

KazakhGold Group Limited

**Consolidated financial statements
for the year ended 31 December 2009**

KAZAKHGOLD GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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KAZAKHGOLD GROUP LIMITED

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following statement, which should be read in conjunction with the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of KazakhGold Group Limited and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

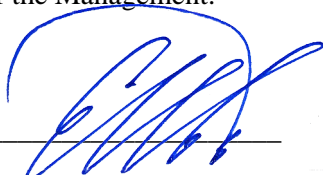
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2009 were approved by the Board of Directors on 27 April 2010:

On behalf of the Management:



Ivanov E.I.
Chief Executive Officer
KazakhGold Group Limited

27 April 2010

INDEPENDENT AUDITORS' REPORT

To shareholders of KazakhGold Group Limited:

We have audited the accompanying consolidated financial statements of KazakhGold Group Limited and its subsidiaries (hereinafter the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, cash flows, and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The consolidated financial statements of the Group as at and for the year ended 31 December 2008, before restatement, were audited by another auditor (the "predecessor auditor"), who issued their report dated 12 June 2009. The report issued by the predecessor auditor contained an emphasis of matter indicating a fundamental uncertainty in respect of realisation of a negotiation rights asset relating to a mining license, and a further emphasis of matter in respect of a material uncertainty about the Group's ability to continue as a going concern.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

The Group did not present a consolidated statement of financial position at 1 January 2008 and accompanying notes as required by IAS 1 “Presentation of Financial Statements”. Such presentation is required where an entity restates its consolidated financial statements as described in note 2.

Qualified opinion

In our opinion, except for the omission of the information as described in the paragraph above, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to the fact this independent auditors’ report refers only to the consolidated financial statements as at and for the year ended 31 December 2009. The corresponding information for 2008 has been restated as described in note 2.



Moscow, Russia
27 April 2010

KAZAKHGOLD GROUP LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER (in thousands of US Dollars)

	Notes	2009	2008 As restated*
Gold sales		58,434	54,262
Other sales		1,943	-
Total revenue		60,377	54,262
Cost of gold sales		(57,296)	(71,304)
Cost of other sales		(2,846)	-
Gross profit/(loss)		235	(17,042)
Selling, general and administrative expenses		(39,746)	(28,595)
Other expenses, net	6	(32,621)	(204,254)
Finance costs	7	(31,841)	(25,285)
Income from investments		-	7,509
Foreign exchange (loss)/gain, net		(45,927)	452
Loss before income tax		(149,900)	(267,215)
Income tax benefit	8	6,161	10,200
Loss for the year		(143,739)	(257,015)
Attributable to:			
Shareholders of the parent company		(142,899)	(257,015)
Minority interest		(840)	-
		(143,739)	(257,015)
Loss per share			
Basic and diluted (US Dollars)	9	(2.70)	(4.89)

The accompanying notes are an integral part of these consolidated financial statements.

* The information for the year ended 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors described in Note 2.

KAZAKHGOLD GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER (in thousands of US Dollars)

	<u>2009</u>	<u>2008</u> <u>As restated*</u>
Loss for the year	<u>(143,739)</u>	<u>(257,015)</u>
Other comprehensive income		
Revaluation surplus on property, plant and equipment (net of tax in the amount of USD 1,598 thousand)	8,627	-
Exchange difference on translation of foreign operations	10,528	(636)
Effect of translation to presentation currency	<u>3,033</u>	<u>2,541</u>
Other comprehensive income for the year	<u>22,188</u>	<u>1,905</u>
Total comprehensive loss for the year	<u><u>(121,551)</u></u>	<u><u>(255,110)</u></u>
Attributable to:		
Shareholders of the parent company	<u>(121,551)</u>	<u>(255,110)</u>
	<u><u>(121,551)</u></u>	<u><u>(255,110)</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

* The information for the year ended 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors described in Note 2.

KAZAKHGOLD GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER (in thousands of US Dollars)

	Notes	2009	2008 As restated*
ASSETS			
Non-current assets			
Property, plant and equipment	10	197,051	258,439
Inventories	11	2,867	1,950
		199,918	260,389
Current assets			
Inventories	11	14,265	17,567
Trade and other receivables	12	2,124	6,591
Advances paid to suppliers	13	1,905	1,267
Income tax prepaid		3,057	1,972
Other current assets		953	-
Cash and cash equivalents	14	3,531	13,966
		25,835	41,363
TOTAL ASSETS		225,753	301,752
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	9	9
Additional paid-in capital		220,950	220,950
Capital contribution		12,686	12,686
Revaluation surplus	2	7,787	-
Option premium on convertible debt	16	15,598	-
Translation reserve		25,401	11,840
Accumulated losses		(409,601)	(266,702)
		(127,170)	(21,217)
Non-current liabilities			
Borrowings	16	20,812	203,272
Environmental obligations	17	13,356	20,106
Deferred tax liabilities	8	-	6,772
Long-term obligations under finance leases		-	1,370
Other non-current liabilities	18	15,526	4,029
		49,694	235,549
Current liabilities			
Borrowings	16	257,816	41,306
Short-term obligations under finance leases		-	568
Trade payables	19	1,771	14,976
Other payables and accrued expenses	19	18,897	5,724
Other taxes payable		24,745	24,846
		303,229	87,420
TOTAL LIABILITIES		352,923	322,969
TOTAL EQUITY AND LIABILITIES		225,753	301,752

The accompanying notes are an integral part of these consolidated financial statements.

* The information at 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors described in Note 2.

KAZAKHGOLD GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER (in thousands of US Dollars)

	<u>2009</u>	<u>2008</u> As restated*
Operating activities		
Loss before income tax	(149,900)	(267,215)
Adjustments for:		
Amortisation and depreciation	17,659	20,164
Loss on revaluation of property, plant and equipment	11,079	-
Finance costs	31,841	25,285
Foreign exchange loss/(gain), net	45,927	(452)
Bank guarantee provision	11,650	-
Non-recoverable value added tax on construction, repair, maintenance and exploration works (refer to note 2)	5,219	27,112
Change in allowance for doubtful debts	3,594	6,002
Loss on disposal of property, plant and equipment	1,859	8,957
Income from investments	-	(7,509)
Other	1,881	(17,090)
	(19,191)	(204,746)
Movements in working capital:		
Inventories	(2,842)	(5,203)
Trade and other receivables	(229)	62,682
Advances paid to suppliers	(990)	(546)
Other current assets	(851)	(955)
Trade payables	(10,470)	(6,534)
Other payables and accrued expenses	11,177	(11,753)
Other taxes payable	(1,672)	16,719
Cash flows used in operations	(25,068)	(150,336)
Interest paid	(22,457)	(15,735)
Income tax paid	(1,462)	(19,489)
Net cash used in operating activities	(48,987)	(185,560)
Investing activities		
Purchase of property, plant and equipment	(7,372)	(64,159)
Proceeds from sale of property, plant and equipment	-	3,412
Interest received	-	7,509
Proceeds from sale of other financial assets	-	31,760
Net cash used in investing activities	(7,372)	(21,478)

* The information for the year ended 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors described in Note 2.

KAZAKHGOLD GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER (CONTINUED) (in thousands of US Dollars)

	Notes	2009	2008 As restated*
Financing activities			
Proceeds from borrowings		91,288	23,000
Repayments of borrowings		(43,145)	(4,960)
Repayments of finance lease obligations		(501)	(10,289)
Proceeds from issuance of Company's share capital	15	-	50,406
Net cash generated from financing activities		47,642	58,157
Net decrease in cash and cash equivalents		(8,717)	(148,881)
Cash and cash equivalents at beginning of the year		13,966	160,285
Effect of translation to presentation currency on cash and cash equivalents		(1,718)	2,562
Cash and cash equivalents at end of the year	14	3,531	13,966

The accompanying notes are an integral part of these consolidated financial statements.

* The information for the year ended 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors described in Note 2.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of US Dollars)

		Equity attributable to shareholders of the parent company									
Notes	Share capital	Additional paid-in capital	Capital contribution	Translation reserve	Revaluation surplus	Option premium on convertible debt	Retained earnings/ (Accumulated losses)	Total	Minority interest	Total	
	9	170,544	510,000	62,727	-	-	39,198	782,478	-	782,478	
Balance at 1 January 2008 – as previously reported											
Effect of changes in accounting policies and restatements	2	-	(497,314)	(52,792)	-	-	(48,978)	(599,084)	-	(599,084)	
Balance at 1 January 2008 – as restated	9	170,544	12,686	9,935	-	-	(9,780)	183,394	-	183,394	
Loss for the year – as restated	-	-	-	-	-	-	(257,015)	(257,015)	-	(257,015)	
Other comprehensive income	-	-	-	1,905	-	-	-	1,905	-	1,905	
Total comprehensive income/(loss)	-	-	-	1,905	-	-	(257,015)	(255,110)	-	(255,110)	
Equity-settled share-based payments	-	-	-	-	-	-	93	93	-	93	
Issuance of Company's ordinary shares	15	50,406	-	-	-	-	-	50,406	-	50,406	
Balance at 31 December 2008 – as restated	9	220,950	12,686	11,840	-	-	(266,702)	(21,217)	-	(21,217)	
Loss for the year	-	-	-	-	-	-	(142,899)	(142,899)	(840)	(143,739)	
Other comprehensive income (net of tax in the amount of USD 1,598 thousand)	-	-	-	13,561	7,787	-	-	21,348	840	22,188	
Total comprehensive income/(loss)	-	-	-	13,561	7,787	-	(142,899)	(121,551)	-	(121,551)	
Issuance of convertible debt	16	-	-	-	-	15,598	-	15,598	-	15,598	
Balance at 31 December 2009	9	220,950	12,686	25,401	7,787	15,598	(409,601)	(127,170)	-	(127,170)	

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. GENERAL

Organisation

KazakhGold Group Limited (the “Company” or “KazakhGold”) was incorporated in Jersey on 26 September 2005. The principal activities of the Company and its subsidiaries (the “Group”) are the extraction, production and sale of cathodic gold, free gold and other gold-bearing products. Mining and processing facilities of the Group are located in the northern part of the Republic of Kazakhstan. The Group also performs research and exploration works, primarily in the existing production locations, in Central and Eastern Kazakhstan and in Romania. Details regarding the nature of the business and of the significant subsidiaries of the Group are presented below:

Subsidiaries	Country of incorporation	Nature of business	Effective % held ¹	
			2009	2008
JSC Kazakhaltyn MMC	Kazakhstan	Mining	100.0	100.0
Romaltyn Mining SRL	Romania	Mining (Exploration stage)	100.0	100.0
Romaltyn Mining Exploration SRL	Romania	Mining (Exploration stage)	100.0	100.0
Talas Gold Mining Company	Kyrgyzstan	Mining (Exploration stage)	66.7	66.7

¹ Effective % held by the Company, including holdings by other subsidiaries of the Group.

On 30 July 2009, Jenington International Inc., the wholly owned subsidiary of OJSC “Polyus Gold”, became the majority shareholder of the Group.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS include standards and interpretations approved by the International Accounting Standards Board (“IASB”), including International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Authorisation for issuance

The consolidated financial statements of the Group have been authorised for issuance by the Board of Directors on 27 April 2010.

Going concern assumption

As at 31 December 2009, the Group had a working capital deficiency of USD 277,394 thousand. The deficit is primarily resulting from the amount owed on the senior notes in the amount of USD 200,000 thousand with original maturity in 2013. The notes have been classified as current liabilities as at 31 December 2009 as a result of the Group’s default on restrictive financial and reporting covenants. Management believes that it can successfully negotiate the repayment of the senior notes to 2013, the original maturity, or refinance it with another facility. The Group has also modified its operational structure and increased its production at facilities during the period from August 2009. As a result of these adjustments, the Group has been able to decrease its loss in 2009 compared to 2008. If the maturity date of the guaranteed senior notes is not renegotiated or the Group’s improved productivity is not sufficient to fund the Group’s operations, the Group has the ability to obtain additional funding from its new parent, Jenington International Inc. (“Jenington”), or Polyus Gold. Jenington provided loan facilities to the Group of up to USD 50,000 thousand in 2009, and a further USD 50,000 thousand in February 2010. Furthermore, as part of the Partial Offer whereby Jenington acquired 50.2% of the Group, Jenington committed to underwrite a USD 100,000 thousand placement of shares in KazakhGold. Management intends to continue improving the operating results that were initiated in August 2009 as the new management continues to address maintenance shortcomings and underinvestment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Based on the information discussed above, management believes that it will be able to meet its borrowings obligations and continue to finance its operational activities. Management has prepared a detailed forecast of cash flows for 2010 financial year and believes that future cash flows from operating and financing activities will be sufficient for the Group to meet its obligations as they become due.

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of such entities have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for subsequent revaluation of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.

The consolidated financial statements for the year ended 31 December 2008 contained herein as comparative financial information represent amounts that were reclassified and restated as described in note 2.

Adoption of new and revised Standards and Interpretations

In the preparation of the consolidated financial statements, the Group has adopted all of the new and revised International Financial Reporting Standards and Interpretations issued by IFRIC that are relevant to its operations and effective for the annual reporting periods reported herein.

The principles changes due to implementation were as follows:

IAS 1 *Presentation of Financial Statements* (as revised in 2007 and effective 1 January 2009)

This revised standard separates owner and non-owner changes in the statement of changes in equity. Based on the revised standard the statement of changes in equity includes only details of transactions with owner, with non-owner changes in equity presented as a single line item and separately disclosed in the statement of comprehensive income. In addition, the Standard introduces the statement of comprehensive income and introduces new names of some statements. All information presented in these consolidated financial statements was amended accordingly.

The revisions and amendments to the following Standards and Interpretations presented below did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based Payments*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IFRS 8 *Operating Segments*;
- IAS 7 *Statement of Cash Flows*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 18 *Revenue*;
- IAS 19 *Employee Benefits*;
- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
- IAS 23 *Borrowing Costs*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IAS 28 *Investments in Associates*;

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

- IAS 29 *Financial Reporting in Hyperinflationary Economies*;
- IAS 31 *Interests in Joint Ventures*;
- IAS 32 *Financial Instruments: Presentation*;
- IAS 36 *Impairment of Assets*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IAS 40 *Investment Property*; and
- IFRIC 15 *Agreements for the Construction of Real Estate*.

IFRS 8 *Operating Segments* (effective 1 January 2009) requires disclosure of financial information about the Group's operating segments based on management reporting and replaces the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. Segment information is not presented in these consolidated financial statements as the Group comprises a single operating segment for management purposes.

Standards and interpretations in issue but not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective for 2009:

Standards and interpretations	Effective for annual periods beginning on or after
IAS 1 <i>Presentation of Financial Statements</i> (amended)	1 January 2010
IAS 7 <i>Statement of Cash Flows</i> (amended)	1 July 2009 and 1 January 2010
IAS 17 <i>Leases</i> (amended)	1 January 2010
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> (amendments)	1 July 2009
IAS 24 <i>Related Parties Disclosures</i> (amended)	1 January 2011
IAS 27 <i>Consolidated and Separate Financial Statements</i> (revised)	1 July 2009
IAS 28 <i>Investments in Associates</i> (revised due to revision of IFRS 3)	1 July 2009
IAS 31 <i>Investments in Joint Ventures</i> (revised due to revision of IFRS 3)	1 July 2009
IAS 32 <i>Financial Instruments: Presentation</i> (amended)	1 February 2010
IAS 36 <i>Impairment of Assets</i> (amended)	1 January 2010
IAS 38 <i>Intangible Assets</i> (amended)	1 July 2009
IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (amended)	1 July 2009 and 1 January 2010
IFRS 2 <i>Share-based Payment</i> (amended)	1 January 2010
IFRS 3 <i>Business Combinations</i> (revised)	1 July 2009
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> (amended)	1 January 2010
IFRS 8 <i>Operating segments</i> (amended)	1 January 2010
IFRS 9 <i>Financial Instruments</i>	1 January 2013
IFRIC 14 <i>IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> (amended)	1 January 2011
IFRIC 17 <i>Distribution of Non-cash Assets to Owners</i>	1 July 2009
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010

Management anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of these standards and interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of US Dollars)

2. CHANGE IN ACCOUNTING POLICIES, RESTATEMENT OF ERRORS AND RECLASSIFICATIONS

Common control transactions

In 2009, management of the Group changed its accounting policy for accounting for common control transactions. Previously, the accounting for the acquisition of the entire share capital of Romanshorn LC AG by KazakhGold Group Limited from the common controlling party (this acquisition occurred during the year ended 31 December 2005) was accounted as capital contribution with the acquired assets and liabilities initially recognised at fair value and the corresponding increase to equity within *Capital contribution*.

The accounting for business combinations involving entities under common control is out of scope of IFRS 3 *Business Combinations* and is not addressed within other IFRSs. In the absence of clear guidance in IFRS for combinations involving businesses under common control, management considered other standard-setting bodies that use a similar conceptual framework to develop accounting standards, as well as other accounting literature and accepted industry practices.

Management concluded that a change in accounting policy for common control transactions will result in the financial statements providing more reliable and relevant information about the effects of such transaction and the Group's financial position and results of its financial performance and will be more comparable to the Group's peers.

Under the new accounting policy, the assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values recognised by the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity. Management believes the new accounting policy properly reflects the basis of the transaction because the transfer of an entity from one common control entity to another does not represent a market transaction between willing parties.

The following principles were used in preparation of the restated consolidated financial statements under the new accounting policy for common control transactions:

- at the date of acquisition of Romanshorn LC AG by KazakhGold all assets and liabilities acquired were recorded at the same carrying values as in the consolidated financial statements of Romanshorn LC AG; and
- the differences between the carrying value of net assets transferred to KazakhGold and the consideration paid was recorded as *Capital contribution* within equity.

The change in accounting policy has been applied retrospectively. The effect of this change in accounting policy resulted in a restatement of the 2008 consolidated historical results by decreasing the value of net assets recognised upon acquisition to the carrying values of the transferor, which primarily resulted in a decrease in the property and equipment balance acquired as part of this transaction.

Revaluation model for property, plant and equipment

With effect from 1 January 2009 the Group has changed its accounting from the historical cost method to a revaluation model for subsequent measurement of its property, plant and equipment.

In June 2009, before the acquisition of the Group by Polyus Gold and after the issuance of the consolidated financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2008, there was a fire at the Group's premises which led to the loss of a significant amount of historical information including purchase and construction costs of property, plant and equipment. As a result of these circumstances, management was unable to restore information on opening balances for property, plant and equipment and the revaluation model for the measurement of property, plant and equipment became a tool to provide reliable and relevant information about the Group's assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of US Dollars)*

As of 1 January 2009, the Group has revalued all classes of property, plant and equipment based on a valuation performed by an independent professionally qualified valuer. Most of the assets subject to revaluation represent specialised items of property, plant and equipment that are not widely traded on secondary markets. The Group used the depreciated replacement cost approach as the main approach to valuation of property, plant and equipment. The Group primarily used a market based approach for valuation of land.

The adoption of the revaluation model resulted in adjustments in the consolidated statement of changes in equity for the year ended 31 December 2009 in respect of revaluation surplus in the amount of USD 8,627 thousand (net of income tax effect of USD 1,598 thousand).

Amortisation of mining assets

In 2009, management of the Group changed its accounting policy for amortisation of mining assets. Previously, mining properties were amortised over the estimated useful life of mining reserves on a “unit-of-production” basis. Under the new accounting policy, mining properties are amortised on the basis that represents the greater amount as determined on a straight-line basis over the life of the Group’s mines or the unit-of-production basis, which are based on estimated proven and probable ore reserves. Management believes that using this basis will provide more relevant information about wear and tear of these assets due to the fact, that during recent years, extraction volumes were at historically low levels, but regardless of the low production level, there is ongoing reduction in the life of the assets which should be reflected in profit and loss. The policy has been applied retrospectively which resulted in a decrease in previously reported property, plant and equipment.

Accounting for stripping costs

In 2009, management of the Group changed its accounting policy for stripping costs. Previously, mine stripping costs were expensed in the year incurred as operating expenses. Under the new accounting policy, expenditure for stripping costs incurred during the production phase to remove waste ore is deferred and charged to cost of sales on the basis of the average life-of-mine stripping ratio. The cost of excess stripping is capitalised as deferred stripping costs. Management believes that deferring stripping costs incurred during the production stage of its open-pit operations will better reflect the matching of the costs against the related economic benefits and will be consistent with industry practice and comparable to other mining companies. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The new method reduces the volatility in reporting periods for operations that experience significant fluctuations in the ratio of waste materials to ore on a year to year basis over the life of a mine. The change in accounting policy has been applied retrospectively but did not have any effect on historical results due to the fact that actual stripping ratios in prior periods were lower than the average life-of-mine stripping ratio.

Capitalisation of certain construction, repair, maintenance and exploration works during the year ended 31 December 2008

In 2009, management identified errors in the treatment of certain costs that were recorded as asset additions during 2008. These costs did not meet the criteria for asset recognition and should have been expensed when incurred, together with finance costs capitalised on those assets, instead of reflected as asset additions. In 2008, comparative financial information has been restated to write off these additions and to reflect them as costs during the period.

In addition, management has made an assessment of taxes and penalties to which the Group is exposed due to inappropriate capitalisation of the property, plant and equipment. As a result, additional value added tax has been recorded in the 2008 restated statement of financial position.

KAZAKHGOLD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 *(in thousands of US Dollars)*

Accounting for acquisition of Norox Mining Company Limited

In 2009, management identified an error in the original accounting for the acquisition of 100% of the share capital of Norox Mining Company Limited in 2007. Norox Mining Company Limited is the owner of 66.7% of the share capital of Talas Gold Mining Company. At the time of the original accounting, the acquisition of Norox Mining Company Limited was treated as an asset acquisition. The fair values of identifiable net assets were determined and the difference between consideration transferred and fair value of identifiable net assets acquired was recognised as “Negotiation Rights” within intangible assets.

Management determined in 2009 that the Negotiation Rights did not meet the recognition criteria for intangible assets at the date of acquisition of Norox Mining Company Limited as these rights did not arise from contractual or other legal rights.

The 2008 comparative financial information has been restated to eliminate this asset.

Advances paid to contractors and revenue from sales of gold

In 2008, the Group recorded revenue from gold sales in the amount of USD 36,739 thousand to a customer, as part of a series of offsetting arrangements with certain suppliers to the Group. Accounts receivable from these gold sales were not repaid by 31 December 2008, but were reportedly settled by the customer with the Group’s suppliers. As a result of such reported settlement, advances paid to suppliers of the same amount were recorded in the Group’s consolidated financial statements for the year ended 31 December 2008.

In 2009, management performed an investigation of the relevant transactions and concluded that there was no substance to the transactions. The financial effect of this error has been corrected and the consolidated financial statements have been restated to reflect the reversal of previously recorded revenues and trade and other receivables.

Environmental obligations

In 2009, management identified an error in the original calculation and accounting for environmental obligations. Under its subsoil use agreements, the Group is obliged to perform works to remove production facilities and restore damaged sites. At the time of the original accounting, not all works that are required to be performed under the Group’s subsoil use agreements were included in the calculation of environmental obligations. The Group has restated the previously reflected financial statements to account for an increase in environmental obligations.

Historical costs and other provisions

In 2009, management identified an error in accounting for historical costs related to a charge levied by the Government of the Republic of Kazakhstan to compensate the State for historical geological works in respect of mineral reserves and resources. Under subsoil use agreement 145, the Group is obliged to reimburse historical costs to the government of the Republic of Kazakhstan in the total amount of USD 8,991 thousand (refer to note 18). A liability for these costs had not recognised as at 31 December 2008.

The 2008 comparative financial statements have been restated to record the appropriate liability.

KAZAKHGOLD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of US Dollars)

Tax liabilities

In 2009, management performed a reconciliation of tax liabilities of the Group as of 31 December 2008. As a result of the reconciliation, management identified errors in the amount of current tax payable and other taxes payable recorded at 31 December 2008.

The 2008 comparative financial information have been restated to correct these errors.

Other errors

Management identified various other errors in the previously issued 2008 financial statements. These include the following:

- Provisions recorded related to commitments and contingencies for training of local staff, social sphere and other matters that do not meet the definition of a liability in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as there is no present obligation (legal or constructive) as a result of past event;
- Non-refundable value added tax related to acquisition of certain items of property, plant and equipment recorded within trade and other receivables that should instead be capitalised with cost of the acquired asset;
- Overstatement of trade and other payables; and
- Classification errors for certain items of equipment that were recorded as inventory should have been recorded as property, plant and equipment.

The comparative 2008 financial information has been restated to reflect the impact of these changes.

Reclassifications

The Group has reclassified certain amounts in the 2008 financial statements to be consistent with the presentation applied by management in 2009. These reclassifications resulted from: (i) Polyus Gold obtained control of the Group through acquisition of 50.2% of the Group's outstanding shares and as such the Group modified the presentation of certain items to align with its new parent company, and (ii) certain amounts from prior year have been disaggregated in the current year, and as a result the prior year presentation has been revised to achieve comparability with the current year presentation.

Reclassifications made to the consolidated income statement for the year ended 31 December 2008 included the following:

- Abnormal production expenses were reclassified from Administrative expenses to Cost of gold sales;
- Other operating expenses were reclassified to Other expenses, net;
- Administrative expenses were reclassified to Other expenses, net and to Selling, general and administrative expenses; and
- other reclassifications.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of US Dollars)

Reclassifications made to the consolidated statement of financial position at 31 December 2008 included the following:

- Advances given to suppliers for construction works were reclassified from Trade and other receivables to Property, plant and equipment;
- Advances given to suppliers, other than for construction works, were reclassified from Trade and other receivables and presented as a separate item in the consolidated statement of financial position;
- interests payable were reclassified from Trade and other payables to Other payables and accrued expenses;
- Obligations under finance leases were reclassified from Borrowings and presented as a separate item in the consolidated statement of financial position;
- Other taxes payable were reclassified from Trade and other payables and presented as a separate item in the consolidated statement of financial position; and
- other reclassifications.

These reclassifications had no impact on loss for the year ended 31 December 2008 or shareholders' equity.

The cumulative effect of the changes in accounting policy, restatement of errors, and reclassifications on the Group's results of operation for the year ended 31 December 2008 and the Group's financial position as at 31 December 2008 is presented in the table below.

	Amounts previously reported	Change in accounting policies and restatement adjustments	Reclassification adjustments	Restated
CONSOLIDATED INCOME STATEMENT				
Revenue	91,001	(36,739)	-	54,262
Cost of gold sales	(55,852)	4,417	(19,869)	(71,304)
Other operating income	2,496	3,238	(5,734)	-
Distribution expenses	(466)	-	466	-
Abnormal production expenses	(19,869)	-	19,869	-
Other administrative expenses	(54,552)	12,956	41,596	-
Other operating expenses	(10,540)	(185,529)	196,069	-
Finance income	7,509	-	(7,509)	-
Finance costs	(16,531)	(8,754)	-	(25,285)
Income tax benefit	175,615	(165,415)	-	10,200
Selling, general and administrative expenses	-	-	(28,595)	(28,595)
Other expenses, net	-	-	(204,254)	(204,254)
Income from investments	-	-	7,509	7,509
Foreign exchange gain, net	-	-	452	452
Profit/(loss) for the year	118,811	(375,826)	-	(257,015)
Basic and diluted earnings/(loss) per share (US dollars)	2.26	(7.15)	-	(4.89)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of US Dollars)

	Amounts previously reported	Change in accounting policies and restatement adjustments	Reclassification adjustments	Restated
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Assets				
Property, plant and equipment	1,215,229	(963,442)	6,652	258,439
Intangible assets	74,518	(69,133)	(5,385)	-
Inventories (non-current)	-	-	1,950	1,950
Inventories (current)	22,390	(2,873)	(1,950)	17,567
Trade and other receivables	63,114	(52,017)	(4,506)	6,591
Advances paid to suppliers	-	-	1,267	1,267
Income tax prepaid	-	-	1,972	1,972
Equity and liabilities				
Capital contribution	510,000	(497,314)	-	12,686
Translation reserve	64,780	(52,940)	-	11,840
Retained earnings/(Accumulated losses)	158,102	(424,804)	-	(266,702)
Long-term borrowings	204,642	-	(1,370)	203,272
Short-term borrowings	41,874	-	(568)	41,306
Long-term obligations under finance leases	-	-	1,370	1,370
Short-term obligations under finance leases	-	-	568	568
Trade payables	32,645	12,901	(30,570)	14,976
Other payables and accrued expenses	-	-	5,724	5,724
Other taxes payable	-	-	24,846	24,846
Current taxes payable	8,972	(8,972)	-	-
Environmental obligations	10,189	9,917	-	20,106
Other non-current liabilities	-	4,029	-	4,029
Deferred tax liabilities	137,054	(130,282)	-	6,772

KAZAKHGOLD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING POLICIES

Change in accounting policies

The accounting policies used in the preparation of the consolidated financial statements for the year ended 31 December 2009 were consistent with the previous financial year, except that the Group has adopted new accounting policies in respect of:

- accounting for common control transactions (refer to section Common control transactions below and note 2);
- subsequent measurement of property, plant and equipment – adoption of a revaluation model under IAS 16 *Property, Plant and Equipment* as of 1 January 2009 (refer to section *Property, Plant and Equipment* below and note 2);
- deferred stripping costs (refer to section *Deferred stripping costs* below and note 2); and
- amortisation of mining assets (refer to section *Mining assets* below and note 2).

The Group's significant accounting policies are set out below:

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Minority interest in the net assets of consolidated subsidiaries is identified separately from the Group's equity therein. Minority interest includes interest at the date of the original acquisition and minority's share of changes in net assets since the date of the acquisition. Losses applicable to minority interest in excess of the minority's interest in the subsidiary's net assets are allocated against the interest of the Group except to the extent that a minority has a binding obligation and is able to make an additional investment to cover the losses.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses, other than acquisitions from entities under common control, are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest on the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Common control transactions

Subsidiaries acquired from entities under common control are recorded in the Group's financial statements at the transferor's carrying values of the assets and liabilities of such subsidiaries. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholder's equity. The net assets of the subsidiaries and their results are retrospectively recognised from the date on which control of the subsidiaries was obtained by the transferor.

Assets acquired from entities under common control (outside of business combinations) are recognised at the transferor's carrying value as of the date of the transaction. Any difference between the carrying value of the assets acquired and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity.

Functional and presentation currency

The individual financial statements of the Group's subsidiaries are prepared in their functional currency.

The US Dollar ("USD") is the functional currency of the Company. Kazakh Tenge ("KZT") is the functional currency of the Company's subsidiaries located in the Republic of Kazakhstan. The functional currencies of other subsidiaries operating with significant degrees of autonomy are presented below:

Subsidiary	Functional currency
Romaltyn Mining S.R.L.	Romanian Lei
Romaltyn Exploration S.R.L.	Romanian Lei
Talas Gold Mining Company	Kyrgyz Som

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Group has chosen to present its consolidated financial statements in USD, as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting period end date;
- all income and expenses in each income statement are translated at the average exchange rates for the years presented;
- resulting exchange differences are included in other comprehensive income and presented as *Effect of translation to presentation currency* within *Translation reserve*; and
- in the statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of the transaction. Resulting exchange differences are presented as *Effect of translation to presentation currency*.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	<u>2009</u>	<u>2008</u>
<i>KZT/USD</i>		
31 December	148.36	120.66
Average for the year	147.51	120.34
<i>Romanian Lei/USD</i>		
31 December	2.94	2.83
Average for the year	3.05	2.52
<i>Kyrgyz Som/USD</i>		
31 December	44.09	39.42
Average for the year	42.99	36.62

Foreign currencies

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The majority of the Group's reserves are estimated in accordance with the Former Soviet Union and Romanian National Agency for Mineral Resources classification codes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a gold resource.

Exploration and evaluation expenditures are carried at revalued amount. Exploration and evaluation expenditures are capitalised when it is expected that they will be recouped by future exploitation or sale, and when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold reserves. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable, capitalised exploration and evaluation assets are reclassified to mining assets.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among others, indicate that exploration and evaluation assets must be tested for impairment:

- the term of exploration license in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration licence areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out below.

Mining assets

From 1 January 2009, mining assets are classified as, property, plant and equipment and are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Prior to 1 January 2009, the Group recorded its mining assets at historical cost less accumulated depreciation (refer to note 2). Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and mining and exploration licenses and the present value of future decommissioning costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity within *Revaluation surplus*. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the consolidated income statement. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity within *Revaluation surplus*.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is retired or disposed of.

Mining assets are recorded at revalued amount less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure and mining and exploration licenses and the present value of future decommissioning costs.

Mining assets are amortised on a straight-line basis over the life of mines of 23 years, which is based on estimated proven and probable ore reserves. Amortisation is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

Non-mining assets

Non-mining assets such as buildings, structures, plant and equipment, trucks and vehicles and other non-mining assets are carried at revalued amount on a similar basis as described in section Mining assets, less subsequent accumulated depreciation. Land is not depreciated. Depreciation for all non-mining assets is provided on a straight-line basis over the economic useful lives of such assets:

- buildings, structures, plant and equipment 5-13 years;
- trucks and vehicles 3 years;
- other assets 3-7 years.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are placed into commercial production.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the related lease obligation to the lessor.

KAZAKHGOLD GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Impairment of property, plant and equipment, other than exploration and evaluation assets

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Deferred stripping costs

The Group accounts for stripping costs incurred using the average life-of-mine stripping ratio. The method assumes that stripping costs incurred during the production phase to remove waste ore are deferred and charged to operating costs on the basis of the average life-of-mine stripping ratio. The average stripping ratio is calculated as the number of cubic meters of waste material removed per ton of ore mined based on proven and probable reserves. The average life-of-mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life-of-mine ratio are accounted prospectively as changes in accounting estimates.

Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. Such deferred costs are then charged against profit and loss to the extent that, in subsequent periods, the current ratio falls short of the life-of-mine ratio.

The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or a change in circumstances indicate that the carrying value may not be recoverable. Amortisation of deferred stripping costs is included in cost of gold sales.

Inventories

Finished goods

Gold-bearing products, which represent finished goods, are measured at the lower of net production cost and net realisable value. The net cost of production per unit of gold-bearing products is determined by dividing total production cost, by the saleable mine output of gold-bearing products.

Production costs include consumables and spares, labour, tax on mining, utilities, sundry costs, amortisation and depreciation of operating assets, adjustments for deferred stripping costs capitalised, change in provision for land restoration and change in gold-in-process and finished goods.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Gold-in-process and stockpiles

Costs that are incurred in or benefit the production process are accumulated as stockpiles and gold in process. Net realisable value tests are performed at least annually and represent the estimated future sales price of the product, based on prevailing spot metal prices, less estimated costs to complete production and bring the product to sale.

Gold-in-process is valued at the net unit cost of production with reference to the relevant stage of production.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpiles are verified by periodic surveys.

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less provision for obsolete and slow-moving items.

Financial assets

Financial assets are recognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group's financial assets represent trade and other receivables and are measured at amortised cost using the effective interest method less any impairment.

Impairment of financial assets

When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash outflows through the expected life of the financial liability, or, where appropriate, a shorter period.

Expense is recognised on an effective interest rate basis for debt instruments.

Compound instruments

The component parts of compound instruments such as convertible loans issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in Option premium on convertible debt within the statement of changes in equity, net of income tax effects, and is not subsequently remeasured.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other finance costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

The Group contributes to certain defined contribution and employee benefit schemes on behalf of its employees. These contributions are recognised in the income statement when employees have rendered services entitling them to the contribution.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue recognition

Gold sales revenue

Revenue from the sale of cathodic gold, free gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer. Gold sales revenue represents the invoiced value of gold shipped to customers, net of value-added tax.

Other revenue

Other revenue consists of sales of goods, other than gold-bearing products, and services the Group provides as necessary in the locations where it operates. Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements. Revenue from services is recognised when the services are rendered.

Operating leases

The lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised in the income statement in the period in which they are incurred in accordance with lease terms.

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement as finance costs. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary with correspondence to property, plant and equipment.

Provision for land restoration, representing the cost of restoring land that arises when environmental disturbance is caused by the development or ongoing production of a mining property, is estimated at the net present value of the expenditures expected to settle the obligation. Change in provision and unwinding of discount on land restoration are recognised to the consolidated income statement and included in cost of production.

Ongoing restoration costs are expensed when incurred.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Revaluation of property, plant and equipment

From 1 January 2009, the Group applies a revaluation model to measurement of property, plant and equipment. A revaluation is made with sufficient regularity to determine that the carrying amount of these assets to determine whether carrying amount differs materially from fair value. The Group carries out such review based on the depreciated replacement cost approach as the main approach to valuation of property, plant and equipment.

Based on the Group's change in accounting policy described in Note 2, the Group concluded that depreciated replacement cost would be used to value property, plant and equipment.

Exploration and evaluation expenditure

The Group has to apply judgment in determining whether exploration and evaluation expenditure should be capitalised or expensed. Management exercises this judgment based on the results of economic evaluations, prefeasibility or feasibility studies. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may change over time. Costs are capitalised where those studies conclude that more likely than not the Group will obtain future economic benefit from the expenditures. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- calculation of allowance for doubtful debts;
- environmental obligations; and
- income taxes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- change of estimates of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Allowance for doubtful debts

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of counterparties to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

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Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in thousands of US Dollars)

5. EMPLOYEE BENEFIT EXPENSE

	<u>2009</u>	<u>2008</u>
Wages and salaries	25,535	19,338
Direct social taxes	2,156	2,407
Other employee benefits	<u>630</u>	<u>93</u>
Total	<u>28,321</u>	<u>21,838</u>

Employee benefit expenses in the amount of USD 18,823 thousand, USD 360 thousand and USD 9,138 thousand were recognised as part of Cost of gold sales, Cost of other sales and Selling, general and administrative expenses, respectively. Contributions to certain defined contribution and employee benefit schemes for the year ended 31 December 2009 amounted to USD 2,156 thousand (2008: USD 2,407 thousand).

6. OTHER EXPENSES, NET

	<u>2009</u>	<u>2008</u>
Bank guarantee provision (refer to note 18)	11,650	-
Loss on revaluation of property, plant and equipment	11,079	-
Non-recoverable value added tax on construction, repair, maintenance and exploration works (refer to note 2)	5,219	27,112
Change in allowance for doubtful debts	3,594	6,002
Loss on disposal of property, plant and equipment	1,859	8,957
Construction, repair, maintenance and exploration works expensed (refer to note 2)	-	158,417
Other	<u>(780)</u>	<u>3,766</u>
Total	<u>32,621</u>	<u>204,254</u>

7. FINANCE COSTS

	<u>2009</u>	<u>2008</u>
Interest on borrowings	27,436	21,807
Unwinding of discounts	1,713	1,534
Interest on obligations under finance lease	-	1,074
Other	<u>2,692</u>	<u>870</u>
Total	<u>31,841</u>	<u>25,285</u>

8. INCOME TAX

	<u>2009</u>	<u>2008</u>
Deferred tax benefit	<u>6,161</u>	<u>10,200</u>
Total income tax benefit	<u>6,161</u>	<u>10,200</u>

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% to 28%.

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A reconciliation of statutory income tax at the rate effective in the Republic of Kazakhstan, location of the Group's production entities and substantially all operations, to the amount of actual income tax expense recorded in the consolidated income statement is as follows:

	<u>2009</u>	<u>2008</u>
Loss before income tax	(149,900)	(267,215)
Income tax at statutory rate of 20% (2008: 28.5%)	29,980	76,156
Effect of expenses not deductible for tax purposes	(11,374)	(74,290)
Effect on deferred tax balances due to change in statutory income tax rate for future periods from 28.5% to 15%	-	10,620
Effect of unused tax losses and deferred tax asset not recognised	(12,445)	(2,286)
Income tax benefit at effective rate of 4.1% (2008: 3.8%)	<u>6,161</u>	<u>10,200</u>

At 31 December 2009, the Group has not recognised deferred tax assets in the amount of USD 10,970 thousand (2008: USD 6,275 thousand) in respect of tax losses carried forward that are available for offset against future taxable profit of the Group up to ten years due to the uncertainty of available future taxable profits.

The tax rate used for the 2009 reconciliations above is the income tax rate of 20% (2008: 28.5%) payable by JSC "MMC Kazakhaltyn", the Group's main operating subsidiary in the Republic of Kazakhstan, on taxable profits. The income tax rate will be reduced to 17.5% in 2013 and 15% starting from 2014.

The movement in the Group's deferred taxation position was as follows:

	<u>2009</u>	<u>2008</u>
Net liability at beginning of the year	6,772	17,076
Recognised in the income statement	(6,161)	(420)
Recognised in the shareholders' equity on revaluation surplus for property, plant and equipment	1,598	-
Effect on deferred tax balances due to change in statutory income tax rate for future periods from 28.5% to 15%	-	(9,780)
Effect of translation to presentation currency	(2,209)	(104)
Net liability at end of the year	<u>-</u>	<u>6,772</u>

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	<u>2009</u>	<u>2008</u>
Property, plant and equipment	5,441	5,081
Other	(3,611)	1,691
Unused tax losses	(7,705)	-
Less: Valuation allowance	5,875	-
Total	<u>-</u>	<u>6,772</u>

The Group did not recognise a deferred tax asset for temporary differences associated with investments in subsidiaries of USD 16,535 thousand (2008: USD 11,624 thousand), because management believes that it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

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9. LOSS PER SHARE

The following reflects the income and share data used in the calculation of basic and diluted loss per share:

	<u>2009</u>	<u>2008</u>
Loss for the year attributable to shareholders of the parent company	142,899	257,015
Weighted average number of ordinary shares in issue during the year	<u>52,941,666</u>	<u>52,533,446</u>
Basic and diluted loss per share (US Dollars)	<u>2.70</u>	<u>4.89</u>

In 2009, the convertible loans were antidilutive: 24,834,083 contingently issuable shares on conversion of the loans were therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

	<u>Exploration and evaluation assets</u>	<u>Mining assets</u>	<u>Non-mining assets</u>	<u>Capital construction- in-progress</u>	<u>Total</u>
Cost					
Balance at 1 January 2008	5,303	204,037	1,398	43,509	254,247
Additions (restated)	-	52,110	-	3,680	55,790
Transfers	-	2,211	-	(2,211)	-
Disposals	-	(14,252)	-	(71)	(14,323)
Effect of translation to presentation currency	2	(114)	1	(76)	(187)
Balance at 31 December 2008	5,305	243,992	1,399	44,831	295,527
Effect of revaluation (refer to note 2)	(4,378)	(46,261)	53	12,644	(37,942)
Revalued amount	927	197,731	1,452	57,475	257,585
Additions	3,464	1,380	616	4,244	9,704
Transfers	-	631	1,354	(1,985)	-
Change in decommissioning liabilities	-	(3,934)	-	-	(3,934)
Disposals	(652)	(931)	(157)	(340)	(2,080)
Effect of translation to presentation currency	133	(34,184)	(281)	(9,842)	(44,174)
Balance at 31 December 2009	<u>3,872</u>	<u>160,693</u>	<u>2,984</u>	<u>49,552</u>	<u>217,101</u>
Accumulated amortisation, depreciation and impairment					
Balance at 1 January 2008	-	(18,269)	(52)	-	(18,321)
Charge for the year	-	(20,158)	(6)	-	(20,164)
Disposals	-	1,954	-	-	1,954
Impairment	(176)	(373)	-	-	(549)
Effect of translation to presentation currency	-	(9)	1	-	(8)
Balance at 31 December 2008	(176)	(36,855)	(57)	-	(37,088)
Effect of revaluation	176	36,855	57	-	37,088
Revalued amount	-	-	-	-	-
Charge for the year	-	(19,734)	(365)	-	(20,099)
Disposals	-	64	157	-	221
Effect of translation to presentation currency	-	(173)	1	-	(172)
Balance at 31 December 2009	<u>-</u>	<u>(19,843)</u>	<u>(207)</u>	<u>-</u>	<u>(20,050)</u>
Net book value					
31 December 2008	<u>5,129</u>	<u>207,137</u>	<u>1,342</u>	<u>44,831</u>	<u>258,439</u>
31 December 2009	<u>3,872</u>	<u>140,850</u>	<u>2,777</u>	<u>49,552</u>	<u>197,051</u>

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At 31 December 2009, property, plant and equipment with a carrying value of USD 20,510 thousand were pledged to secure borrowings of the Group (refer to note 16).

11. INVENTORIES

	<u>2009</u>	<u>2008</u>
Inventories expected to be recovered after twelve months		
Stockpiles	2,867	1,950
Total	<u>2,867</u>	<u>1,950</u>
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	5,462	5,441
Finished goods at net production cost	4,926	3,218
Total metal inventories	10,388	8,659
Stores and materials at cost	4,954	9,032
Less: Allowance for obsolescence	(1,077)	(124)
	<u>14,265</u>	<u>17,567</u>
Total	<u>17,132</u>	<u>19,517</u>

The Group consumed USD 13,518 thousand of inventories during the year ended 31 December 2009, which has been recognised as Cost of gold sales (2008: USD 57,718 thousand).

12. TRADE AND OTHER RECEIVABLES

	<u>2009</u>	<u>2008</u>
Trade receivables for gold sales	1,359	957
Other receivables	9,404	11,998
	10,763	12,955
Less: Allowance for doubtful debts	(8,639)	(6,364)
Total	<u>2,124</u>	<u>6,591</u>

The average credit period on gold sales varied from 3 to 8 days in 2009 and 2008. No interest is charged on trade receivables for the first 5 days from the date of invoice. Thereafter, interest is charged at 0.045% per annum on the outstanding balance.

The Group has fully provided for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

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At 31 December 2009, the Group's largest customers individually exceeding 5% of the total balance represented 99.9% of the outstanding balance of trade and other receivables.

At 31 December 2009, included in the Group's trade receivables were balances of USD 1,359 thousand (31 December 2008: nil) which were past due but which were not impaired. The Group does not hold any collateral over these amounts. The average age of these receivables was 5 days.

Movement in the allowance for doubtful debts:

	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	6,364	4,290
Receivable balances written off	-	(3,243)
Increase in allowance	3,594	6,002
Effect of translation to presentation currency	(1,319)	(685)
Balance at end of the year	<u>8,639</u>	<u>6,364</u>

Included in the allowance for doubtful debts were individually impaired other receivables amounting to USD 8,639 thousand (31 December 2008: USD 6,364 thousand) relating to counterparties which have been placed under liquidation. The Group does not hold any collateral over these balances.

13. ADVANCES PAID TO SUPPLIERS

At 31 December 2009, advances paid to suppliers in the amount of USD 1,905 thousand (31 December 2008: USD 1,267 thousand) were presented net of impairment loss of USD 990 thousand (31 December 2008: USD 1,082 thousand).

14. CASH AND CASH EQUIVALENTS

	<u>2009</u>	<u>2008</u>
Current bank accounts	3,262	13,309
Other cash and cash equivalents	269	657
Total	<u>3,531</u>	<u>13,966</u>

15. SHARE CAPITAL

At 31 December 2009 and 2008, authorised share capital of the Company comprised of 100,000,000 ordinary shares at par value of GBP 0.0001 and issued and fully paid share capital of the Company comprised of 52,941,666 ordinary shares.

On 6 March 2008, the Company issued 2,301,666 new ordinary shares at a price of USD 23 per share for a total consideration of USD 50,406 thousand net of expenses. The amount raised was used to provide additional working capital for the Group.

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16. BORROWINGS

		Currency	2009		2008	
			Rate, %	Outstanding balance	Rate, %	Outstanding balance
Guaranteed senior notes	(i)	USD	9.375	200,000	9.375	197,308
Convertible loan received from Jenington	(ii)	USD	LIBOR+6	47,892	-	-
Convertible loans received from Gold Lion Holdings Limited	(iii)	USD	10.0	19,783	-	-
Secured bank loan	(iv)	KZT	16.0	1,854	16.0	7,361
Secured bank loan	(iv)	USD	13.75	4,751	10.0-11.0	16,899
Unsecured bank loan	(v)	USD	11.0	4,348	-	-
Bonds	(vi)	KZT	n/a	-	10.4	23,010
Total				278,628		244,578
Less: Current portion due within twelve months				(257,816)		(41,306)
Long-term borrowings				20,812		203,272

Summary of borrowing agreements

(i) Guaranteed senior notes

In November 2006, the Company issued USD 200,000 thousand 9.375% senior notes (the "Notes"). The Notes were issued at par with an interest payable semi-annually in arrear on 6 May and 6 November of each year, and the principal due on 6 November 2013. At the date of issuance the Notes were unconditionally and irrevocably guaranteed by JSC "MMC Kazakhaltyn" and its subsidiaries. On 30 July 2009 Jenington International Inc. ("Jenington"), a subsidiary of Polyus Gold acquired 50.2% of issued shares of KazakhGold Group Limited. As a result of the acquisition Polyus Gold has become an additional limited liability guarantor of the Notes.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining of certain financial ratios and required issuance of KazakhGold IFRS consolidated financial statements. At 31 December 2009 the Group is not in compliance with all the covenants, and accordingly, the Notes are classified as current. By the date of issuance of the consolidated financial statements, the Group did not receive any enforcement notice from the bondholders regarding earlier redemption.

(ii) Loan received from Jenington

On 14 August 2009, the Company signed a USD 50,000 thousand unsecured loan agreement with Jenington. The loan agreement has a floating rate of LIBOR+6% per annum. The principal amount together with accrued interest are payable when the Company completes a capital raising of USD 100,000 thousand. The principal amount of the loan together with accrued interest can be converted by Jenington into the Company's ordinary shares at a rate of USD 1.5 per one share at any point during the life of the loan. Conversion right may be exercised by Jenington at any date following the loan agreement date and is subject to several restrictions, including regulatory approval from the Government of the Republic of Kazakhstan.

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The net proceeds received under the convertible loan agreement have been split between a liability element and an equity component, representing the residual attributable to the option (option premium) to convert the liability into equity of the Group, as follows:

Proceeds from issue	49,310
Fair value of liability component at date of issue	<u>(47,083)</u>
Equity component	<u><u>2,227</u></u>

The interest charged for the period is calculated by applying an effective interest rate of 14.5%.

(iii) Loans received from Gold Lion Holdings Limited

On 11 June 2009, the Company signed two loan agreements with Gold Lion Holdings Limited, a related party. The loan agreements have a 10% interest rate per annum. Principal amounts of USD 21,650 thousand and USD 9,375 thousand together with accrued interests are payable on 6 November 2014. Until their maturity date, these loans are convertible wholly or in part into the Company's ordinary shares at a rate of USD 1.5 per one share. Conversion is subject to several restrictions, including Republic of Kazakhstan regulators approval and approval from the Company. In June 2009 Gold Lion Holdings Limited granted the call option to Jenington, or any other direct or indirect subsidiary of Polyus Gold to acquire all rights and interests under these loan agreements, including the conversion right.

The net proceeds received under the convertible loan agreements have been split between a liability element and an equity component, representing the residual attributable to the option to convert the liability into equity of the Group, as follows:

Proceeds from issue	31,025
Fair value of liability component at date of issue	<u>(17,654)</u>
Equity component	<u><u>13,371</u></u>

The interest charged for the period is calculated by applying an effective interest rate of 22.1%.

(iv) Secured bank loans

In 2009, a subsidiary of the Group obtained a USD 4,751 thousand secured loan denominated in USD from JSC SB "Sberbank" at a fixed rate of 13.75% per annum. The loan is to be repaid on 5 December 2010. Interest is payable monthly.

In 2009, a subsidiary of the Group obtained a USD 1,854 thousand secured loan denominated in KZT from JSC "Kazkommertsbank" ("KKB") at a fixed rate of 16.00% per annum. The principal amount of the loan is to be repaid on a quarterly basis until 6 March 2012. Interest is payable quarterly.

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(v) Unsecured bank loan

In 2009, a subsidiary of the Group obtained a USD 4,348 thousand unsecured loan denominated in USD from JSC SB “HSBC Bank Kazakhstan” at a fixed rate of 11% per annum. The loan is to be repaid on 16 October 2010. Interest is payable monthly.

(vi) Bonds

Unsecured coupon bonds issued by a subsidiary of the Group on the Kazakhstan Stock Exchange were fully repaid in June 2009.

Pledges

Property, plant and equipment with book value of USD 20,510 thousand were pledged to secure borrowings.

17. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	17,203	15,394
Change in estimate	(3,934)	-
Unwinding of discount on decommissioning obligations	1,230	1,102
Effect of translation to presentation currency	(2,643)	707
Balance at end of the year	<u>11,856</u>	<u>17,203</u>

Provision for land restoration

	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	2,903	1,366
New obligations raised	-	1,383
Change in estimate	(1,087)	-
Unwinding of discount on provision for land restoration	162	6
Effect of translation to presentation currency	(478)	148
Balance at end of the year	<u>1,500</u>	<u>2,903</u>
Total environmental obligations	<u>13,356</u>	<u>20,106</u>

The principle assumptions used for the estimation of environmental obligations were as follows:

	<u>2009</u>	<u>2008</u>
Discount rates, %	12.0	12.0
Expected mine closure dates	2032	2032

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18. OTHER NON-CURRENT LIABILITIES

	<u>2009</u>	<u>2008</u>
Bank guarantee liability	11,014	-
Historical costs liability	<u>4,512</u>	<u>4,029</u>
Total	<u>15,526</u>	<u>4,029</u>

Bank guarantee liability

In April 2006, the Group entered into a contractual arrangement to guarantee a credit facility of USD 15,000 thousand provided by “Kazkommertsbank” (“KKB”) to “Akir Group” LLP, a former related party to the Group. That credit facility has a maturity date of 4 April 2013. Funds received from the credit facility were used by “Akir Group” to acquire mining and other equipment which was subsequently leased to the Group under finance lease agreements concluded during 2006-2007.

In 2009, “Akir Group” LLP defaulted on loan agreement with KKB of USD 13,249 thousand (including current portion of the loan in the amount of USD 2,235 thousand). The Group has fully provided for potential losses related to this guarantee liability at 31 December 2009.

Historical costs liability

The Group is obligated to reimburse the Government of the Republic of Kazakhstan the amount of USD 8,991 thousand for the historical cost of geological studies performed in respect to the Group’s subsoil use contracts. The historical cost of geologic studies is expected to be repaid in 10 equal annual instalments, commencing from 2011 subject to approval from the appropriate governmental authority. The amount was discounted at a rate of 12% per annum to arrive to the net present value of the liability.

	<u>2009</u>	<u>2008</u>
Balance at beginning of the year	4,029	3,597
Unwinding of discount	<u>483</u>	<u>432</u>
Balance at end of the year	<u>4,512</u>	<u>4,029</u>

19. TRADE, OTHER PAYABLES AND ACCRUED EXPENSES

	<u>2009</u>	<u>2008</u>
Trade payables to third parties	1,771	14,976
Other payables	15,851	4,800
Accrued expenses	<u>3,046</u>	<u>924</u>
Total	<u>20,668</u>	<u>20,700</u>

In 2009, the credit period for trade and other payables was 30-45 days (2008: 30-60 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

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20. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and companies presumed by management to be under control of members of the Company's Board of Directors. In 2009 the Company and its subsidiaries entered into transactions with related parties in relation to the provision of financing agreements from its parent entities or entities under common ownership and in 2008 into transactions for other services.

As a result of change of shareholders of the Company, Polyus Gold and its subsidiaries became related parties to the Group from 30 July 2009.

As at 31 December 2009 and 2008, the Group had the following outstanding balances with related parties:

	<u>2009</u>	<u>2008</u>
Jenington		
Borrowings	47,892	-
Interest payable	644	-
Gold Lion Holdings Limited		
Borrowings	<u>19,783</u>	<u>-</u>
Total	<u>68,319</u>	<u>-</u>

The amounts outstanding were unsecured and are expected to be settled in cash.

During the years ended 31 December 2009 and 2008, the Group entered into the following transactions with related parties:

	<u>2009</u>	<u>2008</u>
Jenington		
Loans received	49,310	-
Gold Lion Holdings Limited		
Loans received	31,025	-
Entities under common ownership and control with the Group		
Construction, repair, maintenance and exploration works expensed (refer to Note 2).	-	158,417

Loans were provided from related parties at the rates from LIBOR+6% to 10%.

Compensation of key management personnel

	<u>2009</u>	<u>2008</u>
Short-term employee benefits	2,546	4,974
Equity-settled share based payments	<u>-</u>	<u>93</u>
Total	<u>2,546</u>	<u>5,067</u>

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21. CONTINGENCIES

Capital commitments

The Group's budgeted capital expenditures for the year ended 31 December 2010 amounted to USD 62,068 thousand, including USD 2,372 thousand of contractual capital commitments.

Contractual obligations in the Republic of Kazakhstan

The Group's subsoil use rights are not granted in perpetuity, and any renewal must be approved before the expiration of the relevant subsoil use contract or license. These rights may be terminated by the Kazakhstan Government (the "Government") if the Group does not fulfil its contractual obligations. Management of the Group believes it fulfilled all the contractual obligations during the year ended 31 December 2009.

Pursuant to the subsurface use contracts ("SSU") contracts the Group has committed to the following contractual obligations:

(a) Minimum working program

The Group approved a minimum working program for exploration ("MWP") which can be updated on a periodic basis due to the economic and operating conditions of the fields. Each year the Group agrees the annual working program ("AWP") with the Ministry of the Energy and Mineral Resources of the Republic of Kazakhstan. According to the AWP, the mining expenditures for 2009, which were agreed, were USD 4,571 thousand. In 2009 mining expenditures amounted to USD 4,260 thousand. Management of the Group believes that the Group is in compliance with this requirement.

(b) Training of local staff

The Group is obliged to finance on an annual basis professional training of its Kazakhstan personnel. Actual obligations materialise over the passage of time and, as such, the Group recognises such expenses in the consolidated income statement as they are incurred. The management believes that the Group fulfilled this obligation as at 31 December 2009.

(c) Social programs

The Group is obliged to participate in development of the social programs of the contract territory and to transfer for development of social sphere of Eastern Kazakhstan and Akmola regions amounts agreed with local authorities. Actual obligations materialise over the passage of time and, as such, the Group recognises such expenses in the consolidated income statement as they are incurred.

(d) Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurance that contingent liabilities do not exist.

According to the SSU contracts #2526 and #2527, the Group is obliged to finance environmental works related to the projects. The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

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Litigation

The Group has a number of insignificant claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Compliance with licenses

The business of the Group depends on the continuing validity of its licenses, particularly subsoil licenses for the Group's exploration and mining operations, the issuance of new licences and the Group's compliance with the terms of its licenses. Kazakhstan regulatory authorities exercise considerable discretion in the timing of licenses issuances and renewals and the monitoring of a licensee's compliance with the terms of a license. Requirements imposed by these authorities, including requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Accordingly, licenses that may be needed for the operations of the Group may be invalidated or may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion.

The legal and regulatory basis for the licensing requirements is subject to frequent change, which increases the risk that the Group may be found in non-compliance. In the event that the licensing authorities discover a material violation by the Group, the Group may be required to suspend its operations or incur substantial costs in eliminating or remediating the violation, which could have a material adverse effect on the Group's business and financial condition.

On 15 October 2005, new changes were introduced to the Subsoil Use Law of the Republic of Kazakhstan. Those changes stipulate that assignments, transfers and amendments of subsoil use rights may be made only with the prior consent of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (except when such assignment or transfer is to a subsidiary of the subsoil user in question or is as a result of a reorganization of the subsoil user whereby its legal successor assumes all its rights and obligations). The Government has a pre-emption right in respect of a transfer of any part of the subsoil use rights and of a participation share (shares) in the legal entity holding such subsoil use rights for assets in the Republic of Kazakhstan, provided that the terms and conditions (upon which such pre-emption right may be exercised) are not less favourable than those on which the proposed transferee is prepared to assume such subsoil use rights.

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has the following insurance coverage:

- insurance of the Group's plant facilities, in respect of natural disasters, fire, flood and theft;
- coverage for the Group's plant facilities and third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations;
- civil liability of owners of vehicles; and
- employer's legal liability for all employees of the Group.

The Group has not yet obtained coverage for business interruption.

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Taxation contingencies in the Republic of Kazakhstan

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for ten subsequent calendar years under newly amended tax law but under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Stability of applicable tax regime

Subsoil use contracts in Kazakhstan have traditionally always contained tax terms that reflected the tax law in effect when the contract was signed, and these tax terms were “stabilised,” meaning that they were to remain in effect for the life of the contract, regardless of how tax law changed over time. All subsoil use contracts of the Group have been stabilised.

In 2008, Kazakhstan enacted a new tax law which came into effect on 1 January 2009. Only production sharing agreements and concessionary agreements with a tax regime approved by a legislative act of the Kazakhstan Parliament are to retain their tax stability. The Group’s subsoil use contracts do not fall within either of these two categories and the tax regime applicable to these subsoil use contracts may therefore change.

Republic of Kazakhstan tax laws

A new tax law which took effect in Kazakhstan from 1 January 2009 serves as the source of tax legislation that governs the Group’s contractual subsoil use operations. The following are some of the more substantial changes in the law:

- the tax law introduces the concept of constructive dividends. In particular, amounts paid between affiliated entities for services in excess of market prices may be treated as constructive dividends;
- the tax statute of limitations period is five years except that, for some subsoil users, the tax statute of limitations period is equal to the duration of their subsoil contract plus five years following the expiration of the subsoil use contract;
- starting from 2010, the excess of an input value added tax (“VAT”) may be used to settle the taxpayer’s liabilities for other taxes, fines and penalties. The remaining VAT input balance is then refunded;
- the corporate income tax rate is 20% in 2009 and will reduce to 17.5% in 2013 and 15% starting from 2014;
- income as the result of a revaluation of assets performed for book purposes is not regarded as taxable income;
- the gain on the sale of an enterprise is defined as the excess of the selling price over net book value of the enterprise’s net assets (assets less the enterprise’s debt);

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- interest paid on a loan from any lender unrelated to the borrower is deductible in full, regardless of the residency of the lender. Interest paid on loans from related lenders and lenders residing in tax havens are subject to limitation;
- tax losses can be carried forward for 10 years;
- gains on disposals of shares and ownership stakes in a Kazakh subsoil user or any entity deriving more than 50% of its value from the property of a Kazakh subsoil user are taxable at the source of payment, even if the buyer is not a registered taxpayer in Kazakhstan. The seller must inform the buyer of its tax basis to enable the buyer to determine the gain, or the gain is subject to income tax withholding by the buyer. If the buyer fails to withhold and remit the tax, the tax authorities can collect the tax from the Kazakh entity whose stakes are being sold or the Kazakh subsoil user whose property produces the value of the stakes being sold. However, gains on sales of stock sold on a stock exchange are exempt from income tax in Kazakhstan;
- tax law introduces a new tax on subsoil users: a mineral extraction tax. This tax applies to the value or volume of extracted hydrocarbons, metals, coal and other minerals; and
- VAT rate reduces to 12% and the social tax rate is a flat 11% for both Kazakh and foreign employees. Starting from 2009, property tax is levied on taxpayers' immovable property at a rate of 1.5%.

The Group has not yet evaluated the potential impact of the above changes to its financial performance and position apart from deferred tax assets and liabilities, which have been assessed incorporating estimated tax rates from 20% to 17.5% and 15% depending upon the future periods in which the respective timing differences will be deductible or taxable.

Transfer price legislation

A new transfer price law took effect from 1 January 2009. As before, the new law primarily applies to cross-border transactions involving sales of goods and services. In addition, the transfer price law applies to in-country sales and purchases of goods and services, if these transactions are determined to be effected not at market price.

Also, the new law eliminated the 10% price safe harbor that existed under the previous transfer price law (except for sales of agricultural produce). Accordingly, the tax authorities are now entitled to review prices charged in any transaction, where the contractual price deviates from the market price by any percentage.

Environmental matters

The Group is subject to extensive federal, local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

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The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Republic of Kazakhstan risk

Although in recent years there has been a general improvement in economic conditions in the Republic of Kazakhstan, the country continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly. Tax, currency and customs legislation within the Republic of Kazakhstan is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Republic of Kazakhstan. The future economic direction of the Republic of Kazakhstan is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

22. RISK MANAGEMENT ACTIVITIES

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern. The capital structure of the Group consists of net debt (borrowings as described in note 16 offset by cash and cash equivalents (disclosed in note 14) and equity of the Group (comprising issued share capital, reserves, accumulated losses and minority interest).

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, trade and other payables, obligations under finance lease and other non-current liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group financial assets represent mainly trade and other receivables, cash and cash equivalents and investments in securities.

	<u>2009</u>	<u>2008</u>
Financial assets		
<i>Loans and receivables, including cash and cash equivalents</i>		
Cash and cash equivalents	3,531	13,966
Trade and other receivables	<u>2,124</u>	<u>6,591</u>
Total financial assets	<u>5,655</u>	<u>20,557</u>
Financial liabilities		
Borrowings	278,628	244,578
Trade payables	1,771	14,976
Other payables	15,851	4,800
Obligations under finance leases	-	1,938
Other non-current liabilities	<u>15,526</u>	<u>4,029</u>
Total financial liabilities	<u>311,776</u>	<u>270,321</u>

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The main risks arising from the Group's financial instruments are commodity price, interest rate, foreign currency, credit and liquidity risks. Due to the fact that the Group has no investments in equity securities at 31 December 2009, management believes that the Group is not exposed to equity investments price risk.

Fair value of financial instruments

Management believes that the carrying values of financial assets (refer to notes 12 and 14) and financial liabilities (refer to notes 16, 18 and 19) recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature, except for the fair value of the Company's Senior Notes, which fair value at the reporting date was USD 201,000 thousand (2008: USD 96,000 thousand) based on the mid market price as quoted on the Luxembourg Stock Exchange.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of gold. A decline in gold prices could result in a decrease in profit and cash flows. Management of the Group regularly monitors gold price, market forecasts and believes that the current trend of price increase will continue in the future.

The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group's interest rate risk arises from borrowings at floating rates. The effect of interest rate risk is considered insignificant by the management as most of its borrowings are at fixed rates.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. All revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in KZT. Accordingly, operating profits are adversely impacted by appreciation of KZT against USD.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2009 and 2008 were as follows:

	Assets		Liabilities	
	2009	2008	2009	2008
USD	4,274	11,602	281,286	228,120
GBP	-	181	-	7,009
Total	4,274	11,783	281,286	235,129

Currency risk is monitored by performing sensitivity analysis in order to verify that the potential loss is at an acceptable level.

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The table below details the Group's sensitivity to changes of exchange rates of the KZT to USD and GBP by 10% which is the sensitivity rate used by the Group for internal reporting purposes. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	<u>2009</u>	<u>2008</u>
Profit or loss (KZT to USD)	27,701	21,652
Profit or loss (KZT to GBP)	-	683

Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, trade and other receivables and advances paid to suppliers.

Prior to dealing with a new counterparty, management assesses the credit worthiness and liquidity of the counterparty.

Although the Group sells substantially all the gold produced to two major customers, the Group is not economically dependant on these customers because of the high level of liquidity in the gold commodity market. Buyers of gold are required to make advance payments, therefore credit risk related to trade receivables is minimal. At 31 December 2009 the Group had USD 1,359 thousand of outstanding trade receivables from gold sales (31 December 2008: USD 957 thousand). Gold sales to the Group's two major customers, individually exceeding 10% of the Group's gold sales, amounted to USD 57,402 thousand (2008: USD 48,793 thousand).

Other receivables include amounts receivable from sales of other than gold-bearing goods and services. The procedures of accepting a new customer include check by a security department and responsible on-site management for a business reputation, licenses and certification, credit worthiness and liquidity.

Management of the Group believes that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting process and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

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The maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual payments is presented below:

2009	Total	Due within three months	Due from three to six months	Due from six to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due in thereafter
<i>Borrowings, including:</i>									
Principle	289,870	200,206	48,098	9,512	823	206	-	31,025	-
Interest	24,105	1,105	1,105	565	297	53	-	20,980	-
<i>Other non-current liabilities, including:</i>									
Principle	20,005	-	-	-	11,583	1,229	899	899	5,395
<i>Trade and other payables, including:</i>									
Principle	17,622	4,316	8,018	5,288	-	-	-	-	-
Total	351,602	205,627	57,221	15,365	12,703	1,488	899	52,904	5,395
2008									
<i>Borrowings, including:</i>									
Principle	247,270	18,296	-	23,010	5,964	-	-	200,000	-
Interest	92,623	1,016	9,742	9,742	18,750	18,750	18,750	15,873	-
<i>Obligations under finance leases, including:</i>									
Principle	1,938	568	-	-	1,370	-	-	-	-
Interest	192	73	-	-	119	-	-	-	-
<i>Other non-current liabilities, including:</i>									
Principle	8,991	-	-	-	-	899	899	899	6,294
<i>Trade and other payables, including:</i>									
Principle	19,776	16,179	2,865	732	-	-	-	-	-
Total	370,790	36,132	12,607	33,484	26,203	19,649	19,649	216,772	6,294

23. SUBSEQUENT EVENTS

In 2010, without notification to the Group, KKB confiscated USD 3,907 thousand from the Group's current bank account as a result of "Akir Group" LLP's default on its loan in the amount of USD 13,249 thousand (Note 18).

In February 2010, the Company signed a convertible loan agreement with its shareholder, Jenington International Inc., a wholly owned subsidiary of Polyus Gold. Under the loan agreement the Company may obtain up to USD 50,000 thousand. The principal amount of the loan together with accrued interest at the rate 9.27% per annum is payable in nine months after the date of the agreement. The Company has an option to convert the loan and accrued interest into its shares or GDRs at the price equal to the average of the closing prices of GDRs on London Stock Exchange for the period of 20 trading days ending on a trading day immediately preceding the date on which the conversion notice is provided to Jenington.