4	31,578	20,357
Cost of sales		(14,269)	(14,863)
Gross profit		17,309	5,494
Other operating income		430	1,473
Distribution expenses		(731)	(86)
Administrative expenses		(8,193)	(6,954)
Other operating expenses		(1,696)	(640)
Operating profit/(loss)		7,119	(713)
Financial income		1,154	277
Financial expense		(2,042)	(647)
Net financing costs		(888)	(370)
Profit/(loss) before taxation		6,231	(1,083)
Taxation		(3,208)	(1,090)
Profit/(loss) for the period attributable to equity shareholders		3,023	(2,173)
Basic earnings/(loss) per share	5	U.S.$ 0.06	U.S.$ (0.05)
Diluted earnings per share	5	U.S.$ 0.06	—

All amounts relate to continuing operations.

Consolidated balance sheet

	30 June 2006 unaudited US$000	31 December 2005 audited, restated US$000
ASSETS		
Non-current assets		
Property, plant and equipment	62,876	49,797
Mining properties	858,517	761,975
Exploration and development costs	14,617	9,013
Intangible assets	1,231	1,092
Other financial assets	2,011	1,713
	939,252	823,590
Current assets		
Inventories	22,247	7,629
Trade and other receivables	48,902	20,112
Other financial assets	3,931	—
Cash and cash equivalents	32,456	87,887
	107,536	115,628
Total assets	1,046,788	939,218
EQUITY AND LIABILITIES		
Equity attributable to shareholders		
Share capital	8	8
Share premium	97,429	97,429
Capital contributions	510,000	510,000
Translation reserve	75,425	(41)
Retained earnings	3,852	714
Total equity	686,714	608,110
Non-current liabilities		
Interest-bearing loans and borrowings	23,074	24,543
Other financial liabilities	1,471	1,197
Provisions	418	241
Deferred tax liabilities	305,196	271,134
	330,159	297,115
Current liabilities		
Interest-bearing loans and borrowings	—	20,464
Trade and other payables	23,385	10,959
Current tax payable	5,981	2,156
Other financial liabilities	549	414
	29,915	33,993
Total equity and liabilities	1,046,788	939,218

Consolidated cash flow statement

	Six months to 30 June 2006	26 September to 31 December 2005
	Unaudited US$000	Audited US$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax for the period	6,231	(1,083)
Adjustments for:		
Depreciation, depletion and amortisation	5,579	1,411
Foreign exchange loss arising from translation of investment in subsidiaries	11,969	—
Foreign exchange loss arising from operations	1,516	8
Interest payable	2,042	647
Loss on disposal of non-current assets	84	640
Equity-settled share-based payment expenses	115	2,887
Cash flows from operating activities before changes in working capital and provisions	27,536	4,510
Increase in trade and other receivables	(33,019)	(6,095)
(Increase)/decrease in inventories	(14,618)	5,511
Increase in trade and other payables	12,457	888
Increase in provisions	177	241
CASH (ABSORBED BY)/GENERATED FROM OPERATING ACTIVITIES	(7,467)	5,055
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(16,840)	(6,930)
Proceeds from the disposal of non-current assets	838	385
Capitalised exploration and development costs	(4,530)	(4,491)
Acquisition of mining licences	(138)	(114)
Cash held in subsidiary companies at the date of acquisition	—	565
Net cash flow from investing activities	(20,670)	(10,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	—	106,507
Share issue costs	—	(9,070)
Proceeds from the issue of bonds	—	24
(Redemption)/issue of promissory notes	(3,007)	3,007
Repayment of borrowings	(21,630)	(6,284)
Interest paid	(1,956)	(647)
Payment of finance lease liabilities	(701)	(120)
Net cash flow from financing activities	(27,294)	93,417
Net (decrease)/increase in cash and cash equivalents	(55,431)	87,887
Cash and cash equivalents at the beginning of the period	87,887	—
CASH AND CASH EQUIVALENTS at the end of the period	32,456	87,887

Statement of changes in equity for the Group

For the six month period ended 30 June 2006

	Share Capital	Share Premium	Capital Contributions	Translation Reserve	Retained Earnings	Total
	Unaudited US$000	Unaudited US$000	Unaudited US$000	Unaudited US$000	Unaudited US$000	Unaudited US$000
Balance at 1 January 2006	8	97,429	510,000	(41)	714	608,110
Equity-settled share-based payments	—	—	—	—	115	115
Foreign exchange on translation of foreign operations	—	—	—	75,466	—	75,466
Profit after tax for the period	—	—	—	—	3,023	3,023
Balance at 30 June 2006	8	97,429	510,000	75,425	3,852	686,714

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Capital contributions represent the value of Romanshorn LC AG and its subsidiaries, the beneficial ownership of which was acquired by the Company in 2005.

Exchange differences arising on translating the net assets and the results of overseas operations to US dollars are recognised directly in the translation reserve.

Retained earnings represent the cumulative profit/(loss) of the Group attributable to the equity shareholders.

Notes forming part of the interim financial statements

1. Corporate information

KazakhGold Group Limited (''the Company'') is a company incorporated in Jersey. The Company is centrally managed and controlled in the United Kingdom and therefore resident in the United Kingdom for the purposes of United Kingdom taxation liabilities.

2. Basis of preparation and accounting policies

These primary statements and selected notes comprise the unaudited interim consolidated results of the Company and its subsidiaries (''the Group'') for the six months ended 30 June 2006.

The comparative figures presented are from the period from incorporation on 26 September 2005 to 31 December 2005. The financial statements for the period ended on 31 December 2005 were prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union and also in accordance with the Companies (Jersey) Law 1991. These comparative figures have been restated as detailed in note 3 below.

These unaudited interim consolidated results of the Group presented in this interim announcement have been prepared on the basis of the accounting policies adopted within the financial statements for the period ended 31 December 2005. As permitted, the group has chosen not to adopt IAS34 Interim Financial Reporting.

Details of the significant accounting policies are set out below:

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available-for-sale.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Business combinations

The Company owns the entire share capital of Romanshorn LC AG. As the controlling party of Romanshorn LC AG and KazakhGold Group Limited at the time of the acquisition was the same, the acquisition was accounted for as a capital contribution with the assets and liabilities acquired initially recognised at fair value and a corresponding increase to equity credited to the capital contributions reserve.

Exploration and development

Exploration and development costs are capitalised as intangible assets until the decision is made to proceed to development, whereupon the related expenditures are transferred to non-current assets as mining properties, or until the projects are determined not to be commercially viable, whereupon the related costs are written off to the income statement.

Mining properties

Once a decision is made to proceed with the development of a mining project, exploration and development expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets as mining properties, together with any amount transferred from exploration and development.

Depreciation, depletion and amortisation of mining properties are calculated using the 'units of production method' based upon actual production and estimated recoverable reserves. This amount is charged to cost of sales in the income statement.

Foreign exchange

On consolidation, the results of overseas operations are translated into US dollars, the presentational currency of the Group, at rates approximating to those ruling when the transaction took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of an overseas entity are treated as assets and liabilities of the overseas entity and translated at the rate ruling at the balance sheet date. The functional currency of JSC Kazakhaltyn MMC is deemed by the directors of that entity to be Kazakh tenge. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised directly in equity (the ''translation reserve'').

3. Restatement

During the period ended 31 December 2005 the Company acquired the entire share capital of Romanshorn LC AG, the non-trading parent company of JSC Kazakhaltyn MMC.

On fair valuing the assets and liabilities acquired in this transaction in 2005, the Company fair valued the mining properties net of deferred tax. The financial statements of 2005 have been restated to show the fair value of the mining properties gross of deferred tax.

There is no impact upon equity, profit/(loss) before and after taxation and cash flows for the preceding period.

The effect of this restatement on those financial statements is summarised below:

	US$000
Increase in mining properties	268,161
Increase in deferred tax liability	(268,161)
Change in equity	—

4. Revenue

The Group operates in one segment, the mining and production of gold in Kazakhstan. The revenues from this segment are analysed as follows:

	Six months to 30 June 2006	26 September to 31 December 2005
	Unaudited US$000	Audited US$000
By product		
Cathodic sludge	28,654	16,998
Cathodic gold	—	682
Free gold	1,514	1,841
Flotation and gravitational concentrate	1,173	602
Quartzite ore	237	138
Dore bars	—	96
	31,578	20,357
By destination market		
Kyrgyzstan	17,733	10,633
Kazakhstan	8,624	7,178
Switzerland	3,812	1,805
Russia	1,409	741
	31,578	20,357

5. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based upon the net profit after tax attributable to the ordinary shareholders of US$3,023,000 (2005: a loss of US$2,173,000) and a weighted average number of shares in issue, for the period 1 January 2006 to 30 June 2006, of 47,100,000 (2005: 40,212,371).

	Six months to 30 June 2006	26 September to 31 December 2005
	Unaudited	Audited
Earnings/(loss) per share	US$0.06	US$(0.05)

The numerator for the calculation of the basic earnings/(loss) per share is the profit after tax of US$3,023,000 (2005: a loss of US$2,173,000). The denominator for the calculation of the basic earnings per share is 47,100,000 (2005: 40,212,371).

Diluted earnings per share	US$0.06	—

The numerator for the calculation of the diluted earnings per share is the profit after tax of US$3,023,000. No diluted loss per share for 2005 has been presented as the share options were anti-dilutive. The denominator for the calculation of the diluted earnings per share is 47,139,025

ACCOUNTANT'S REPORT AND CONSOLIDATED FINANCIAL INFORMATION ON KAZAKHGOLD GROUP LIMITED

ACCOUNTANT'S REPORT ON KAZAKHGOLD GROUP LIMITED

BDO Stoy Hayward LLP
Corporate Finance

8 Baker Street
London
W1U 3LL

31 October 2006

The Directors
KazakhGold Group Limited
20 Richbourne Court
Harrowby Street
London WIH 5PT
United Kingdom

The Directors
ING Bank N.V. London Branch
60 London Wall
London EC2M 5TQ
United Kingdom

Dear Sirs

KAZAKHGOLD GROUP LIMITED (THE ''COMPANY'') AND ITS SUBSIDIARY UNDERTAKINGS (TOGETHER, THE ''GROUP'')

Introduction

We report on the financial information set out on pages F-12 to F-32. This financial information has been prepared for inclusion in the Offering Circular dated 31 October 2006 of the Company (the ''Offering Circular'') on the basis of the accounting policies set out in Note 1 to the financial information.

This report is provided pursuant to our engagement letter addressed to the Company and ING Bank N.V. London Branch dated 11 October 2006 (the ''Engagement Letter'') and is given for the purpose of complying with the requirements of the Engagement Letter and for no other purpose.

Save for any responsibility that we have expressly agreed in writing in the Engagement Letter to assume, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report.

Responsibilities

As described on page F-12 of the financial information, the Company is responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with applicable law and International Financial Reporting Standards (''IFRS''), as adopted by the European Union.

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 Offering Circular, 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.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

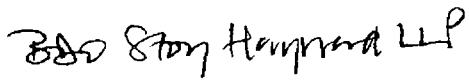
Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at the date stated and of its consolidated losses and cash flows for the period then ended in accordance with the basis of preparation set out in Note 1 to the financial information and has been prepared in accordance with applicable IFRS as described in Note 1 to the financial information.

Declaration

We are responsible for this report as part of the Offering Circular 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 Schedule B of Appendix III of the Rules and Regulations of the Luxembourg Stock Exchange.

Yours faithfully



BDO Stoy Hayward LLP
Chartered Accountants

CONSOLIDATED FINANCIAL INFORMATION ON THE COMPANY FOR THE PERIOD FROM 26 SEPTEMBER 2005 TO 31 DECEMBER 2005

Responsibility

The Company is responsible for the consolidated financial information on the Company set out below on the basis of preparation set out in note 1 to the financial information and in accordance with applicable law and International Financial Reporting Standards (''IFRSs'') adopted by the European Union.

Consolidated income statement

	Note	26 September to 31 December 2005
		US$000
Revenue	2	20,357
Cost of sales		(14,863)
Gross profit		5,494
Other operating income	3	1,473
Distribution expenses		(86)
Administrative expenses		(6,954)
Other operating expenses	4	(640)
Operating loss	5	(713)
Financial income	9	277
Financial expenses	10	(647)
Net financing costs		(370)
Loss before tax		(1,083)
Taxation	11	(1,090)
Loss for the period attributable to equity shareholders		(2,173)
Basic and diluted loss per share	12	U.S.$(0.05)

All amounts relate to continuing operations

Consolidated balance sheet

	Note	31 December 2005 US$000
ASSETS		
Non-current assets		
Property, plant and equipment	13	49,797
Mining properties	14	761,975
Exploration and development costs	15	9,013
Intangible assets	16	1,092
Other financial assets	18	1,713
		823,590
Current assets		
Inventories	19	7,629
Trade and other receivables	20	20,112
Cash and cash equivalents	21	87,887
		115,628
Total assets		939,218
EQUITY AND LIABILITIES		
Equity attributable to shareholders		
Share capital	22	8
Share premium		97,429
Capital contributions		510,000
Translation reserve		(41)
Retained earnings		714
Total equity		608,110
Non-current liabilities		
Interest-bearing loans and borrowings	24	24,543
Other financial liabilities	25	1,197
Provisions	26	241
Deferred tax liabilities	28	271,134
		297,115
Current liabilities		
Interest-bearing loans and borrowings	24	20,464
Trade and other payables	27	10,959
Current tax payable	27	2,156
Other financial liabilities	27	414
		33,993
Total equity and liabilities		939,218

Consolidated cash flow statement

	Note	26 September to 31 December 2005
		US$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax for the period		(1,083)
Adjustments for:		
Depreciation, depletion and amortisation		1,411
Foreign exchange gain		8
Interest paid		647
Loss on disposal of non-current assets		640
Equity-settled share-based payment expenses		2,887
Cash flows from operating activities before changes in working capital and provisions		4,510
Increase in trade and other receivables		(6,095)
Decrease in inventories		5,511
Increase in trade and other payables		888
Increase in provisions		241
CASH GENERATED FROM OPERATING ACTIVITIES		5,055
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment		(6,930)
Proceeds from the disposal of non-current assets		385
Capitalised mine development costs		(4,491)
Capitalised mining properties costs		(114)
Cash held in subsidiary companies at the date of acquisition		565
Net cash from investing activities		(10,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital		106,507
Share issue costs		(9,070)
Proceeds from the issue of bonds		24
Issue of promissory notes		3,007
Repayment of borrowings		(6,284)
Interest paid		(647)
Payment of finance lease liabilities		(120)
Net cash from financing activities		93,417
Net increase in cash and cash equivalents		87,887
CASH AND CASH EQUIVALENTS at 26 September 2005		—
CASH AND CASH EQUIVALENTS at 31 December 2005	21	87,887

Significant non-cash transactions are as follows:

Investing activities:

Equity consideration for acquisition of Romanshorn LC AG. See note 31.

Statement of changes in equity for the Group

For the period 26 September to 31 December 2005

	Share capital	Share premium	Capital contributions	Translation reserve	Retained earnings	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Balance at 26 September 2005	—	—	—	—	—	—
Shares issued in the period	8	106,499	—	—	—	106,507
Share issue expenses	—	(9,070)	—	—	—	(9,070)
Equity-settled share-based payments	—	—	—	—	2,887	2,887
Contribution of ownership of Romanshorn LC AG	—	—	510,000	—	—	510,000
Foreign exchange on translation of foreign operations	—	—	—	(41)	—	(41)
Loss after tax for the period	—	—	—	—	(2,173)	(2,173)
Balance at 31 December 2005	8	97,429	510,000	(41)	714	608,110

Share capital is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses. Share issue expenses comprise a proportion of the costs incurred in respect of the placing offer and the issue by the Group of GDRs as attributable to the issue of new matching shares under the terms of the placing. The costs allocated against the share premium account include all of the underwriting fees relating to the issue of new shares, together with a proportion (in the ratio of 7.1 million to 13.1 million) of all other similar costs being the ratio of new shares issued to the total of all listed shares.

Capital contributions represent the value of Romanshorn LC AG and its subsidiaries, the beneficial ownership of which was acquired by the Company as detailed in note 31.

Exchange differences arising on translating the net assets and the results of overseas operations to US dollars are recognised directly in the translation reserve.

Retained earnings represent the cumulative profit/(loss) of the Group attributable to the equity shareholders.

Notes to the financial information

1. Accounting policies

Basis of preparation

The Company is a company incorporated in Jersey. The Company is centrally managed and controlled in the United Kingdom, and therefore resident in the United Kingdom for the purposes of United Kingdom taxation liabilities.

The financial information consolidates the financial information of the Company and its subsidiaries (together referred to as the ''Group'').

The Company was incorporated on 26 September 2005. It acquired the entire issued units in Romanshorn LC AG, the parent company of Kazakhaltyn, on 12 October 2005 following a transfer by Dr. Kanat Assaubayev and Mrs. Marussya Assaubayeva of their entire interest in the issued units of Romanshorn LC AG, via nominees, for nil consideration to the Company.

The financial information have been prepared in accordance with IFRSs as adopted by the European Union and also in accordance with the Companies (Jersey) Law Act 1991.

The accounting policies set out below have, unless otherwise stated, been applied consistently in this financial information.

Judgments made by the Directors in the application of these accounting policies that have significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

Measurement convention

The financial information is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available-for-sale.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, that entity or business is classified as a subsidiary. The consolidated financial information presents the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Business combinations

During the period the Company acquired the entire share capital of Romanshorn LC AG. As the controlling party of Romanshorn LC AG and KazakhGold Group Limited were the same, the acquisition has been accounted for as a capital contribution with the assets and liabilities acquired initially recognised at fair value and a corresponding increase to equity credited to the ''capital contribution'' reserve.

No acquisitions in the period are in the scope of IFRS 3.

Revenue

Revenue arises from the sale of cathodic sludge, cathodic gold, free gold, flotation and gravitational concentrate, quartzite ore and dore bars. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

Foreign currency

In accordance with IAS21, transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the ''functional currency'') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the

retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. The presentational currency for the Group consolidated financial information is the US dollar. This is also the functional currency of the Company and is considered by the Board also to be appropriate for the purposes of preparing the Group financial information.

On consolidation, the results of overseas operations are translated into US dollars, the (''presentational currency''), at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at the actual rate are recognised directly in equity (the ''translation reserve'').

Classification of financial instruments issued by the Group

In accordance with IAS 32, financial instruments issued by the Group are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in the financial information for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Trade and other 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 include other types of contractual monetary assets. These assets are carried at amortised cost less any provision for impairment.

Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement within cost of sales and administrative expenses on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings . . . . . 11 - 50 years
- Machinery and equipment . . . . . 2 - 35 years
- Vehicles . . . . . 4 - 10 years
- Other . . . . . 1.5 - 17 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments and improvements expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

Assets under construction are carried at cost less any recognised impairment loss. Cost includes interest capitalised and associated borrowing costs.

Exploration and development

Exploration and development costs are capitalised as intangible assets until the decision is made to proceed to development, whereupon the related expenditures are transferred to non-current assets as mining properties, or until the properties are determined not to be commercially viable, whereupon the related costs are written off to the income statement.

Mining properties

Once a decision is made to proceed with the development of a mining project, exploration and development expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets as mining properties, together with any amount transferred from exploration and development.

Depreciation, depletion and amortisation of mining properties are calculated using the 'units of production method' based upon actual production and estimated recoverable reserves. This amount is charged to cost of sales in the income statement.

Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to cost of sales over the following periods:

- Mining and other licences . . . . . 3 - 4 Years
- Computer software . . . . . 3 Years

Inventories

Raw materials which consist of tools for development activities, spare parts, diesel fuel and various materials used in mining operations are valued at the lower of cost and net realisable value. The basis on which cost is derived is a weighted average cost formula.

Finished goods (comprising cathodic sludge, cathodic gold, free gold, flotation and gravitational concentrate, quartzite ore and dore bars) are stated at the lower of weighted average cost or net realisable value. Costs include direct materials, direct labour costs and production overheads (including the depreciation/depletion of relevant property, plant and equipment and mining properties). Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Impairment

An impairment loss is recognised in respect of mining properties where the assessed estimate of the quantum of mineable resources indicates a reduction from the previous estimate.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of

assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses and reversals of impairment losses previously included in the income statement under the same category are included within other operating expenses in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Other financial liabilities

Trade payables and other short-term monetary items are recognised at amortised cost.

Interest-bearing loans and borrowing

Bank borrowings are initially recognised at the amount advanced less any transaction costs directly attributable to the borrowings. 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.

Other interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

Defined contribution plans

The Group contributes to certain defined contribution pension and employee benefit schemes on behalf of its employees. These costs are charged to the income statement on an accruals basis.

Other employee benefits

Other employee benefits are charged to the income statement on an accruals basis.

Share-based payment transactions

The Company awards share options to certain company Directors to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing costs

Financing costs comprise interest payable on bank loans, bonds and finance leases.

Interest payable is recognised in profit or loss as it accrues, using the effective interest method unless such interest is attributable to 'assets under construction' and qualifies for capitalisation under IAS 23.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2. Revenues

The Group operates in one segment, the mining and production of gold in Kazakhstan. The revenues from this segment are analysed as follows:

	26 September to 31 December 2005
	US$000
By product:	
Cathodic sludge	16,998
Cathodic gold	682
Free gold	1,841
Flotation and gravitational concentrate	602
Quartzite ore	138
Dore bars	96
	20,357
By destination market:	
Kyrgyzstan	10,633
Kazakhstan	7,178
Switzerland	1,805
Russia	741
	20,357

3. Other operating revenues

	26 September to 31 December 2005
	US$000
Foreign exchange gains	1,274
Other income	199
	1,473

The Company has no other operating income.

4. Other operating expenses

	26 September to 31 December 2005
	US$000
Loss arising from the disposal of non-current assets	640

The Company has no other operating expenses

5. Operating loss

This has been stated after charging:

	26 September to 31 December 2005
	US$000
Depreciation of property, plant and equipment	441
Amortisation of exploration and development cost and mining leases	236
Depletion of mining properties	734
Initial public offering and reorganisation costs	2,172
Equity-settled share-based payment expense	2,887
Auditors' remuneration (see note 6)	588

6. Auditors' remuneration

	26 September to 31 December 2005
	US$000
Amounts receivable by auditors and their associates in respect of:	
Audit of financial statements of the Group	250
Transaction advisory services relating to the placing and global offer	738
	988

Of the amounts paid to the auditors for the transaction advisory services, $338,000 was charged to the income statement and $400,000 was charged to the share premium account.

7. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the period, analysed by category, was as follows:

	26 September to 31 December 2005
Management	114
Supply	64
Construction and maintenance	116
Research and exploration	82
Security	174
Mining activities	2,659
	3,209

The Company employed four Non-Executive and four Executive Directors during the period. The Company did not have any employees other than Directors in the period.

The aggregate payroll costs of these persons were as follows:

	Group
	26 September to 31 December 2005
	US$000
Wages and salaries (including Directors' emoluments)	2,317
Social security and other pension costs	284
	2,601

8. Directors' remuneration and interests

Directors' remuneration:

	26 September to 31 December 2005
	US$000
Directors' emoluments	377
Pension contributions	28
	405
Chairman's emoluments	35

During the period the Chairman exercised a share option over 400,000 shares (note 23). The IFRS charge disclosed in note 5 relates entirely to options awarded to Directors.

Interests of the Directors in the Company's issued share capital as at 31 December 2005 were as follows:

Director	Number of ordinary shares	% of issued share capital
Kanat Assaubayev[1]	33,600,000	71.3
Baurzhan Assaubayev[1]	33,600,000	71.3
Aidar Assaubayev[1]	33,600,000	71.3
Marussya Assaubayeva[1]	33,600,000	71.3
Lord Daresbury[2]	561,901	1.2
Toktarkhan Kozhagapanov	—	—
David Netherway[2]	3,325	—
Stephen Oke[2]	3,325	—

(1) These interests include those of Kanat Assaubayev, Baurzhan Assaubayev, Aidar Assaubayev, 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 Group. The shareholding interests of the ABM SK Trust are held by Gold Lion Limited.

(2) Of the total shown for Lord Daresbury, 400,000 shares are held in the form of ordinary shares, while the remaining interest and those of David Netherway and Stephen Oke are held in the form of Global Depository Receipts (''GDRs'').

The following options to purchase the Group's ordinary shares were outstanding at 31 December 2005:

	David Netherway	Stephen Oke
Number of options granted on 1 December 2005	26,667	26,667
Fair value at date of measurement	$ 8,694	$ 8,694
Exercise price	$15	$15

9. Financial income

	26 September to 31 December 2005
	US$000
Interest receivable	277

10. Financial expenses

	26 September to 31 December 2005
	US$000
Interest payable	647

11. Taxation

	26 September to 31 December 2005
	US$000
Recognised in the income statement	
Current tax expense	(1,421)
Deferred tax expense	331
Total tax charge	(1,090)
Reconciliation of effective tax rates	
The reasons for the difference between the actual tax charge for the period and the rate of 30% applied to the loss for the period are as follows:	
Loss before tax	(1,083)
Tax using domestic rates of corporation tax of 30%	325
Effect of:	
Effect of expenses not deductible for tax purposes	(1,293)
Losses carried forward	(122)
Total tax charge for the period	(1,090)

The Group's principal operations are in Kazakhstan. The corporate tax system in Kazakhstan has been in place 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 Board of the Company believes there have been no material breaches of Kazakhstan tax regulations and that all necessary provisions have been made.

12. Loss per share

The calculation of basic loss per share is based upon the net loss after tax attributable to the ordinary shareholders of US$2,173,000 and a weighted average number of shares in issue, for the period 26 September 2005 to 31 December 2005, of 40,212,371.

	26 September to 31 December 2005
Loss per share	$ (0.05)
	US$000
Loss attributable to ordinary shareholders	(2,173)
Weighted average number of ordinary shares	**Number**
Issued ordinary shares at 26 September 2005	100,000
Effect of issue on 30 September 2005	37,843,299
Effect of issue on 30 November 2005	2,269,072
Weighted average number of ordinary shares at 31 December 2005	40,212,371

Diluted loss per share

No diluted loss per share has been calculated as the Group has incurred a loss for the period.

The numerator for the calculation of the basic loss per share is the loss after tax of $2,173,000. The denominator for the calculation of the basic loss per share is 40,212,371.

13. Property, plant and equipment

	Freehold land	Freehold buildings	Assets under construction	Machinery and equipment	Vehicles	Other	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Balance at 26 September 2005	—	—	—	—	—	—	—
Acquisitions through business combinations	92	21,689	14,876	8,447	2,798	858	48,760
Other acquisitions	—	1,028	689	4,851	312	50	6,930
Disposals	—	(773)	(472)	(240)	(84)	(4)	(1,573)
Effect of movements in foreign exchange	—	2	2	1	—	—	5
Balance at 31 December 2005	92	21,946	15,095	13,059	3,026	904	54,122
Depreciation and impairment							
Balance at 26 September 2005	—	—	—	—	—	—	—
Acquisitions through business combinations	—	1,514	—	2,114	459	327	4,414
Depreciation charge for the period	—	219	—	121	85	16	441
Disposals	—	(402)	—	(100)	(28)	—	(530)
Balance at 31 December 2005	—	1,331	—	2,135	516	343	4,325
Net book value							
At 31 December 2005	92	20,615	15,095	10,924	2,510	561	49,797
At 26 September 2005	—	—	—	—	—	—	—

The net book value at 31 December 2005 of non-current assets held under finance leases was:

	31 December 2005
	US$000
Cost	1,632
Depreciation	(164)
Net book value	1,468

Included within additions to assets under construction and machinery and equipment is interest capitalised of $291,000.

14. Mining properties

	31 December 2005
	US$000 Restated
Cost	
Balance at 26 September 2005	—
Acquisitions through business combinations	762,595
Capitalised costs	114
Balance at 31 December 2005	762,709
Depletion and impairment	
Balance at 26 September 2005	—
Depletion charge for the period	(734)
Balance at 31 December 2005	(734)
Net book value	
At 31 December 2005	761,975
At 26 September 2005	—

15. Exploration and development costs

	31 December 2005
	US$000
Cost	
Balance at 26 September 2005	—
Acquisitions through business combinations	4,593
Capitalised costs	4,491
Balance at 31 December 2005	9,084
Depreciation and impairment	
Balance at 26 September 2005	—
Depreciation charge for the period	(71)
Balance at 31 December 2005	(71)
Net book value	
At 31 December 2005	9,013
At 26 September 2005	—

16. Intangible assets

	Mining licences 31 December 2005
	US$000
Cost	
Balance at 26 September 2005	—
Acquisition of Romanshorn LC AG	1,257
Balance at 31 December 2005	1,257
Amortisation and impairment	
Balance at 26 September 2005	—
Amortisation for the period	(165)
Balance at 31 December 2005	(165)
Net book value	
31 December 2005	1,092
26 September 2005	—

The amortisation and impairment charge is recognised in cost of sales.

17. Investments in subsidiaries

The Company has an investment in the following subsidiaries:

	Note	Country of incorporation	Class of share	Ownership %
Romanshorn LC AG	31	United States	Units	100
Indirect subsidiaries of the Company				
JSC Kazakhaltyn MMC		Kazakhstan	Ordinary	100
Visart LLP		Kazakhstan	Ordinary	100
Rudnik Vasilevskyi LLP		Kazakhstan	Ordinary	100

JSC Kazakhaltyn MMC, Visart LLP and Rudnik Vasilevskyi LLP are all engaged in mining exploration, development and mining operations in Kazakhstan. Romanshorn LC AG is a dormant holding company of JSC Kazakhaltyn MMC. Visart LLP and Rudnik Vasilevskyi LLP are both subsidiaries of JSC Kazakhaltyn MMC.

18. Other financial assets

	31 December 2005
	US$000
Non-current	
Amounts receivable in respect of deferred consideration from the sale in 2000 of 'sub-surface' mining rights, related mining assets and land by JSC Kazakhaltyn MMC	1,713

This deferred consideration represents the non-current balance of consideration which is receivable in instalments over the next three years. The current proportion of amounts due is included in other debtors. The amounts due are denominated in US dollars.

19. Inventories

	31 December 2005
	US$000
Raw materials and consumables	4,201
Work in progress	519
Finished goods	2,909
	7,629

Certain spares, materials, tools and equipment held in inventory amounting to U.S.$1,305,000 became obsolete in the period following the modernisation of elements of the Group's mining assets and were written down to net realisable value.

20. Trade and other receivables

	31 December 2005
	US$000
Trade receivables	11,369
Other debtors	8,626
Prepaid expenses	117
	20,112

All other monetary assets included in trade and other receivables are denominated in Kazakhstan Tenge.

Included within other debtors as at the period end was an amount of US$77,000 due from Baurzhan Assaubayev. This amount was repaid in March 2006.

21. Cash and cash equivalents

	31 December 2005
	US$000
Cash per balance sheet and per the cash flow statement	87,887

Cash and cash equivalents consist of cash.

22. Capital and reserves

	31 December 2005
	Number
Share capital	
Number of ordinary shares	
In issue at 26 September 2005	—
Issued for cash	47,100,000
In issue at 31 December 2005	47,100,000

	31 December 2005
	US$000
In issue at 31 December 2005—fully paid	
47,100,000 ordinary shares of GBP 0.0001 each	8

	31 December 2005
	Number
Authorised	
Ordinary shares of GBP 0.0001 each	100,000,000
Allotted, called up and fully paid	
Ordinary shares of GBP 0.0001 each	47,100,000

Holders of 13,100,000 of the ordinary shares hold their shares through the Bank of New York, which acts as a depositary for these shares. These 'deposited shares' are matched to GDRs on a share for share basis. The GDRs are listed on the London Stock Exchange.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. Payments of cash dividends and other amounts (including cash distributions) will, in the case of the GDRs issued by the Company, be made by the Depositary of the GDRs to the persons entitled to the receipt of the funds.

23. Equity-settled share-based payment transactions

The number and weighted average exercise prices of share options granted to Directors are as follows:

	Number of options
Outstanding at 26 September 2005	—
Granted during the period	453,333
Exercised during the period	(400,000)
Lapsed during the period	—
Outstanding at 31 December 2005	53,333
Exercisable at 31 December 2005	—

$2,887,388 is charged to the income statement within administration expenses, representing the fair value at the date of grant of the 400,000 options exercised of $2,870,000 together with an element of the fair value at the date of grant of the options outstanding as at 31 December 2005 of $17,388 relating to the period ending on that date. The weighted average cost of the options exercised in the period was $7.18.

The fair value of the 400,000 options exercised in the period has been valued by the Board based upon the value of the acquired entities as at the date of acquisition.

The following additional options to purchase the Company's ordinary shares were granted during the period and were outstanding at 31 December 2005:

	Total
Number of options granted on 1 December 2005	53,334
Number of employees	2
Share price on 1 December 2005	$ 15
Exercise price	$ 15

The options vest on 1 December 2008 and are exercisable until 1 December 2011.

The outstanding options at 31 December 2005 have been valued by the Directors based on advice from an independent valuer who assessed the valuation using a binomial option valuation model under the assumptions listed below. Under these assumptions, the total value of the charge arising from these options is $5.88 per share option or $313,000 in total. The total charge will be spread over the period to 1 December 2008.

The principal assumptions used within the stock option valuation model were as follows:

Fair value of the share price at date of grant issued (flotation price)	$15
Interest rate per annum (zero coupon gilt yield at option grant date)	4.2%
Dividend yield	2.5%
Volatility (two-year average of volatility of close competitor companies)	39%
Vesting time in years	3
Employee exit rate	0%

24. Interest-bearing loans and borrowings

	Note	31 December 2005
		US$000
Non-current		
Bank loans	29	4,174
Bonds	29	20,369
		24,543
Current		
Bank loans	29	17,457
Promissory notes		3,007
		20,464

The bank loans are secured on the assets and share capital of JSC Kazakhaltyn MMC and its subsidiaries. The bonds are unsecured and pay interest at a variable rate which is capped at 13%.

The bank loans, which are secured, are from the following banks and in the following currencies:

Bank	Location	Currency	Rate	US$000
Kazkommertsbank	Kazakhstan	Kazakhstan Tenge	13%	5,272
Kazkommertsbank	Kazakhstan	United States dollars	13%	15,462
Nurbank	Kazakhstan	United States dollars	14%	897
Total bank loans				21,631

25. Non-current liabilities—other financial liabilities

	31 December 2005
	US$000
Lease liabilities	1,197

26. Provisions

	31 December 2005
	US$000
Within non-current liabilities	
Balance at 26 September 2005	—
Charged to profit and loss	241
Balance at 31 December 2005	241

The provision represents a statutory reserve for potential future liabilities in respect of site closure and environmental 'clean up' costs. There are no current plans for the early closure of any of the Group's mines.

27. Current liabilities—trade and other payables

	31 December 2005
	US$000
Trade payables	3,632
Current tax payable	2,156
Other tax and social security payable	1,173
Interest payable	1,314
Lease liabilities	414
Other creditors and accruals	4,840
	13,529

28. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	31 December 2005
	US$000
Deferred tax assets and liabilities are attributable to the following:	
Non-current assets	271,327
Other	(193)
Net deferred tax liabilities	271,134

No deferred tax asset has been recognised in respect of the loss arising in the Company.

29. Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced.

	Effective interest rate %	0-1 Years	2-5 Years	31 December Total
		US$000	US$000	US$000
Cash and cash equivalents	4.0%	87,887	—	87,887
Bank loans	13.0% to 14.0%	(17,457)	(4,174)	(21,631)
Bonds	10.6%	—	(20,369)	(20,369)
		70,430	(24,543)	45,887

At 31 December 2005 the Group had commenced negotiations to repay all outstanding borrowings within the next year utilising funds raised from the Initial Public Offering and the subsequent listing of the Group's GDRs. Subsequent to 31 December 2005, all bank loans and promissory notes were repaid.

30. Risk and sensitivity analysis

The Group is exposed through its operations to one or more of the following financial risks:

Foreign currency risk, fair value and cash flow interest rate risk, liquidity risk, market price risk and credit risk. The policy for managing these risks is set by the Board and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Foreign currency risk

Foreign exchange risk arises due to the Group's primary revenues being in US dollars, also the presentational currency, whilst the Group's principal operating costs are denominated in Kazakhstan Tenge which is the Group's principal functional currency.

The Group has a general policy of not hedging against foreign currency risk in accordance with a policy of being an unhedged producer of gold. In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange rates could have an impact on consolidated earnings.

Fair value and cash flow interest rate risk

The Group utilises or intends to utilise fixed and variable rate loans and floating rate bonds. The Group intends to repay all fixed rate borrowings in the next period. The Board sets a policy for each material borrowing dependent upon the prevailing market conditions and the terms available in respect of each particular financial instrument and the interest rates attaching thereto. The Group seeks to achieve an appropriate balance of exposure to these risks.

As described in note 29, subsequent to 31 December 2005, all bank loans and promissory notes were repaid. This will eliminate the interest rate and foreign exchange rate risks in respect of these borrowings.

Liquidity risk

The liquidity risk of the Group is managed centrally. New loans are taken out where additional funds are required and surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and bonds. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing.

Market price risk

As an 'unhedged gold producer', the Group is exposed to market price risk from its current activities.

Credit risk

The Group is exposed to credit risk arising from credit sales of its product to customers. Due to the nature of the market the Group's principal customers are concentrated on a small number of significant customers. It is the Board's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

31. Acquisitions of subsidiaries

On 12 October 2005 the Company was gifted the entire share capital of Romanshorn LC AG, the non-trading parent company of JSC Kazakhaltyn MMC, by Dr Kanat Assaubayev and Marussya Assaubayeva. The ultimate majority shareholder of the Company is the ABM SK Trust, a Jersey registered discretionary trust whose only named discretionary beneficiaries are the Assaubayev family.

The details of the fair value of identifiable assets and liabilities acquired are as follows:

Acquiree's net assets at the acquisition date

	Book value	Fair value adjustments	Fair value
	US$000	US$000	US$000
Mining properties	—	762,595[(1)]	762,595
Mining licences and other intangible assets	1,257	—	1,257
Tangible fixed assets	44,346	—	44,346
Capitalised mine development costs	4,593	—	4,593
Inventories	8,679	4,459[(2)]	13,138
Trade and other receivables	15,727	—	15,727
Cash and cash equivalents	565	—	565
Interest-bearing loans and borrowings	(48,255)	—	(48,255)
Other liabilities	(14,226)	(269,740)[(1),(2)]	(283,966)
Net identifiable assets and liabilities	12,686	497,314	510,000

(1) —No identifiable goodwill has arisen in respect of this transaction. The surplus of value of the consideration over the other separable net assets and liabilities of the acquired group has been attributed to the mining properties and represents the estimated recoverable gold reserves within the Romanshorn LC AG group as at the date of acquisition on 12 October 2005. There was no cash element in the consideration. A deferred tax liability has been recognised in respect of this increase in value.

(2) —The fair value of inventory has been assessed with reference to the market value of finished product less estimated selling costs. A deferred tax liability has been recognised in respect of each of the fair value adjustments.

The income statement includes the following profit after tax from this acquisition for the period from 12 October 2005 to 31 December 2005:

	Revenue	Profit after tax
	US$000	US$000
JSC Kazakhaltyn MMC and subsidiaries	20,357	7,149

The revenue and profit after tax of JSC Kazakhaltyn MMC and subsidiaries for the full year to 31 December 2005 was:

	Revenue	Profit after tax
	US$000	US$000
JSC Kazakhaltyn MMC and subsidiaries	26,323	1,445

	Cash flow
	US$000
The cash flow arising from the acquired entities for the period was	17,684

32. Accounting estimates and judgements

Capitalised mining costs and mining resources

The Group's reserves of precious metals (''mining properties'') are estimates based upon geological studies. Over the longer term the actual mineable resources achieved may vary significantly from the current estimates.

Base of mining operations

The Group's primary base of operations is in Kazakhstan. The laws relating to commercial operations, taxation and future dividend payments are still under development and there may be unforeseen changes to the operating and fiscal environment. The financial statements have been prepared on the assumption that no significant adverse changes to the economic, regulatory and fiscal environment will arise.

33. Immediate and ultimate parent

The immediate parent company of the Company is Gold Lion Limited, a company incorporated in Jersey. The ultimate parent entity and controlling party is The ABM SK Trust, a Jersey-registered discretionary trust, whose only named discretionary beneficiaries are members of the Assaubayev family.

ACCOUNTANT'S REPORT AND CONSOLIDATED FINANCIAL INFORMATION ON KAZAKHALTYN FOR THE YEARS ENDED 31 DECEMBER 2003, 2004, 2005

ACCOUNTANT'S REPORT ON KAZAKHALTYN

BDO Stoy Hayward LLP
Corporate Finance

8 Baker Street
London
W1U 3LL

31 October 2006

The Directors
KazakhGold Group Limited
20 Richbourne Court
Harrowby Street
London W1H 5PT
United Kingdom

The Directors
ING Bank N.V. London Branch
60 London Wall
London EC2M 5TQ
United Kingdom

Dear Sirs

JSC KAZAKHALTYN MINING METALLURGICAL CONCERN (''KAZAKHALTYN'') AND ITS SUBSIDIARY UNDERTAKINGS (TOGETHER, THE ''KAZAKHALTYN GROUP'')

Introduction

We report on the financial information set out on pages F-35 to F-53. This financial information has been prepared for inclusion in the Offering Circular dated 31 October 2006 of KazakhGold Group Limited (the ''Company'') (the ''Offering Circular'') on the basis of the accounting policies set out in Note 1 to the financial information.

This report is provided pursuant to our engagement letter addressed to the Company and ING Bank N.V. London Branch dated 11 October 2006 (the ''Engagement Letter'') and is given for the purpose of complying with the requirements of the Engagement Letter and for no other purpose.

Save for any responsibility that we have expressly agreed in writing in the Engagement Letter to assume, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report.

Responsibilities

As described on page F-35 of the financial information, the Company is responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with International Financial Reporting Standards (''IFRSs'') adopted by the European Union.

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 Offering Circular, 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.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

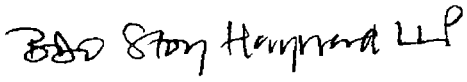
Opinion

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Kazakhaltyn Group 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 1 and has been prepared in accordance with IFRS as described in Note 1 to the financial information.

Declaration

We are responsible for this report as part of the Offering Circular 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 Schedule B of Appendix III of the Rules and Regulations of the Luxembourg Stock Exchange.

Yours faithfully



BDO Stoy Hayward LLP
Chartered Accountants

CONSOLIDATED FINANCIAL INFORMATION ON KAZAKHALTYN FOR THE THREE YEARS ENDED 31 DECEMBER 2005

Responsibility

The Company is responsible for the consolidated financial information on Kazakhaltyn set out below on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards (''IFRS'') adopted by the European Union as applicable for the relevant year.

Consolidated income statements

	Notes	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
		KZT'000	KZT'000	KZT'000
Revenues	2	1,526,355	1,141,180	3,498,563
Cost of sales		(1,115,945)	(937,321)	(1,531,386)
Gross profit		410,410	203,859	1,967,177
Other operating income	3	123,015	210,477	93,280
Distribution expenses		(8,781)	(23,635)	(313,430)
Administration expenses		(198,632)	(186,215)	(1,022,751)
Other operating expenses	4	(11,455)	—	(95,481)
Operating profit		314,557	204,486	628,795
Finance income		10,529	57,926	3,288
Finance expense		(215,577)	(222,218)	(343,265)
		(205,048)	(164,292)	(339,997)
Profit before tax	5	109,509	40,194	288,818
Taxation	7	(70,742)	(34,808)	(79,529)
Profit for the year		38,767	5,386	209,289
Earnings per share				
Basic and diluted	8	KZT 25	KZT 4	KZT 136

Consolidated balance sheets

	Notes	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
		KZT'000	KZT'000	KZT'000
ASSETS				
Non-current assets				
Property, plant and equipment	9	1,852,381	4,011,760	6,656,553
Investment properties		—	62,000	—
Mine development costs	10	64,569	833,582	1,204,861
Mine licences	11	430	260	137,551
Other financial assets	13	654,592	410,988	228,954
		2,571,972	5,318,590	8,227,919
Current assets				
Inventories	14	381,238	237,188	1,019,767
Trade receivables and other receivables	15	464,103	1,042,264	2,603,278
Amounts due from group undertakings		—	—	443,045
Cash and cash equivalents	16	1,586	105,787	2,363,861
		846,927	1,385,239	6,429,951
Total assets		3,418,899	6,703,829	14,657,870
EQUITY AND LIABILITIES				
Equity attributable to shareholders				
Share capital	17	1,538,711	1,538,711	1,538,711
Revaluation reserves		252,437	1,255,022	1,146,284
Retained earnings		(395,927)	(373,768)	(72,588)
		1,395,221	2,419,965	2,612,407
Non-current liabilities				
Interest bearing loans and borrowings	18	1,444,266	3,067,565	3,280,753
Other financial liabilities	19	—	—	159,959
Provisions	20	—	—	32,166
Deferred tax liabilities	21	7,157	473,981	365,199
		1,451,423	3,541,546	3,838,077
Current liabilities				
Interest bearing loans and borrowings	18	46,270	199,439	2,735,512
Trade and other payables	22	457,100	439,473	5,136,211
Current tax payable	22	60,425	99,815	280,319
Other financial liabilities	22	8,460	3,591	55,344
		572,255	742,318	8,207,386
Total equity and liabilities		3,418,899	6,703,829	14,657,870

Consolidated statement of changes in equity

	Share capital	Revaluation reserves	Retained earnings	Total
	KZT'000	KZT'000	KZT'000	KZT'000
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 31 December 2003	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
Gains on revaluation of fixed assets	—	7,807	—	7,807
Impairment of fixed assets	—	(24,654)	—	(24,654)
Transfer	—	(91,891)	91,891	—
Profit for the year	—	—	209,289	209,289
Balance at 31 December 2005	1,538,711	1,146,284	(72,588)	2,612,407

Share capital is the amount subscribed for shares at nominal value.

Revaluation reserve represents the surplus of the value of buildings and constructions over book cost less amounts transferred to retained earnings representing the proportion of the revaluation reserve charged in the income statement in respect of depreciation of the revalued properties.

Retained earnings represent the cumulative profit and loss for the Kazakhaltyn Group attributable to the equity shareholders.

Consolidated statement of cash flows

		Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
		KZT'000	KZT'000	KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year before tax		109,509	40,194	288,818
Adjustments for				
Depreciation, depletion and amortisation		113,195	129,097	259,612
Finance income		(10,529)	(57,926)	(3,288)
Finance expense		215,577	222,218	325,813
Amortisation of bond issue costs		—	2,985	17,452
Change in value of investment property		—	(62,000)	—
Foreign exchange loss on translation		—	—	373,123
Losses on disposal of property, plant and equipment		11,455	—	95,481
		439,207	274,568	1,357,011
Changes in working capital				
Increase in other receivables		(16,572)	(125,879)	(101,038)
Increase/decrease in trade receivables		(192,462)	63,344	(1,207,176)
Increase in inventories		(35,149)	(106,311)	(782,579)
Decrease/(increase) in prepaid expenses		4,104	(326,155)	—
(Decrease)/increase in trade payables and other payables		(152,609)	(34,843)	985,532
Increase in amounts due from group undertakings		—	—	(443,045)
Increase in amounts due to group undertakings		—	—	4,019,870
		(392,688)	(529,844)	2,471,564
CASH GENERATED FROM/(ABSORBED BY) OPERATIONS		46,519	(255,276)	3,828,575
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment		(80,670)	(1,293,216)	(3,001,339)
Acquisition of property, plant and equipment by way of business combinations		—	—	(5,689)
Acquisition of intangible fixed assets		—	(102)	—
Acquisition of mining licences		—	—	(137,551)
Proceeds on disposal of property, plant and equipment		—	—	24,681
Capitalised mine development costs		—	—	(380,751)
Proceeds from sale of long-term assets		4,528	—	—
Proceeds from long-term receivables		—	101,530	—
		(76,142)	(1,191,788)	(3,500,649)
FINANCING ACTIVITIES				
New bank loans raised		1,513,109	1,238,207	2,768,255
Repayment of borrowings		(1,269,777)	(1,185,055)	(1,658,150)
Proceeds from issue of promissory notes		—	—	402,000
Proceeds from issue of bonds		—	1,720,331	982,084
Lease payments		—	—	(88,561)
Interest paid		(215,577)	(222,218)	(475,480)
		27,755	1,551,265	1,930,148
CHANGE IN CASH EQUIVALENTS		(1,868)	104,201	2,258,074
CASH AND CASH EQUIVALENTS at 1 January		**3,454**	**1,586**	**105,787**
CASH AND CASH EQUIVALENTS at 31 December	**16**	**1,586**	**105,787**	**2,363,861**

Notes to the financial information

1 Accounting policies

Basis of presentation

Kazakhaltyn is incorporated in Kazakhstan.

The financial information consolidates the financial information of Kazakhaltyn and its subsidiaries (together referred to as the ''Kazakhaltyn Group'').

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union.

The accounting policies set out below have, unless otherwise stated, been applied consistently in this financial information.

Judgments made by the directors of Kazakhaltyn, in the application of these accounting policies that have significant effect on the financial information and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

Measurement convention

The financial information is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: buildings and constructions and financial instruments classified as fair value through the profit or loss or as available-for-sale.

Basis of consolidation

Where Kazakhaltyn has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of Kazakhaltyn and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

Business combinations

The consolidated financial information incorporates the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of the acquired operations are included in the consolidated income statement from the date on which control is obtained.

Revenue

Revenue arises from the sale of cathodic sludge, cathodic gold, free gold, flotation and gravitational concentrate, quartzite ore and dore bars. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Kazakhaltyn Group.

Foreign currency

In accordance with IAS21, transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the ''functional currency'') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. The presentational and functional currency of Kazakhaltyn and of the Kazakhaltyn Group is the Kazakhstan Tenge.

Classification of financial instruments issued by the Kazakhaltyn Group

In accordance with IAS 32, financial instruments issued by the Kazakhaltyn Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Kazakhaltyn Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Kazakhaltyn Group; and

(b) where the instrument will or may be settled in Kazakhaltyn's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of Kazakhaltyn's own equity instruments or is a derivative that will be settled by Kazakhaltyn exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of Kazakhaltyn's own shares, the amounts presented in this financial information for called up share capital and share premium account exclude amounts in relation to those shares. Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Trade and other 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 include other types of contractual monetary assets. These assets are carried at amortised cost less any provision for impairment.

Property, plant and equipment

Property, plant and equipment, with the exception of certain buildings and constructions, are stated at cost less any subsequent accumulated depreciation and impairment losses. Buildings and constructions are carried at revalued amount less any subsequent depreciation charge or impairment charge. To the extent that the depreciation charge in the income statement relates to the revalued proportion of cost the appropriate amount of the depreciation charge is transferred from the revaluation reserve and credited to retained earnings within the statement of changes in equity. Where the valuation exercise produces a reduction in carrying value the reduction is first allocated to any remaining revaluation reserve in respect of the specific assets concerned with any further reduction required charged to the income statement.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Kazakhaltyn Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement within cost of sales and administrative expenses on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings . . . . . 11 - 50 years
- Machinery and equipment . . . . . 2 - 35 years
- Vehicles . . . . . 4 - 10 years
- Other . . . . . 1.5 - 17 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments and improvements expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

Assets under construction are carried at cost less any recognised impairment loss. Cost includes interest capitalised and associated borrowing costs.

Mine development costs

Once a decision is made to proceed with the development of a mining project, exploration and development expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets as mine development costs together with any amount transferred from exploration and development.

Depreciation and amortisation of mining properties are calculated using the 'units of production method' based upon actual production and estimated recoverable reserves. This amount is charged to cost of sales in the income statement.

Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Kazakhaltyn Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to cost of sales over the following periods:

Mining and other licenses	3 - 4 Years
Computer software	3 Years

Inventories

Raw materials which consist of tools for development activities, spare parts, diesel fuel and various materials used in mining operations are valued at the lower of cost and net realisable value. The basis on which cost is derived is a weighted average cost formula. Finished goods (comprising cathodic sludge, cathodic gold, free gold, flotation and gravitational concentrate, quartzite ore and dore bars) are stated at the lower of weighted average cost or net realisable value. Costs include direct materials, direct labour costs and production overheads (including the depreciation/depletion of relevant property, plant and equipment and mining properties. Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Kazakhaltyn Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Impairment

An impairment loss is recognised in respect of mining properties where the assessed estimate of the quantum of mineable resources indicates a reduction from the previous estimate.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses and reversals of impairment losses previously included in the income statement under the same category are included within other operating expenses in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Other financial liabilities

Trade payables and other short-term monetary items are recognised at amortised cost.

Interest-bearing loans and borrowings

Bank borrowings are initially recognised at the amount advanced less any transaction costs directly attributable to the borrowings. 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.

Other interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

Defined contribution plans

The Kazakhaltyn Group contributes to certain defined contribution pension and employee benefit schemes on behalf of its employees. These costs are charged to the income statement on an accruals basis.

Other employee benefit

Other employee benefits are charged to the income statement on an accruals basis.

Provisions

A provision is recognised in the balance sheet when the Kazakhaltyn Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing costs

Financing costs comprise interest payable on bank loans, bonds and finance leases. Interest payable is recognised in profit or loss as it accrues, using the effective interest method unless such interest is attributable to 'assets under construction' and qualifies for capitalisation under IAS 23.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2 Revenues

All revenues, assets and liabilities relate to the Kazakhaltyn Group's sole business segment of gold production in Kazakhstan. The revenues from this segment are analysed as follows:

By product:

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Cathodic sludge	—	—	2,586,028
Cathodic gold	—	—	107,121
Free gold	467,109	373,059	462,092
Flotation and gravitational concentrate	979,227	768,121	257,491
Quartzite ore	80,019	—	73,110
Dore bars	—	—	12,721
	1,526,355	1,141,180	3,498,563

By destination market:

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Kyrgyzstan	—	—	1,415,868
Kazakhstan	—	—	1,310,756
Russia	1,081,224	743,936	330,467
Switzerland	431,735	397,244	441,472
Other	13,396	—	—
	1,526,355	1,141,180	3,498,563

3 Other operating income

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Foreign exchange gains	103,204	132,992	—
Write off of liabilities	—	10,923	—
Increase in fair value of investment properties	—	62,000	—
Other income	19,811	4,562	93,280
	123,015	210,477	93,280

4 Other operating expenses

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Loss from disposal of non-current assets	11,455	—	95,481

5 Profit before tax

This has been arrived at after charging/(crediting)

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Depreciation and amortisation	113,195	129,097	259,612
Foreign exchange (gains)/losses	(103,204)	(132,992)	70,806
Staff costs	371,012	418,933	924,913

6 Staff numbers

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
Group			
Management	96	119	117
Supply	87	120	64
Construction and maintenance	16	18	116
Research and exploration	73	82	82
Security	129	122	174
Mining activities	2,347	2,008	2,659
	2,748	2,469	3,212

7 Taxation

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Current tax expense	77,508	4,851	180,505
Deferred tax (income)/ expense	(6,766)	29,957	(100,976)
Total tax charge for the year	70,742	34,808	79,529

Deferred tax reflects the estimated tax effect of temporary timing differences.

The current tax charge can be reconciled to the profit per income statement as follows:

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Profit before tax[(1)]	109,509	40,194	288,818
Tax at the domestic income tax rate of 30%	32,853	12,058	86,645
Permanent timing differences	37,889	22,750	13,474
Total tax charge for the year	70,742	34,808	79,529

(1) —No taxation is charged within Kazakhaltyn's subsidiary companies.

The corporate tax system in Kazakhstan has 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.

8 Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share is based on Kazakhaltyn Group profit for the year attributable to the ordinary shareholders of Kazakhaltyn and a weighted average number of shares in issue as set out below:

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
Earnings per share	KTZ 25	KTZ 4	KTZ 136

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Earnings			
Profit attributable to ordinary shareholders	38,767	5,386	209,289
Number of shares	1,538,711	1,538,711	1,538,711

There were no changes to issued share capital in the periods set out above. There were no dilutive share transactions entered into in or arising in respect of the above periods. The numerator for the calculation of basic earnings per share is the Kazakhaltyn Group profit for the years ending on 31 December 2003, 2004 and 2005. The denominator for the calculation of the basic earnings per share for each of the years ended on 31 December 2003, 2004 and 2005 is the number of shares in issue of 1,538,711.

9 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							
1 January 2003	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	388,520	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
Acquisitions through business combinations	—	27	4,322	123	2,446	—	6,918
Additions	962	174,854	1,109,582	1,394,522	289,624	31,795	3,001,339
Disposals	—	(256,460)	—	(123,783)	(14,599)	(3,683)	(398,525)
Revaluation	—	7,807	—	—	—	—	7,807
At 31 December 2005	12,277	2,843,141	2,035,746	1,817,650	408,572	118,888	7,236,274

	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 2003	—	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
Acquisitions through business combinations	—	—	—	59	1,170	—	1,229
Charge for the year	—	102,789	—	111,024	25,507	10,560	249,880
Disposals	—	(192,473)	—	(81,148)	(2,759)	(1,983)	(278,363)
At 31 December 2005	—	230,277	—	246,122	59,859	43,463	579,721
NET BOOK VALUE							
At 31 December 2003	11,315	1,144,110	364,629	229,791	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
At 31 December 2005	12,277	2,612,864	2,035,746	1,571,528	348,713	75,425	6,656,553

Included within additions to assets under construction and property, plant and equipment is interest capitalised in the year of Thousand KZT 38,994 (2004: Thousand KZT 63,249; 2003: Thousand KZT Nil).

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 historical cost method, their net book value would have been Thousand KZT 872,173 (2004: Thousand KZT 904,512, 2003: Thousand KZT 891,673).

The net book value at 31 December 2005 of non-current assets held under finance leases was:

	KZT'000
Cost	218,280
Depreciation	(21,935)
	196,345

10 Mine development costs

	Mine development costs
	KZT'000
Net book value	
At 1 January 2003	75,449
Additions	2,163
Depreciation	(13,043)
Net book value	
At 31 December 2003	64,569
Additions	818,777
Depreciation	(49,764)
Net book value	
At 31 December 2004	833,582
Additions	380,751
Depreciation	(9,472)
Net book value	
At 31 December 2005	1,204,861

11 Mining licences

	Mining Licences
	KZT'000
Balance at 1 January 2003	430
Amortisation for the year	—
Balance at 31 December 2003	430
Amortisation for the year	(170)
Balance at 31 December 2004	260
Acquired by business combination	129,746
Other acquisitions	7,805
Amortisation for the year	(260)
Balance at 31 December 2005	137,551

12 Investment in subsidiaries

	Country of Incorporation	Class of Share	Ownership %
Visart LLP	Kazakhstan	Ordinary	100
Rudnic Vasilevskyi LLP	Kazakhstan	Ordinary	100

Each of Visart LLP and Rudnic Vasilevskyi LLP is engaged in mining exploration, development and mining operations in Kazakhstan.

13 Other financial assets

Amounts receivable in respect of deferred consideration for the sale in 2000 of 'sub-surface' mining rights, related mining assets and land by Kazakhaltyn. The deferred consideration represents the balance of consideration and the balance at 31 December 2005 is receivable in instalments over the next three

years. The current proportion of amounts due is included in other current receivables. The amounts due are denominated in United States Dollars.

14 Inventories

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
Raw materials and consumables	200,776	200,067	561,556
Work in progress	653	5,847	69,394
Finished goods	179,809	31,274	388,817
	381,238	237,188	1,109,767

Certain spares, materials, tools and equipment held in inventory amounting to KZT'000 174,544 became obsolete in the years ended 31 December 2005 following Kazakhaltyn's modernisation of elements of its mining assets and were written down to net realisable value.

15 Trade and other current receivables

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
Trade receivables	375,741	312,397	1,519,573
Prepaid expenses	38,676	366,429	794,717
Receivables from employees and other persons	2,651	14,059	10,837
VAT receivables	47,035	89,673	69,123
Other	—	259,706	209,028
	464,103	1,042,264	2,603,278

Other current receivables are recognised at net reasonable value less provisions for doubtful debts.

16 Cash and cash equivalents

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
Cash in hand	1,425	11,061	246,727
Cash at bank	161	94,726	2,117,134
Total cash and cash equivalents	1,586	105,787	2,363,861

Cash and cash equivalents consist of cash.

17 Share capital

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
Authorised share capital	1,538,711	3,000,000	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 KZT 1,000 each by 1,461,289 shares of KZT 1,000 each, to 3,000,000 shares of KZT 1,000 each.

18 Non-current and current borrowings

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
Long-term borrowings			
Bank loans due after more than one year	1,444,266	1,344,249	557,901
Floating rate bonds	—	1,723,316	2,722,852
Total non-current borrowings	1,444,266	3,067,565	3,280,753
Total current borrowings[1]	46,270	199,439	2,735,512
Total borrowings	1,490,536	3,267,004	6,016,265

(1) —Total short-term borrowings include promissory notes of Thousand KZT 402,000.

The borrowings are repayable as follows:

Amounts falling due:			
In one year or less or on demand	46,270	199,439	2,735,512
In more than one year but not more than two years	895,556	451,175	—
In more than two years but not more than five years	548,710	2,616,390	3,280,753
Total	1,490,536	3,267,004	6,016,265

	Total	KZT'000	US$
	KZT'000	KZT'000	KZT'000
Analysis of borrowing currency:			
31 December 2003	1,490,536	—	1,490,536
31 December 2004	3,267,004	2,685,447	581,557
31 December 2005	6,016,265	3,829,545	2,186,720

The bank loans bear interest at rates between 13% and 14% per annum (2004: 14%; 2003: 14%-18%)

The bank loans are secured on the assets of Kazakhaltyn and its subsidiaries.

At 31 December 2005 Kazakhaltyn had been authorised to issue up to 2,800,000,000 bonds at par value of KZT 1 each. During the year ended 31 December 2005 Kazakhaltyn issued 1,003,756,265 (2004: 1,750,177,562) bonds at par value of KZT 1 each. Net proceeds in 2005 were Thousand KZT 999,356 (2004: Thousand KZT 1,723,316; 2003: Nil).

The bonds are listed on the Kazakh stock exchange and paid 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%. The bonds fall due for redemption on 2 June 2009.

At 31 December 2005 the Kazakhaltyn Group had commenced negotiations to repay all outstanding borrowings within the next year utilising funds to be provided by KazakhGold Group Limited, Kazakhaltyn's parent company.

19 Other financial liabilities

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
Lease liabilities	—	—	159,959

20 Provisions

	2005 KZT'000
Included within non-current liabilities:	
Balance at 1 January 2005	—
Charged to profit and loss	32,166
Balance at 31 December 2005	32,166

The provision represents a statutory reserve for potential future liabilities in respect of site closure and environmental 'clean up' costs. There are no current plans for the early closure of any of the Kazakhaltyn Group's mines.

21 Deferred tax

Recognised deferred tax assets and liabilities:

	As at 31 December 2003 KZT'000	As at 31 December 2004 KZT'000	As at 31 December 2005 KZT'000
Deferred tax assets and liabilities are attributable to the following:			
Revaluation of fixed assets	—	436,867	401,494
Other short-term timing differences	7,157	37,114	(36,295)
Net deferred tax liabilities	7,157	473,981	365,199

22 Current liabilities — trade and other payables

	As at 31 December 2003 KZT'000	As at 31 December 2004 KZT'000	As at 31 December 2005 KZT'000
Trade payables	154,102	113,192	482,998
Current tax payable	60,425	99,815	280,319
Other tax and social security payable	115,345	85,917	159,792
Amounts due to parent undertaking	—	—	4,019,870
Interest payable	4,133	38,809	175,598
Lease liabilities	8,460	3,591	55,344
Other creditors and accruals	183,520	201,555	297,953
	525,985	542,879	5,471,874

23 Risk and sensitivity analysis

The Kazakhaltyn Group is exposed through its operations to one or more of the following financial risks:

Foreign currency risk, fair value and cash flow interest rate risk, liquidity risk, market price risk and credit risk. The policy for managing these risks is set by the Board and all such risks are managed at a Kazakhaltyn Group level within the organisation. The policies for these risks are described further below:

Foreign currency risk

Foreign exchange risk arises due to the Kazakhaltyn Group's primary revenues being in US dollars, whilst the Kazakhaltyn Group's principal operating costs are denominated in Kazakhstan Tenge, which is the Kazakhaltyn Group's functional and presentational currency.

The Kazakhaltyn Group has a general policy of not hedging against foreign currency risk in accordance with a policy of being an unhedged producer of gold. In managing interest rate and currency risks, the Kazakhaltyn Group aims to reduce the impact of short-term fluctuations on the Kazakhaltyn Group's earnings. Over the longer-term, however, permanent changes in foreign exchange rates could have an impact on consolidated earnings.

Fair value and cash flow interest rate risk

The Kazakhaltyn Group utilises or intends to utilise fixed and variable rate loans and floating rate bonds. The board of Kazakhaltyn intends to repay all fixed rate borrowings in the next period. The Kazakhaltyn Group sets a policy for each material borrowing dependent upon the prevailing market conditions and the terms available in respect of each particular financial instrument and the interest rates attaching thereto. The Kazakhaltyn Group seeks to achieve an appropriate balance of exposure to these risks.

As described in note 18, the Kazakhaltyn Group is in discussions with its providers of finance to redeem all outstanding borrowings in 2006. This will eliminate the interest rate and foreign exchange rate risks in respect of these borrowings.

Liquidity risk

The liquidity risk of the Kazakhaltyn Group is managed centrally. New loans are taken out where additional funds are required and surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and bonds. The Kazakhaltyn Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing.

Market price risk

As an unhedged gold producer, the Kazakhaltyn Group is exposed to market price risk from its current activities.

Credit risk

The Kazakhaltyn Group is exposed to credit risk arising from credit sales of its product to customers. Due to the nature of the market, the Kazakhaltyn Group's principal customers are concentrated on a small number of significant customers. It is the Kazakhaltyn Group's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

24 Financial assets and liabilities—analysis of risk

Maturing 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:

	As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	KZT'000	KZT'000	KZT'000
In less than one year	46,270	199,439	2,735,512
In more than one year but not more than two years	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	2,842,709
In more than four years but not more than five years	—	1,838,666	438,044
	1,490,536	3,267,004	6,016,265

Interest rate risk

The currency and interest profile of the Kazakhaltyn Group's financial liabilities are as follows:

	Floating rate liabilities 2005	Fixed rate liabilities 2005	Total
	KZT'000	KZT'000	KZT'000
Kazakhstan Tenge	2,722,852	1,106,693	3,829,545
United States Dollars	—	2,186,720	2,186,720
	2,722,852	3,293,413	6,016,265

	Floating rate liabilities 2004	Fixed rate liabilities 2004	Total
	KZT'000	KZT'000	KZT'000
Kazakhstan Tenge	1,723,316	962,131	2,685,447
United States Dollars	—	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
United States Dollars	—	1,490,536	1,490,536
	—	1,490,536	1,490,536

25 Acquisition of subsidiaries

Kazakhaltyn acquired Visart LLP on 18 July 2005 and Rudnic Vasilevskyi LLP on 15 July 2005.

Effect of acquisitions

The acquisitions had the following effect on the Kazakhaltyn Group's assets and liabilities:

	Book values	Fair value adjustments	Fair value
		KZT'000	KZT'000
Acquiree's net assets at the acquisition date			
Mining licences[1]	93	129,653	129,746
Tangible fixed assets	5,689	—	5,689
Inventories	116	—	116
Trade and other receivables	38,051	—	38,051
Interest bearing loans and borrowings	(28,031)	—	(28,031)
Trade and other payables	546	—	546
Net identifiable assets and liabilities	16,464	129,653	146,117
Consideration satisfied by cash			146,117

(1) —At directors' valuation

The income statement includes the following loss after tax from these acquisitions for the period from acquisition to 31 December 2005:

	Revenue	Loss after tax
	KZT'000	KZT'000
Visart LLP and Rudnic Vasilevskyi LLP	—	(30,347)

The cash flow arising from the acquired entities for the period was:

	Cash flow
	KZT'000
	4,172

26 Contingent liabilities

There were no contingent liabilities at 31 December 2003, 2004 or 2005.

27 Post balance sheet events

There have been no significant post-balance sheet events since 31 December 2005.

28 Transactions with related parties

On 12 October, 2005 KazakhGold Group Limited became Kazakhaltyn's ultimate parent company. At 31 December 2005 Kazakhaltyn had a liability to KazakhGold Group Limited of Thousand KZT 4,019,870 representing net funds advanced to Kazakhaltyn. At 31 December 2005 Kazakhaltyn had a receivable from KazakhGold Group Limited of Thousand KZT 443,045 representing expenses paid on behalf of KazakhGold Group Limited.

Promplastmassa was a related party of Kazakhaltyn for the years ended 31 December 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.

	2003	2004	2005
	KZT'000	KZT'000	KZT'000
Costs charged to Promplastmassa LLP during the year	2,930	5,134	—
Balance due to Kazakhaltyn as at the year end	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 2003	Year ended 31 December 2004	Year ended 31 December 2005
	KZT'000	KZT'000	KZT'000
Assaubayev K—President	570	4,152	15,634
Assaubayeva M—Vice president	480	3,000	10,511
Assaubayev B—Vice president	456	3,000	11,518
Assaubayev A—Vice president	456	3,000	11,518
Lyanov A M—Managing director	439	1,248	—
Total	2,401	14,400	49,181

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 and 31 December 2005. The loan was repaid in full in March 2006.

29 Accounting estimates and judgements

Mine development costs

The Kazakhaltyn Group's reserves of precious metals (''mining properties'') are estimates based upon geological studies. Over the longer term the actual mineable resources achieved may vary significantly form the current estimates.

Base of mining operations

The Kazakhaltyn Group's primary base of operations is in Kazakhstan. The laws relating to commercial operations, taxation and future dividend payments are still under development and there may be unforeseen changes to the operating and fiscal environment. The financial information has been prepared on the assumption that no significant adverse changes to the economic, regulatory and fiscal environment will arise.

30 Immediate and ultimate parent

The immediate parent company of the Kazakhaltyn Group is Romanshorn LC AG, a company incorporated in the United States. Romanshorn LC AG is a wholly-owned subsidiary of KazakhGold Group Limited. The ultimate parent entity and controlling party is the ABM SK Trust, a Jersey-registered discretionary trust, and whose only named discretionary beneficiaries are members of the Assaubayev family.

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Wardell Armstrong INTERNATIONAL

CONTENTS

EXECUTIVE SUMMARY T-5
Financial Analysis T-5
Location and Access T-5
Physiography, Climate and Land Use T-6
Geology and Mineralisation T-6
Resources T-9
Mining Strategy T-11
Processing T-12
Infrastructure T-12
Environmental T-12
1. INTRODUCTION T-13
2. LOCATION OF DEPOSITS T-15
2.1 General T-15
2.2 Climate T-16
2.3 Hydrology T-16
2.4 Vegetation T-17
2.5 Current Situation T-17
3. GEOLOGY AND RESOURCES T-19
3.1 Geology and Mineralisation of Kazakhstan T-19
3.2 FSU Classifications T-19
3.3 The 1999 Australasian Code for Reporting of Mineral Resources and Reserves (JORC Code) T-22
4. GEOLOGY OF AKSU DEPOSIT T-24
4.1 Regional Setting T-24
4.2 Mineralisation T-26
4.3 In-Situ Resources T-31
4.4 Vera Resources at Aksu T-34
4.5 WAI Review Summary T-36
4.6 Tailings Dam Resources T-36
5. GEOLOGY OF THE QUARTZITE HILLS DEPOSIT T-38
5.1 Regional Setting T-38
5.2 Mineralisation T-38
5.3 In-Situ Resources T-39
5.4 WAI's Review Summary T-40
5.5 Waste Dump Resources T-40
6. GEOLOGY OF THE ZHOLYMBET DEPOSIT T-42
6.1 Regional Setting T-42
6.2 Mineralisation T-43
6.3 Structure T-44
6.4 In-Situ Resources T-44
6.5 WAI's Review Summary T-46
6.6 Tailings Dam Resources T-49
6.7 Waste Dump Resources T-49
7. GEOLOGY OF BESTOBE DEPOSIT T-50
7.1 Regional Setting T-50
7.2 Host Rocks of the Bestobe Ore Field T-51
7.3 Intrusives in the Bestobe Ore Field T-52
7.4 Mineralisation T-52
7.5 Structure T-53
7.6 In-Situ Resources T-53
7.7 WAI's Review Summary T-55
7.8 Tailings Dam Resources T-61
7.9 Waste Dumps Resources T-61

8. MINING T-63
8.1 Introduction T-63
8.2 Mining Methods T-63
8.3 Safety and Accident Prevention T-65
9. AKSU MINE T-66
9.1 Introduction T-66
9.2 Mining Resource T-66
9.3 Underground Production Rates T-67
9.4 Underground Mine Access and Primary Development T-70
9.5 Mining Methods T-71
9.6 Open Pit Equipment T-72
9.7 Operating Manpower T-73
9.8 Existing Tailings Dam T-75
10. BESTOBE MINE T-76
10.1 Introduction T-76
10.2 Mining Resource T-76
10.3 Bestobe Open Pit T-78
10.4 Underground Mine Access and Primary Development T-80
10.5 Underground Ore Handling T-81
10.6 Open Pit Mining T-81
10.7 Open Pit Equipment T-81
10.8 Operating Manpower T-82
10.9 Existing Tailings Dam T-84
11. ZHOLYMBET MINE T-85
11.1 Introduction T-85
11.2 Underground Mining Equipment T-89
11.3 Operating Manpower T-90
11.4 Existing Tailings Dam T-92
12. COMMENTS APPLICABLE TO ALL MINE SITES T-94
12.1 General Overview T-94
12.2 Ore Body and Block Modelling T-94
12.3 Open Pit Planning T-95
12.4 Underground Mining T-96
12.5 Waste Dumps T-96
12.6 Operating Costs T-96
12.7 Capital Costs T-97
13. PROCESSING T-98
13.1 General T-98
13.2 Aksu Processing Plant T-98
13.3 Zholymbet Processing Plant T-101
13.4 Bestobe Processing Plant T-102
14. INFRASTRUCTURE OVERVIEW T-105
14.1 General T-105
14.2 Access And Communication T-106
14.3 Communication T-108
14.4 Power Supply T-108
14.5 Water Supply T-109
14.6 Mining Management T-111
15. ENVIRONMENTAL AND SOCIAL ISSUES T-114
15.1 Location and Environmental Setting T-114
15.2 Existing Mine Areas T-114
15.3 Development Proposals T-114
15.4 Environmental Status T-115
15.5 Regulatory Permits and Approvals T-116
15.6 Environmental Monitoring T-117
15.7 Social Management Plan T-118
15.8 Mine Closure and Rehabilitation Plan and Financial Provisions T-119
15.9 Occupational Health and Safety Plan T-119

16. FINANCIAL APPRAISAL T-121
16.1 Kazakhaltyn's Business Plan T-121
16.2 WAI's Model T-122
16.3 Potential Risk T-122
16.4 Project Sensitivity T-124
16.5 WAI's Conclusions T-125
16.6 Risks, Benefits And Opportunities T-125

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

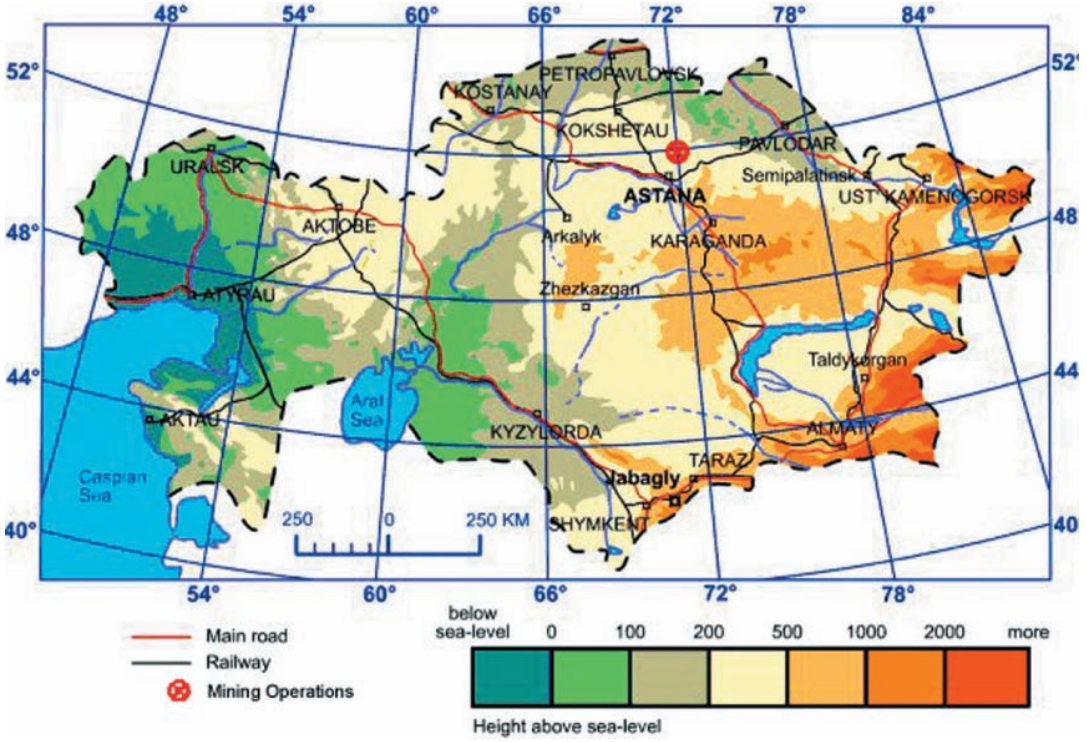
	$B+C_1$				B				C_1				C_2				P_1			
	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (thousand tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (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.

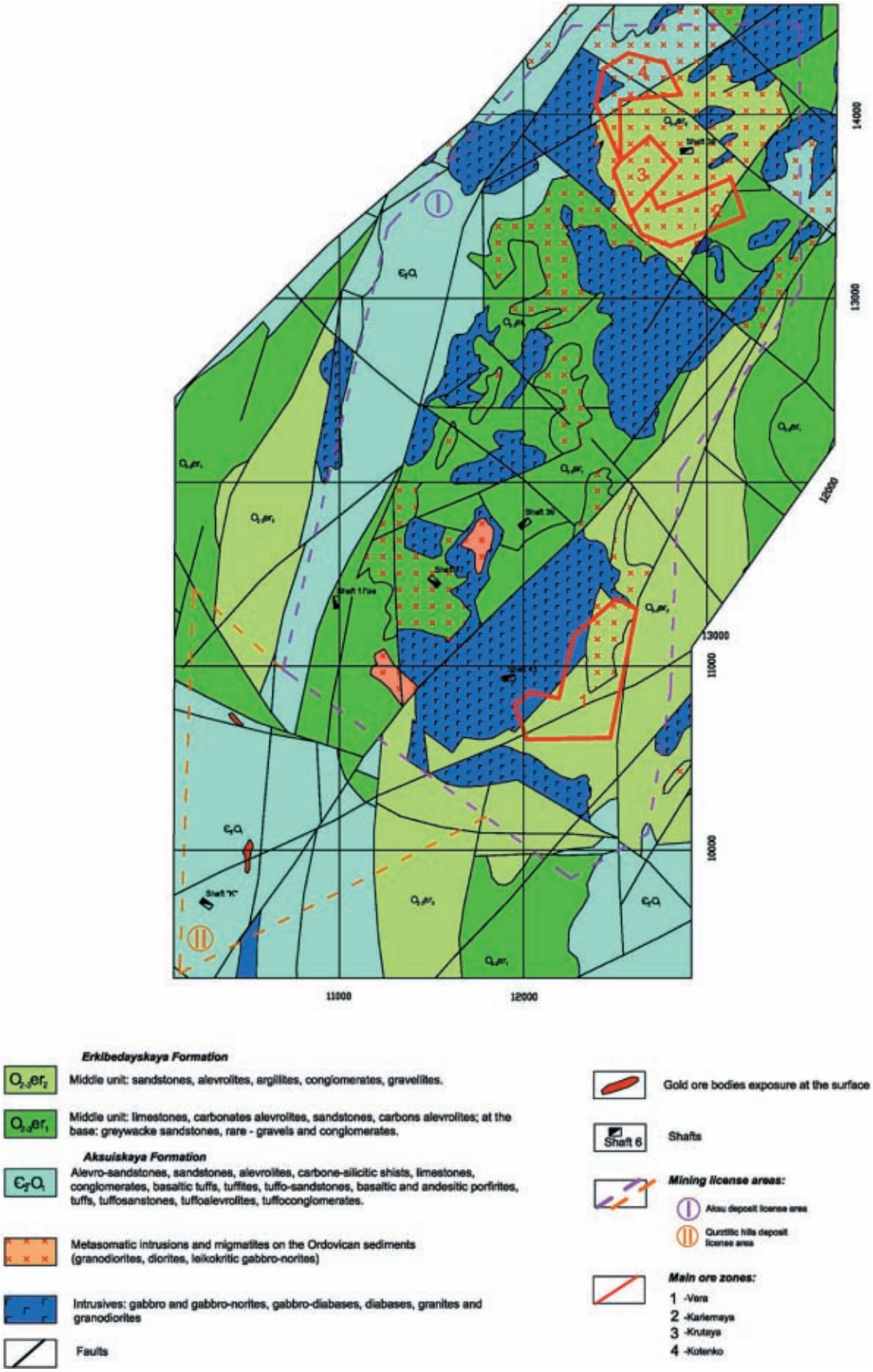
4. GEOLOGY OF AKSU DEPOSIT

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 (metres)	Thickness (metres)	Average grade (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 No. 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 (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Gold (thousand kilograms)	Gold (thousand ounces)	WAI Comments
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 occasions 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.

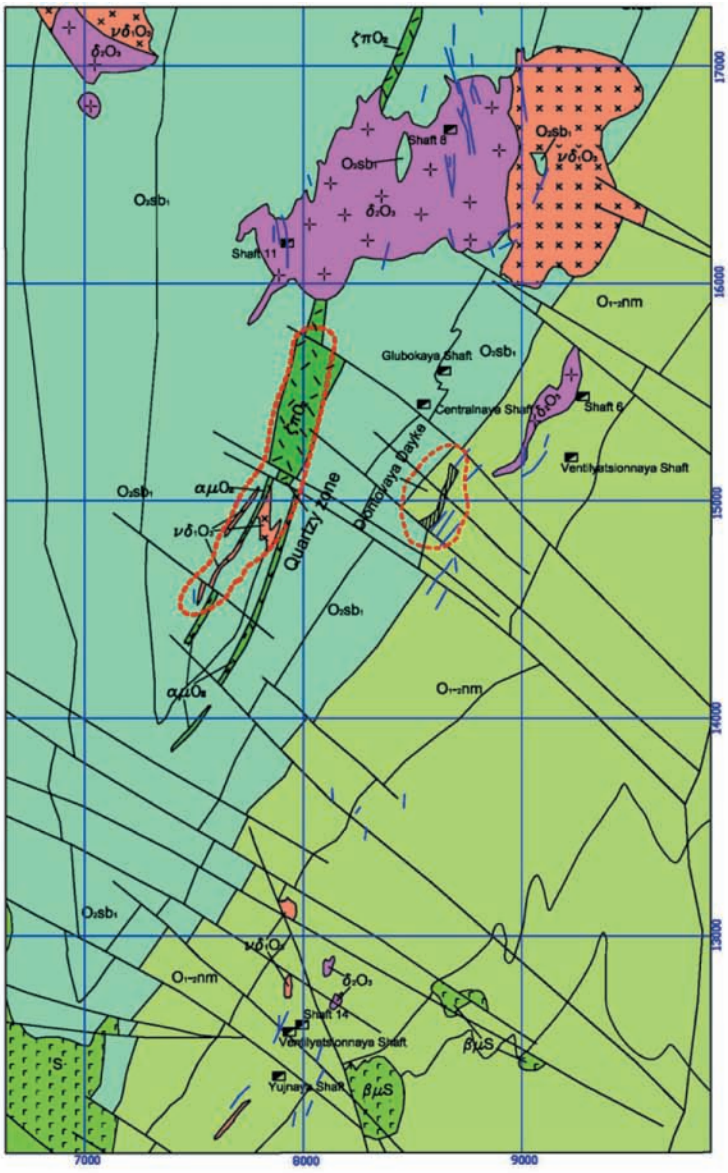
For the purposes of the financial appraisal the waste dumps have been included as it is not unreasonable to assign them as ''Inferred Mineral Resources'' under the JORC Code. These could be upgraded to a higher resource category under the JORC Code if the necessary further exploration was undertaken.

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



S — Sillurian system- dolerites, diabases, basic composition tufs and agglomerates, tufoconglomerates.

O_2sb_1 — Ordovician system, lower unit of Saribidayskaya formation. Dacite, andesite and andesito-dacite porfirites, their pyroclastic rock, tuffogenic sandstones and alevrolites, flint rocks.

$O_{1-2}nm$ — Ordovician system, Naymanskaya formation, low and middle units. Sandstones, alevrolites, argillites, tuff-sandstones and andesite tuffs, silificied alevrolites and sandstones

Krikkudukskiy Intrusive Complex (Upper Ordovician):

$\nu-\delta_1O_3$ — Diorites, gabbro-diorites, gabbro.

δ_1O_3 — Leucocratic quartz diorites, tonolites, plagiogranites

Middle Ordovician subvolcanic complex:

$\zeta\pi O_{2-3}$ — Dacite porphyry

$\alpha\mu O_{2-3}$ — Andesite porphyry

Sillurian subvolcanic intusions of dolerites and diabases.

Faults

Quartz veins

Shaft 6 — Shafts

Ore zones

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 sulphides, 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).

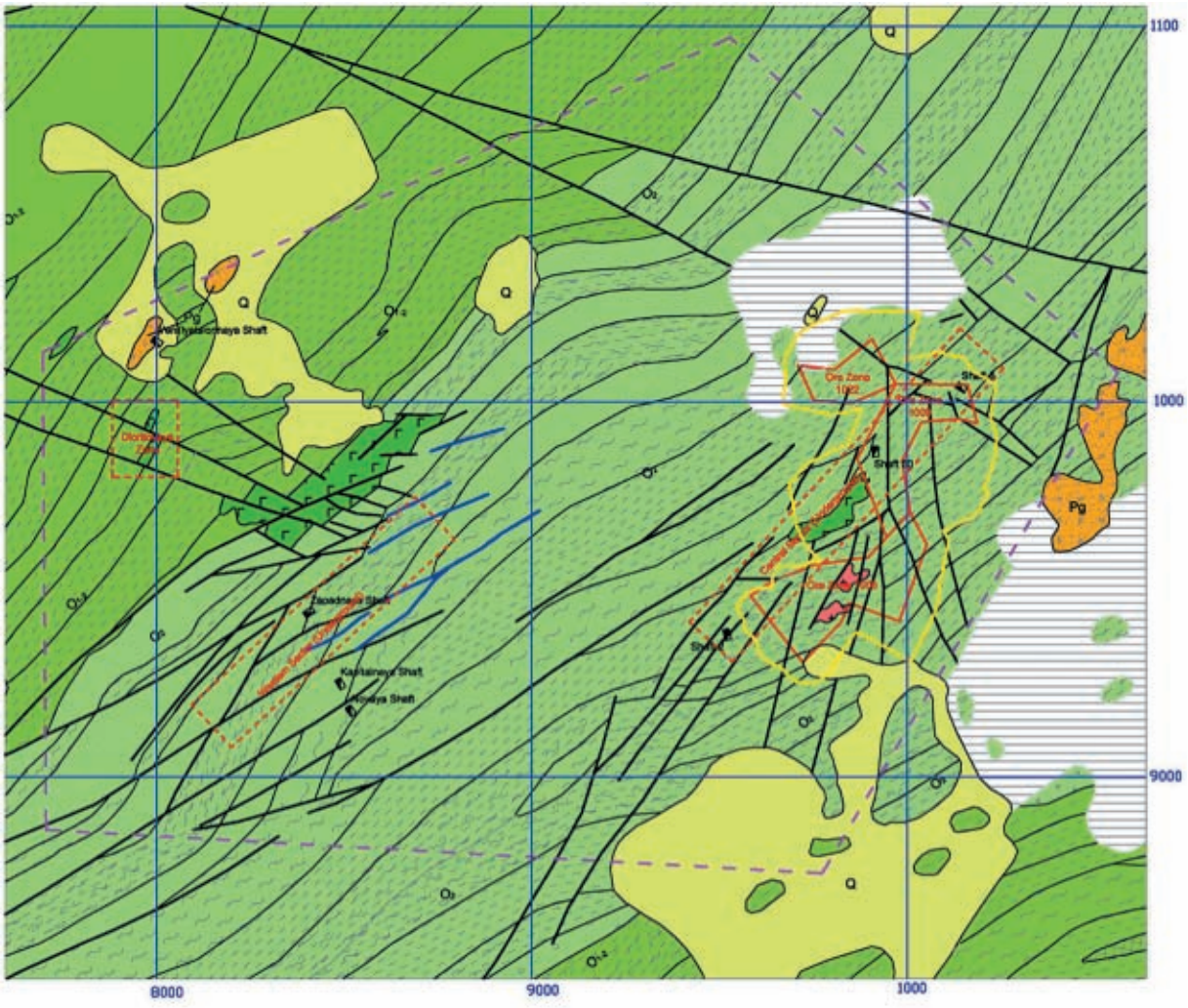
The area is characterised by rocks of the Lower-Ordovician, Middle-Ordovician (Yerkebadaik suite) and Upper-Ordovician (Angrensor and Zharsor suites) age. Silurian (Shansor series) and coal-bed sediments of the area form separate superimposed troughs similar to grabens.

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 (million tonnes)	Grade (grams per tonne)	Gold (thousand kilograms)	Gold (thousand ounces)	Ore (million tonnes)	Gold (thousand kilograms)	Gold (thousand ounces)	WAI Comments
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 Underground 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°) 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 $+2^{o}$ 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

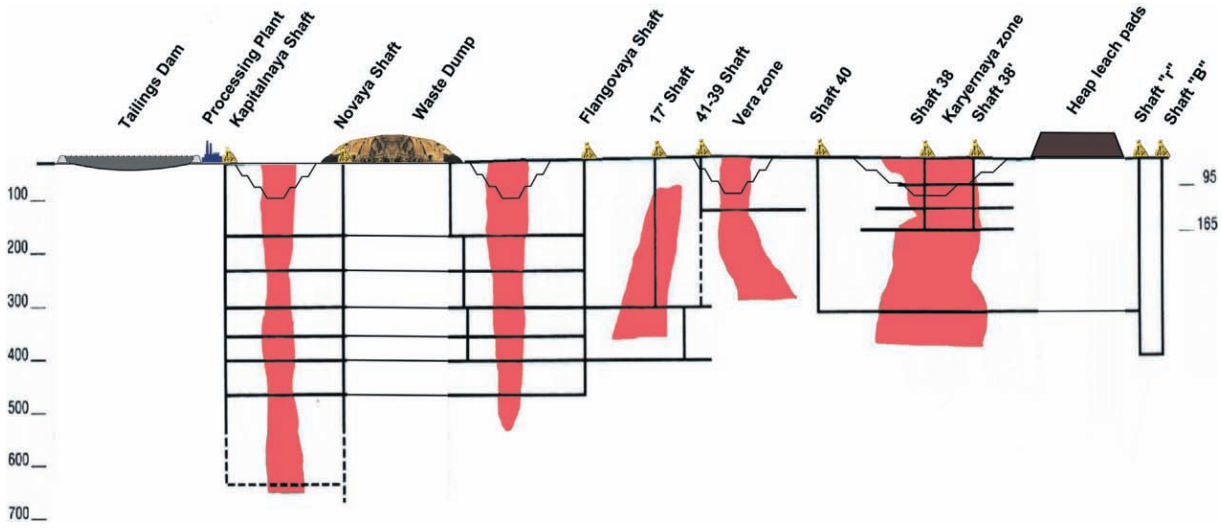
9.1 Introduction

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 Budennovskaya 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 (thousand tonnes)	Development (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 Budennovskaya 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

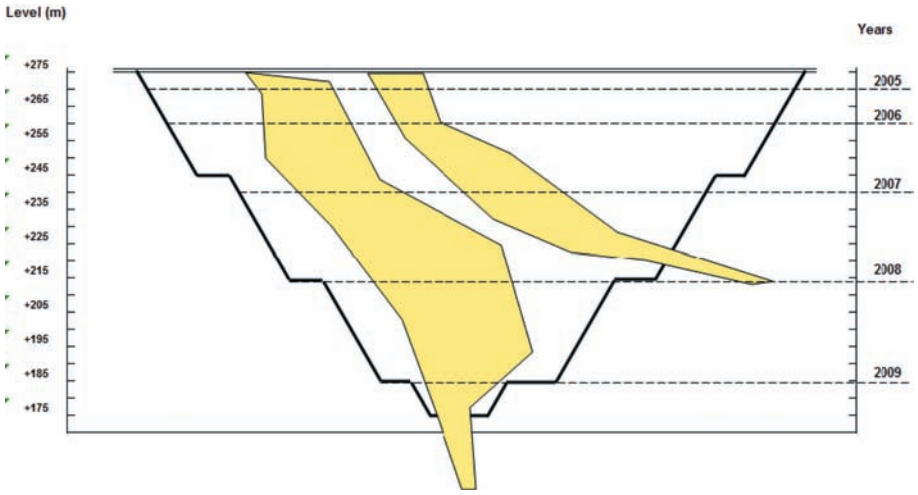
The design for the new Aksu open pit incorporates the reserves of three ore zones, namely Kariernaya, Krutaya and Kotenko into one large pit. Pre-stripping work is well in hand and was observed by WAI during its visit to site.

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				Mined			
	Ore (thousand tonnes)	Grade (grams per tonne)	Loss (%)	Dilution (%)	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

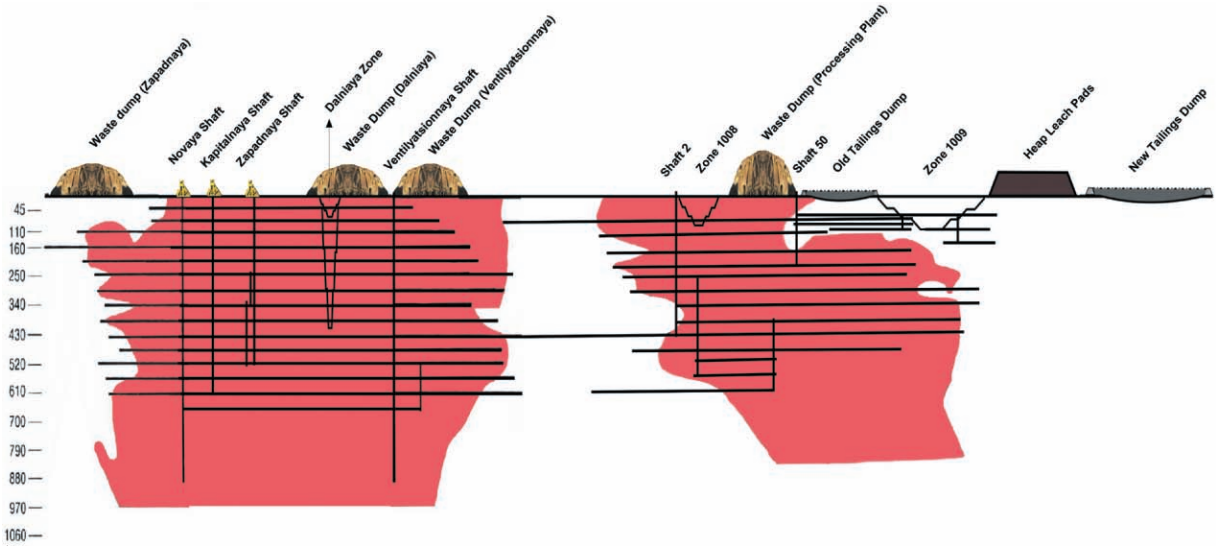
10.1 Introduction

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 Ore (millions of tonnes)	1995 Grade (grams per tonne)	1995 Gold (thousand kilo-grams)	1995 Gold (thousand ounces)	2001 Ore (million tonnes)	2001 Grade (grams per tonne)	2001 Gold (thousand kilo-grams)	2001 Gold (thousand ounces)	2005 Ore (million tonnes)	2005 Grade (grams per tonne)	2005 Gold (thousand kilo-grams)	2005 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.

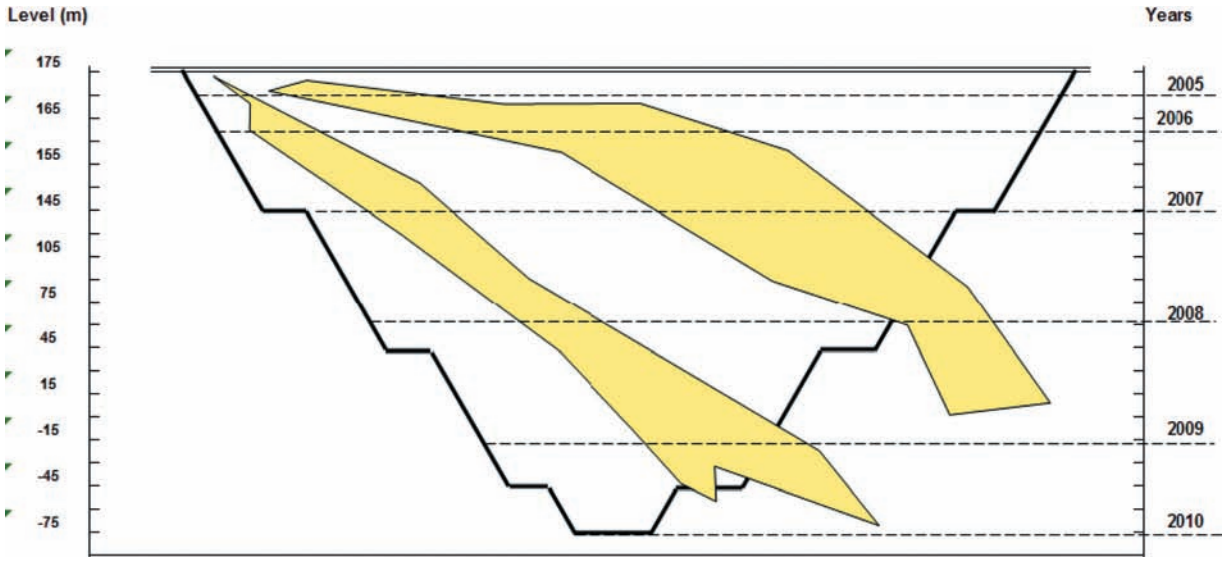
Ore is hoisted in single 1.2 cubic metre tubs in the cages of Shaft Nos. 2 and 50 respectively. Both these shafts downcast fresh air, which is upcast in the ventilation shaft. Water is allowed to gravitate to the 700 metre level pumps, whence it is pumped up the Novaya Shaft.

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

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)
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 restrictions 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

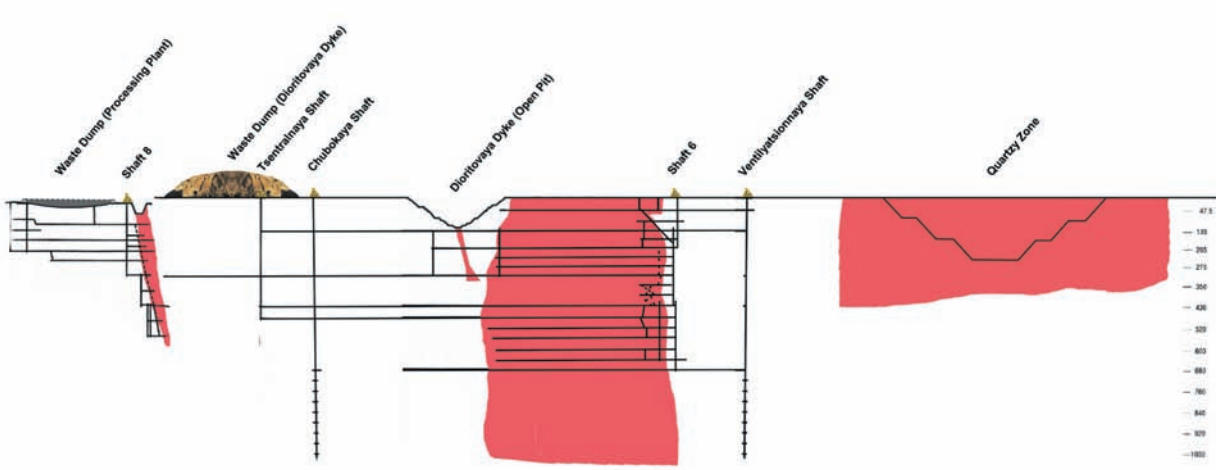
11.1 Introduction

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

	1995				2001				2005			
Area	**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° and 70°.

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.

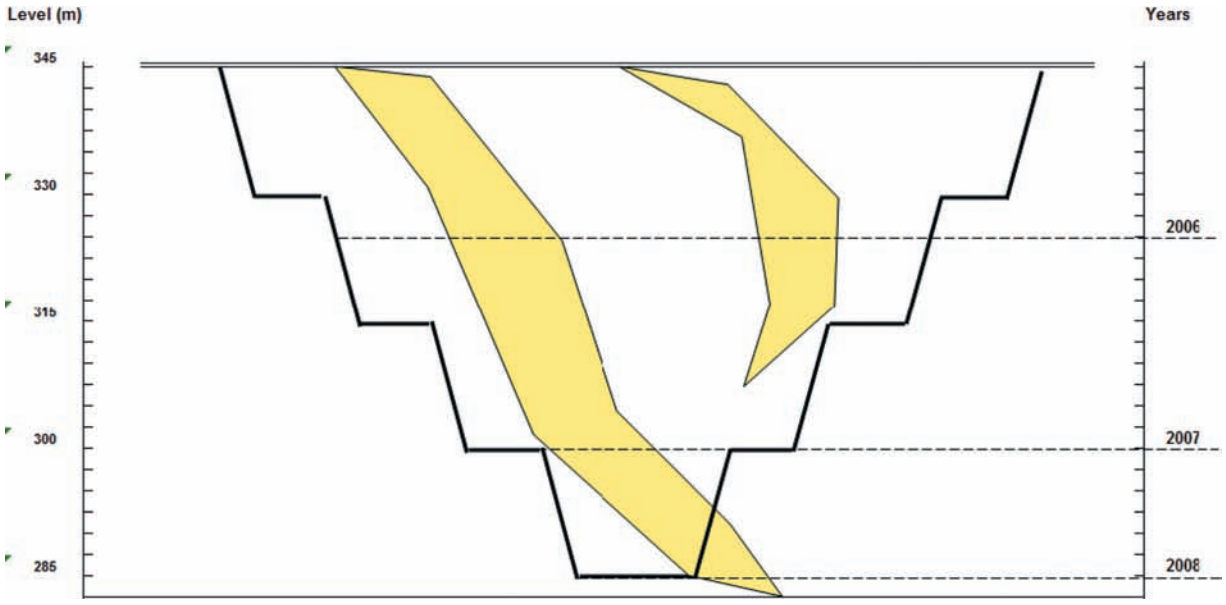
Fresh air downcasts to the area via the Central Shaft to the 480 metre level and thence to the 680 metre level via the two sub-vertical shafts. Used air is exhausted up the ventilation shaft, which is equipped with a large fan.

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.

Similarly 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 (metres)			Data field entries	
	X	Y	Z	Grade	Density
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 (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	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 Institute 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

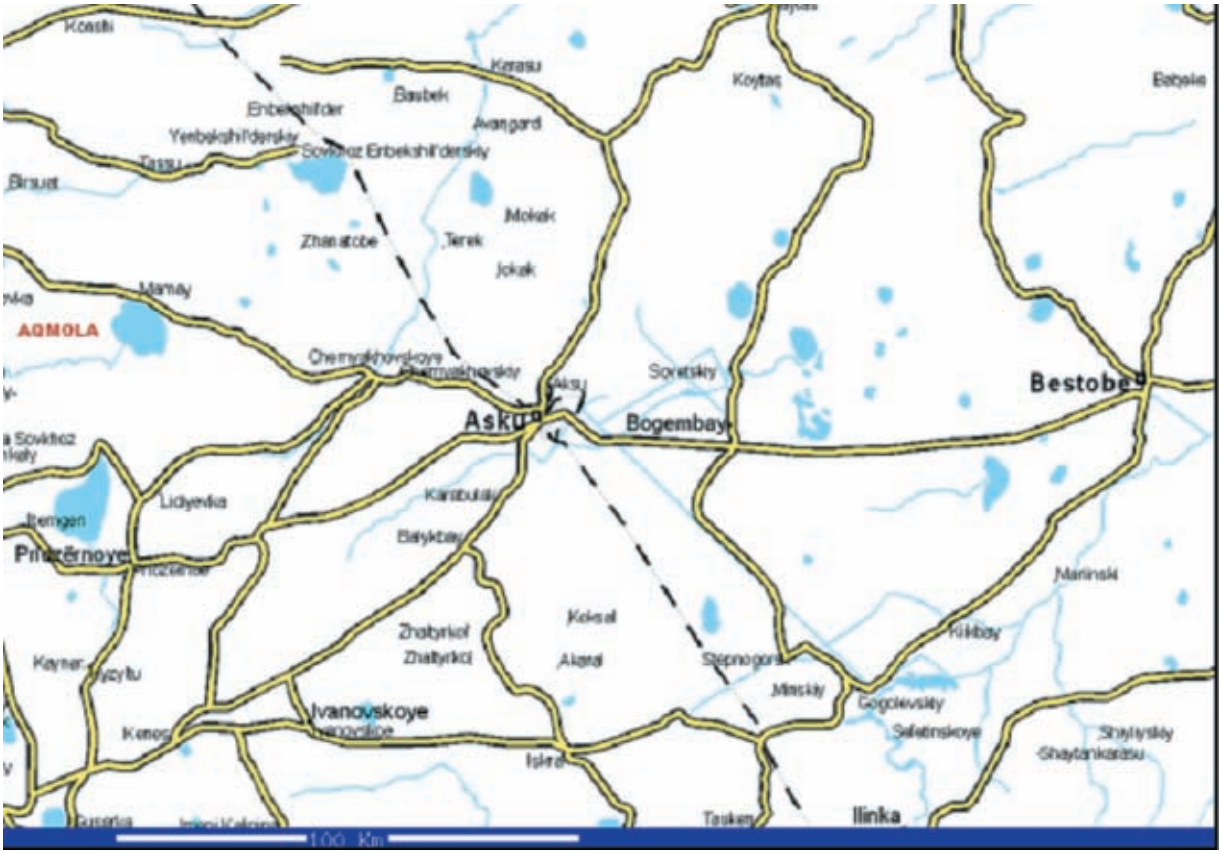
14.2 Access And Communication

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

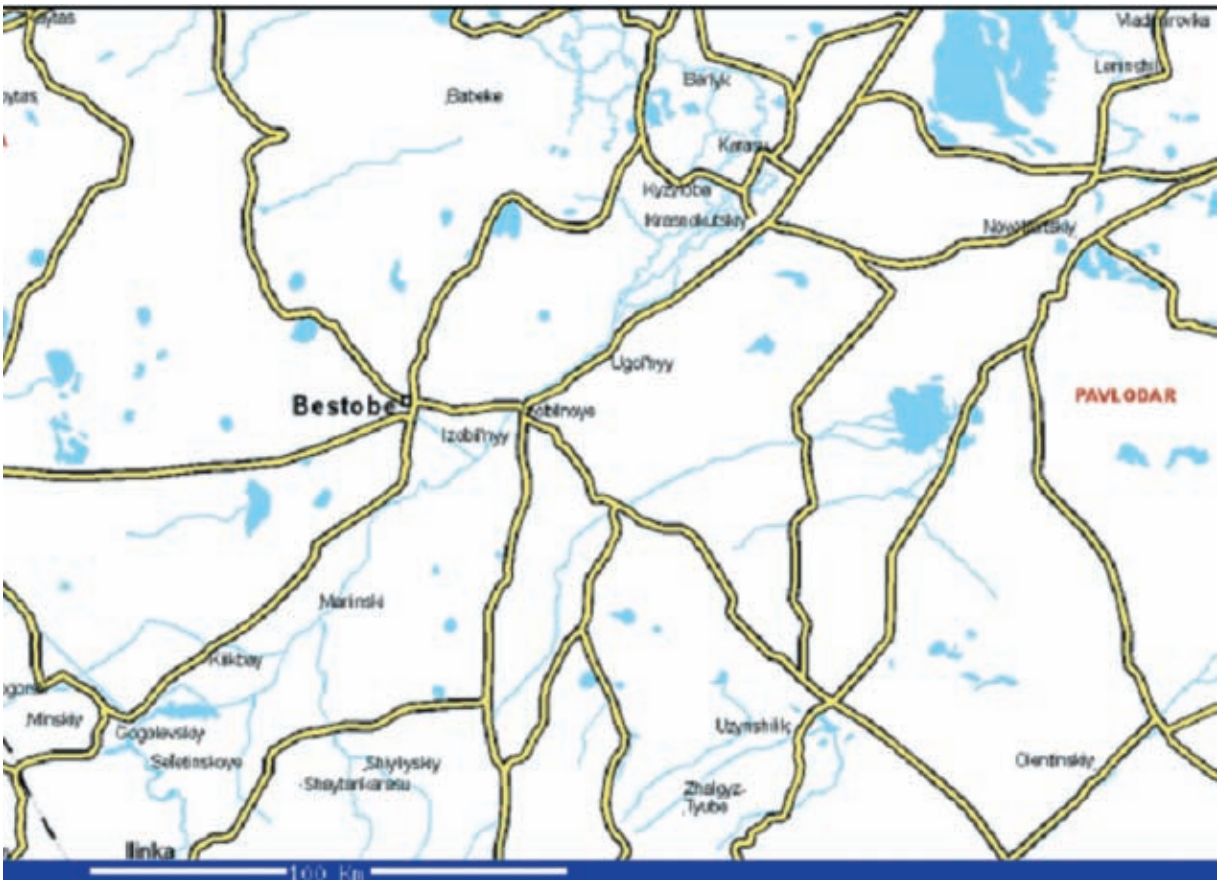


14.2.2 Bestobe Mine

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



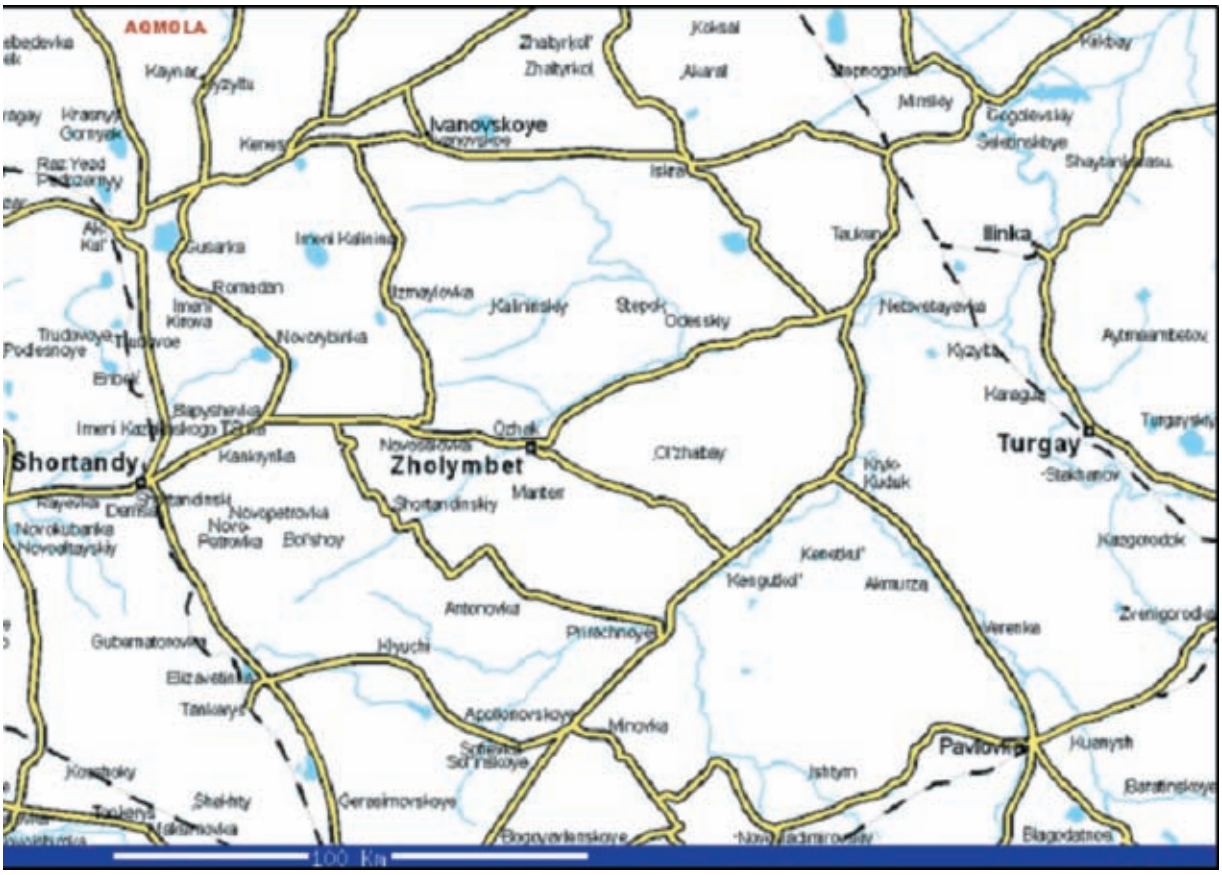
14.2.3 Zholymbet Mine

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 inter-stitial 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°C, and minimum winter temperatures of –50°C. Typically the region exhibits a temperature range of +30°C to –30°C with an annual average temperature of +4°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° 04-08/762;
  - Bestobe Permit N° 04-08/759; and
  - Zholymbet Permit N° 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° 05-08/500;
  - Bestobe Permit N° 05-08/498; and
  - Zholymbet Permit N° 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° 04-08/763;
  - Bestobe N° 04-08/764; and
  - Zholymbet for N° 04-08/765.
- State approved ''normative projects'' for the location, formation, rate and volumes of waste production, issued 10 April 2003
  - Aksu N° 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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