

# **Frontier Mining Ltd. (a Development Stage Enterprise)**

## **Consolidated Financial Statements**

Year ended December 31, 2004

## **and Independent Auditors' Report**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Frontier Mining Ltd

We have audited the accompanying consolidated balance sheet of the Frontier Mining Ltd (the "Company") as of December 31, 2004, and the related consolidated statement of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company as of December 31, 2003, were audited by another auditor whose report dated July 1, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Company as of December 31, 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to Note 2 to the accompanying consolidated financial statements. To date, the Company has not earned significant revenue as it is considered to be in the exploration and development stage. The ability of the Company to continue as a going concern is therefore dependent on the successful completion of the Company's development program and, ultimately, the attainment of profitable operations is dependent upon future events, including maintaining adequate financing to fulfill its development activities, obtaining regulatory approval, and achieving a level of sales adequate to support the Company's cost structure.

*Deloitte & Touche*

June 27, 2005

Audit • Tax • Consulting • Financial Advisory •

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**CONSOLIDATED BALANCE SHEET**

As of December 31, 2004

(in US Dollars)

	<i>Notes</i>	<i>2004</i>	<i>2003</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	4	182,556	65,075
Exploration and Development costs	5	3,210,726	1,308,658
Intangible assets	6	47,329	40,035
Total Non-current assets		<u>3,440,611</u>	<u>1,413,768</u>
<b>Current assets</b>			
Trade and other receivables	7	100,246	13,752
Cash and cash equivalents	8	2,650,743	882
Total Current assets		<u>2,750,989</u>	<u>14,634</u>
<b>TOTAL ASSETS</b>		<u>6,191,600</u>	<u>1,428,402</u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	9	611,179	15,995
Additional paid-in-capital	9	12,139,942	3,931,766
Treasury stock	9	(670)	(67)
Accumulated deficit		<u>(8,380,992)</u>	<u>(6,287,754)</u>
		<u>4,369,459</u>	<u>(2,340,060)</u>
<b>Non-current liabilities</b>			
Site restoration provision	10	112,000	90,985
<b>Current liabilities</b>			
Short term debt	11	861,735	2,613,334
Notes payable	12	-	495,823
Trade accounts payable	13	201,340	208,594
Other current liabilities	14	647,066	359,726
		<u>1,710,141</u>	<u>3,677,477</u>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<u>6,191,600</u>	<u>1,428,402</u>

Signed and authorized for release on behalf of the Board of the Company:

Chairman &amp; Chief Executive Officer



Brian Charles Savage

Chief Financial Officer



Thomas Ian Sinclair

June 27, 2005

*The accompanying notes on pages 6 to 20 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF OPERATIONS**

For the year ended December 31, 2004

(in US Dollars)

	<i>Notes</i>	<i>2004</i>	<i>2003</i>
General and administrative expenses	15	2,172,797	237,805
Gain from disposal of investment in associate		-	(706)
Other income		-	(14)
Finance costs	16	<u>56,977</u>	<u>739,030</u>
<b>Loss from operations</b>		2,229,774	976,115
Foreign exchange gain, net		<u>(136,536)</u>	-
<b>Loss before taxation</b>		2,093,238	976,115
Taxation	17	-	106
<b>Consolidated net loss</b>		<u>2,093,238</u>	<u>976,221</u>
<b>Loss per share</b> - basic and fully diluted	18	(\$0.09)	(\$1.01)

*The accompanying notes on pages 6 to 20 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended December 31, 2004

(in US Dollars)

	<i>Notes</i>	<i>Share capital</i>	<i>Additional paid-in- capital</i>	<i>Treasury stock</i>	<i>Accumulated deficit</i>	<i>Total</i>
<b>At December 31, 2002</b>		11,354	2,056,408	(67)	(5,311,533)	(3,243,838)
Conversion of short-term debt to equity	9	4,541	1,845,458	-	-	1,849,999
Capital contributions in cash	9	100	29,900	-	-	30,000
Net loss		-	-	-	(976,221)	(976,221)
<b>At December 31, 2003</b>		15,995	3,931,766	(67)	(6,287,754)	(2,340,060)
Shares granted to Directors, Management and employees	9	8,390	809,319	-	-	817,709
Capital contributions in cash, net of direct issue costs	9	233,433	4,126,784	-	-	4,360,217
Conversion of operating liabilities and loan notes to equity	9	186,902	3,437,929	-	-	3,624,831
Stock split: 10 for 1	9	166,459	(165,856)	(603)	-	-
Net loss		-	-	-	(2,093,238)	(2,093,238)
<b>At December 31, 2004</b>		611,179	12,139,942	(670)	(8,380,992)	4,369,459

*The accompanying notes on pages 6 to 20 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS****For the year ended December 31, 2004****(in US Dollars)**

	<i>Notes</i>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Loss before income tax		(2,093,238)	(976,115)
<i>Adjustments for:</i>			
Depreciation and amortisation		44,150	32,710
Finance costs		52,428	739,030
Gain from disposal of investment in associate		-	(706)
Loss from disposal of property and equipment		46,105	8,958
(Reversal of) provision for bad debts		-	(359,600)
Operating loss before working capital changes		<u>(1,950,555)</u>	<u>(555,723)</u>
<i>Changes in operating assets and liabilities:</i>			
Decrease (increase) in trade and other receivables		(86,494)	369,712
Increase in site restoration provision		21,015	-
Increase (decrease) in trade accounts payable *		112,746	3,465
Increase in other current liabilities **		<u>1,109,598</u>	<u>51,001</u>
Net cash flows used in operating activities		<u>(793,690)</u>	<u>(131,545)</u>
Cash flows from investing activities:			
Exploration and development assets		(1,902,068)	(18,722)
Proceeds from disposal of associate		-	600
Purchase of property and equipment and intangible assets		<u>(215,030)</u>	<u>-</u>
Net cash flows used in investing activities		<u>(2,117,098)</u>	<u>(18,122)</u>
Cash flows from financing activities:			
Capital contributions, net of direct issue costs (see note 9)		4,360,217	30,000
Proceeds received from convertible loan notes		2,306,126	-
Proceeds received from short term debts		-	238,128
Repayment of short term debts ***		(552,894)	-
Proceeds received from notes payable		-	10,000
Repayment of notes payable		(495,823)	(69,212)
Interest paid		<u>(56,977)</u>	<u>(61,557)</u>
Net cash flows from financing activities		<u>5,560,649</u>	<u>147,359</u>
Net increase/(decrease) in cash and cash equivalents		2,649,861	(2,308)
Cash and cash equivalents at the beginning of year	8	<u>882</u>	<u>3,190</u>
Cash and cash equivalents at the end of year	8	<u><b>2,650,743</b></u>	<u><b>882</b></u>

\* - the Company issued 40,000 ordinary shares at \$3.00 per ordinary share in satisfaction of certain operating liabilities (see note 9).

\*\* - the Company granted 200,000 ordinary shares at \$3.00 per ordinary share and 158,984 ordinary shares at 10.05 pence per ordinary share (\$0.1822 per share equivalent at the exchange rate in effect on that date) to Directors and management, and 480,000 ordinary shares at 20.50 pence per ordinary share (US\$0.3932 per share equivalent at the exchange rate in effect on that date) to employees (see note 9).

\*\*\* - the Company issued 5,993,526 ordinary shares at \$0.20 per ordinary share in satisfaction of loans and accumulated interest from Directors (see note 9).

*The accompanying notes on pages 6 to 20 are an integral part of these consolidated financial statements.*

(In US Dollars)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2004

### 1. GENERAL

#### Principal Activity

Frontier Mining Ltd (“Frontier” or “the Company”) was incorporated under the laws of the state of Delaware on August 5, 1998, for the purpose of exploring, and if warranted developing gold and copper deposits in the Republic of Kazakhstan.

Through its wholly owned subsidiaries, FML Kazakhstan LLP (“FMLK”) and Baltemir LLP, Frontier holds interests in, or is the beneficial owner of, non-producing gold and copper properties in Kazakhstan. The Company is actively exploring and developing its wholly owned Naimanjal and Baltemir contract and license areas.

The Naimanjal contract is for the combined 30 year exploration and extraction dated August 16, 1999. The Naimanjal license No. 1166DD currently covers an approximate area of 4,172 square kilometers in North Eastern Kazakhstan.

The Baltemir license covers an area of approximately 154 square kilometers in North Eastern Kazakhstan.

At December 31, 2004 the Company’s registered office was located at: 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, the USA. At December 31, 2004 the Company had four representative offices, two of which were located in the Republic of Kazakhstan, one in Colorado, USA and one in London, England.

The Company employed a total of 50 employees as of December 31, 2004 (2003: 9 employees).

#### Organization

On July 10, 1998, the founders of Frontier agreed that Frontier, upon its incorporation, would issue 280,000 shares of common stock at US \$0.01 par value per share to its founders as compensation and acquire, from SEMTECH, 100% of Polygon Resources, 70% of Besshoky LLP (“Besshoky”) and 50% of Semgeo LLP in exchange for the assets and assumption of liabilities and the issuance of 200,000 shares of Frontier common stock at par value. The acquisition was accounted for as a purchase for accounting purposes and, accordingly, the assets acquired and liabilities assumed were recorded at their respective fair market values as of the acquisition date. Polygon Resources LLP was re-registered on October 31, 1998 in Kazakhstan as FML Kazakhstan (“FMLK”) to reflect the name change and the Company’s 100% ownership.

In September 1999, Frontier acquired 100% of Baltemir LLP by issuing the owners 50,000 shares of Frontier common stock and agreeing to pay historical exploration expenses to the main shareholder.

Besshoky LLP and Semgeo LLP ceased their operations and were liquidated by the Company in January and February 2004, respectively.

#### Political and economic environment

The Kazakhstan economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market economy in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstan economy will be significantly impacted by the government’s continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, the Company’s operations and financial position will continue to be affected by Kazakhstan political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company’s ability to continue operations. As of December 31, 2004, the Company does not believe that any material matters exist relating to the developing markets and evolving fiscal and regulatory environment in Kazakhstan, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be misleading.

(In US Dollars)

## 2. BASIS OF PREPARATION

### Consolidated Subsidiaries

The consolidated financial statements include the following companies for the year ended December 31, 2004:

Subsidiary	Ownership	Domicile	Principal Business	License/Mine site
Frontier Mining LTD	100%	Delaware, USA	Management of the Company	–
FML Kazakhstan LLP	100%	Semipalatinsk region, Kurchatov city	Exploration and development	Naimanjal
Baltimir LLP	100%	Semipalatinsk region, Kurchatov city	Exploration	Baltemir

### Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in US Dollars (“US \$”), unless otherwise indicated. The US Dollar is used as the reporting and measurement currency as the majority of the Company’s transactions are denominated and measured in US Dollars. Transactions in other currencies are treated as transactions in foreign currencies.

The financial statements are prepared under the historical cost convention.

### Principles of Consolidation

The consolidated financial statements of the Company include Frontier and the companies that it controls, and from which it obtains economic benefits. This control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise, so as to benefit from its activities and plans to retain this control for at least one year from the balance sheet date. Subsidiaries are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated from the date control is deemed to be temporary, if easily determinable with reasonable certainty. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

### Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Going Concern

These consolidated financial statements were prepared on going concern basis and there is no evidence whether the Company is intended or in position to terminate or significantly reduce its operations in the near future.

The Company operates as a natural resources exploration company. To date the Company has not earned significant revenues and is considered to be in the exploration and development stage. The Company incurred losses of US \$2,049,270 and US \$976,221 for the years ended December 31, 2004 and 2003 respectively. These factors, as well as other factors, raise doubt about whether the Company can continue as a going concern.

Additional financing will be required to fund any material expenditures relating to new mineral exploration projects or advancing its current projects. Whilst the company has been successful in raising additional financing, there can be no assurance that the Company will be able to continue to raise such additional financing as may be required for future operations.

The Company intends to seek additional financing through the issuance of equity or debt instruments.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities that may result from the outcome of this uncertainty.

(In US Dollars)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Cash and Cash Equivalents

Cash includes cash on hand and cash held with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

#### Inventories

Materials are valued using the weighted-average method and carried at cost less allowance for obsolete and slow moving items.

Goods are valued using the weighted-average method and carried at lower of cost or net realized value.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and constructions	10 – 14
Machinery and equipment	4-10
Other	5 – 12

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment

#### Exploration and development costs

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project are capitalized (either tangible or intangible assets) and carried at cost with the intention that these will be depreciated by charges against earnings from future mining operations.

Exploration and development assets are measured at cost.

Expenditures related to the following activities are included in the initial measurement of exploration and development assets:

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

Expenditures are not included in the initial measurement of exploration and development assets are:

- the development of a mineral resource once technical feasibility and commercial viability of extracting a mineral resource have been established; and
- administration and other general overhead costs.

Upon commencement of production, exploration and development costs are amortised using the unit of production method based on the volumes of proved and probable reserves of ore and are written off as the assets are abandoned.

*(In US Dollars)*

**Site restoration costs**

Provision is made for the close down, restoration and, environmental clean up costs, where there is a legal or constructive obligations to do so, (which includes the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on the estimated future costs. The provision is discounted where material and the unwinding of the discount is shown as a finance cost in the consolidated statements of operations. At the time of establishing the provision, a corresponding asset is capitalized and depreciated on a unit of production basis upon the commencement of production.

The provision is reviewed on an annual basis for changes in cost estimated or lives of operations.

**Impairment of Assets**

Property, equipment and intangible assets, including mine development costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income for items carried at cost (i.e. intangibles) and treated as a revaluation decrease for assets that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. The carrying value of the Company's assets as of December 31, 2004 does not exceed their recoverable amount.

**Intangible Assets**

Intangible assets include goodwill, licenses, and computer software.

**Licenses**

Licenses are stated at cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is seven years.

**Computer Software**

Computer software development costs are recognized as assets at cost and are amortized on a straight-line basis over their useful lives, but not exceeding a period of seven years. Acquired computer software is accounted for under the same policies.

Intangible assets under development are not amortized. Amortization of these assets will begin when the related assets are placed in service.

**Goodwill**

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is amortized on a straight-line basis over six years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

**Trade and Other Receivables**

Trade and other receivables are stated at the unpaid balance of receivables less specific and general allowance for doubtful accounts. In order to determine the allowance for doubtful accounts, the Company's management estimates amounts of possible losses on receivables and advances on a case by case basis.

**Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue cost.

*(In US Dollars)*

**Taxation**

The Company is not subject to taxation on a consolidated basis.

Frontier is subject to United States federal, state and foreign income taxes. There are no currently payable income taxes. Deferred income taxes are provided for the tax consequences of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As of December 31, 2004 net deferred tax assets, primarily related to net operating loss carryforwards, have been entirely offset by a valuation allowance due to the uncertainty associated with the Company being able to generate taxable income in the future.

For companies working under Kazakhstan legislation current taxes are calculated in accordance with the regulations of the Republic of Kazakhstan and are based on the companies' operating results prepared under Kazakhstan Accounting Standards ("KAS") after adjustments for tax purposes.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying consolidated financial statements to the extent that there is a reasonable expectation of their realization. A valuation allowance is provided when it is probable that some portion or all of the deferred tax assets will not be realized.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or a part of that deferred tax asset to be utilized.

Kazakhstan also has various taxes that are assessed on a Company's activities. These taxes are included separately in other expenses.

**Employee benefit costs**

The Company does not have any pension program. Subsidiaries also do not have any pension arrangements separate from the State pension scheme of the Republic of Kazakhstan, which requires current contributions by the employer and employee calculated as a percentage of current gross salary payments. Such contributions (social tax payments) are charged to expense as incurred.

**Provisions**

A provision is recognized when, and only when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**Borrowings Costs**

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset.

*(In US Dollars)***Foreign Currency Translation**

Monetary amounts denominated in Tenge are translated to US \$ at the exchange rate in effect at the balance sheet date. Non-monetary amounts denominated in a foreign currency are translated at historical rates. Revenues and expenses arising in Tenge or other foreign currencies are translated at the exchange rate in effect at the date the transaction occurred. Foreign exchange gains or losses resulting from the translation of Tenge into US \$ are included in or charged to operations for the year.

**Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

**Related parties**

Related parties include the Company's shareholders, key management personnel, associates and enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Company's shareholders or key management personnel.

**4. PROPERTY AND EQUIPMENT**

The movement of property, plant, and equipment for the year ended December 31, 2004 was as follows:

	<i>Machinery &amp; equipment</i>	<i>Transport &amp; vehicles</i>	<i>Office equipment, IT and other</i>	<i>Capital work in progress</i>	<i>Total</i>
<b>Cost:</b>					
At December 31, 2002	37,919	-	72,366	1,900	112,185
Disposal	-	-	(16,322)	-	(16,322)
At December 31, 2003	37,919	-	56,044	1,900	95,863
Additions	29,824	31,224	121,571	-	182,619
Disposal	-	-	(55,677)	-	(55,677)
<b>At December 31, 2004</b>	<b>67,743</b>	<b>31,224</b>	<b>121,938</b>	<b>1,900</b>	<b>222,805</b>
<b>Accumulated Depreciation:</b>					
At December 31, 2002	(4,746)	-	(24,336)	-	(29,082)
Charge for the year	(1,328)	-	(7,742)	-	(9,070)
Disposal	-	-	7,364	-	7,364
At December 31, 2003	(6,074)	-	(24,714)	-	(30,788)
Charge for the year	(1,846)	(2,478)	(14,709)	-	(19,033)
Disposal	3,037	-	6,535	-	9,572
<b>At December 31, 2004</b>	<b>(4,883)</b>	<b>(2,478)</b>	<b>(32,888)</b>	<b>-</b>	<b>(40,249)</b>
<b>Net Carrying Amount:</b>					
At December 31, 2002	33,173	-	48,030	1,900	83,103
At December 31, 2003	31,845	-	31,330	1,900	65,075
<b>At December 31, 2004</b>	<b>62,860</b>	<b>28,746</b>	<b>89,050</b>	<b>1,900</b>	<b>182,556</b>

*(In US Dollars)***5. EXPLORATION AND DEVELOPMENT COSTS**

The movement of exploration and development assets for the year ended December 31, 2004 was as follows:

<b>Cost:</b>	
At December 31, 2002	1,273,470
Additions	<u>35,188</u>
At December 31, 2003	1,308,658
Additions	<u>1,902,068</u>
<b>At December 31, 2004</b>	<b><u>3,210,726</u></b>

**6. INTANGIBLE ASSETS**

The movement of intangible assets for the year ended December 31, 2004 was as follows:

	<i>Licenses</i>	<i>Software</i>	<i>Goodwill</i>	<i>Total</i>
<b>Cost:</b>				
At December 31, 2003	2,847	30,761	124,907	158,515
Additions	-	32,411	-	32,411
<b>At December 31, 2004</b>	<b><u>2,847</u></b>	<b><u>63,172</u></b>	<b><u>124,907</u></b>	<b><u>190,926</u></b>
<b>Accumulated Amortisation:</b>				
At December 31, 2002	(924)	(10,652)	(83,264)	(94,840)
Charge for the year	(192)	(2,630)	(20,818)	(23,640)
At December 31, 2003	(1,116)	(13,282)	(104,082)	(118,480)
Charge for the year	(192)	(4,100)	(20,825)	(25,117)
<b>At December 31, 2004</b>	<b><u>(1,308)</u></b>	<b><u>(17,382)</u></b>	<b><u>(124,907)</u></b>	<b><u>(143,597)</u></b>
<b>Net Carrying Amount:</b>				
At December 31, 2003	1,731	17,479	20,825	40,035
<b>At December 31, 2004</b>	<b><u>1,539</u></b>	<b><u>45,790</u></b>	<b><u>-</u></b>	<b><u>47,329</u></b>

Goodwill arose at the acquisition of FML Kazakhstan LLP and Baltermir LLP in 1998 and 1999, respectively.

**7. TRADE AND OTHER RECEIVABLES**

As of December 31, trade and other receivables comprised:

	<u>2004</u>	<u>2003</u>
Trade receivables	<b>24,845</b>	-
Prepayments for works and services	<b>49,298</b>	-
Security deposit on office rent	<b>2,468</b>	2,468
Due from employees	<b>7,228</b>	8,000
Other	<b>16,407</b>	3,284
	<b><u>100,246</u></b>	<b><u>13,752</u></b>

As of December 31, 2004 trade and other receivables were mainly denominated in US Dollars.

*(In US Dollars)***8. CASH AND CASH EQUIVALENTS**

As of December 31, cash and cash equivalents comprised the following:

	<u>2004</u>	<u>2003</u>
US Dollars current bank account	<b>113,011</b>	6
GBP current bank account	<b>2,465,042</b>	-
KZT current bank account	<b>67,410</b>	169
Cash on hand	<b>5,280</b>	707
	<u><b>2,650,743</b></u>	<u>882</u>

**9. SHARE CAPITAL**

As of December 31, 2004, the Company's authorized capital comprises 100,000,000 ordinary shares of US \$0.01 par value each. (2003: 2,000,000 shares at US \$0.01 par value each)

Movements in the share capital for the year ended December 31, 2004 was as follows:

	<b>Number of shares and outstanding</b>	<b>Nominal amount</b>	<b>Treasury stocks</b>	<b>Additional paid in capital</b>	<b>Total</b>
<b>December 31, 2002</b>	1,135,400	11,354	(67)	2,056,408	2,067,695
Conversion of notes payable to equity	454,100	4,541	-	1,845,458	1,849,999
Capital contributions in cash	10,000	100	-	29,900	30,000
<b>December 31, 2003</b>	<b>1,599,500</b>	<b>15,995</b>	<b>(67)</b>	<b>3,931,766</b>	<b>3,947,694</b>
Shares granted to Directors and Management	200,000	2,000	-	598,000	600,000
Capital contributions in cash	10,000	100	-	29,880	29,980
Conversion of operating liabilities to equity	40,000	400	-	119,600	120,000
Total before split	1,849,500	18,495	(67)	4,679,246	4,697,674
Stock split: 10 for 1	16,645,900	166,459	(603)	(165,856)	-
Total shares after split	18,495,400	184,954	(670)	4,513,390	4,697,674
Conversion of short term debt of Directors and Management to equity	5,993,526	59,935	-	1,138,770	1,198,705
Shares granted to Directors and Management	158,984	1,590	-	27,378	28,968
Conversion of convertible loan notes to equity	12,656,657	126,567	-	2,179,559	2,306,126
AIM placement, net of direct issue costs	23,333,330	233,333	-	4,096,904	4,330,237
Shares granted to employees	480,000	4,800	-	183,941	188,741
<b>December 31, 2004</b>	<u><b>61,117,897</b></u>	<u><b>611,179</b></u>	<u><b>(670)</b></u>	<u><b>12,139,942</b></u>	<u><b>12,750,451</b></u>

At December 31, 2004, the Company had 61,117,897 ordinary shares authorized, issued and fully paid with par value of US \$0.01 (2003: 1,599,500 ordinary shares). During 2002, the Company purchased 6,667 treasury shares of US \$0.01 par value each.

Shareholders are permitted one vote per share. All common shares rank equally with regard to the Company's residual assets.

On 27 February 2004, by a vote of its shareholders, the Company increased its authorized share capital from 2,000,000 ordinary shares to 100,000,000 ordinary shares of US \$0.01 par value each.

(In US Dollars)

On 31 March 2004, the Company issued 250,000 ordinary shares of US \$0.01 par value each at a price of US \$3.00 per ordinary share, including 200,000 ordinary shares that were granted to management, 40,000 ordinary shares at a price of US \$3.00 per ordinary share were issued in satisfaction of operating liabilities, and 10,000 ordinary shares at a price of US \$2.998 per ordinary share were issued for cash.

On 2 August 2004, each of the existing ordinary shares of US \$0.01 par value each in the capital of the Company was subdivided into 10 ordinary shares of US \$0.01 par value each

On 2 September 2004, the Company converted US \$1,198,705 loans from employees in exchange for 5,993,526 ordinary shares at a price of US \$0.20 per ordinary share. Those loans were denominated in US Dollars and were payable on demand. The Company issued 158,985 ordinary shares at a price of 10.05 pence per ordinary share (US \$28,968 equivalent at the exchange rate in effect on that date) were granted to Directors.

On 2 September 2004, the Company converted £1,271,994 face value Convertible Loan Notes into 12,656,657 ordinary shares of US \$0.01 par value each at a price of 10.05 pence per ordinary share (US \$2,306,125 equivalent at the exchange rate in effect on that date) and 12,656,657 warrants to purchase one ordinary share of US \$0.01 par value each at a price of 16.5 pence per ordinary share at any time on or before 31 December 2005. The 12,656,657 ordinary shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM") on 2 September 2004. No warrants were converted into ordinary shares as at December 31, 2004.

On 2 September 2004, the Company placed 23,333,334 ordinary shares of US \$0.01 par value each with institutional investors in the United Kingdom at a price of 15 pence per ordinary share to raise £3.5 million (US \$6,345,500 equivalent at the exchange rate in effect on that date) before expenses. These ordinary shares were admitted to trading on AIM on 2 September 2004. The Company incurred US \$2,015,263 of issuance costs on admission to the AIM. Those costs included registration and regulatory fees, legal, accounting and professional advisory fees, printing costs, stamp duties and internal costs of the enterprise. Costs were deducted from the proceeds of share issuance.

On 2 September 2004, the Company's 24,580,920 ordinary shares of US \$0.01 par value each already issued and outstanding were admitted to trading on AIM.

On 31 December 2004, the Company granted 480,000 ordinary shares to their employees in exchange for cash for their contribution in the development of the Company. Ordinary shares were trading at 20.50 pence per ordinary share on that day (US \$0.3932 equivalent at the exchange rate in effect on that date).

## 10. SITE RESTORATION PROVISION

As of December 31, 2004 environmental restoration provisions related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage. Most of these costs are expected to be incurred at the end of the mines' useful operations, approximately between the years 2025 to 2026. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the estimated lives of the mines, the scale of any possible contamination and the timing and extend of corrective actions.

The movements in the site restoration provision were as follows for the years ended December 31:

	<i>2004</i>	<i>2003</i>
At the beginning of the year	<b>90,985</b>	70,970
Site restoration provision	<b>16,466</b>	16,466
Unwinding of discount	<b>4,549</b>	3,549
<b>At the end of the year</b>	<b>112,000</b>	90,985

*(In US Dollars)***11. SHORT-TERM DEBT**

As of December 31, short-term debt comprised the following:

	<u>2004</u>	<u>2003</u>
Loans from directors and management	-	1,725,695
Debt to Degelen LLP	<b>412,106</b>	412,106
Loans from Small World Associates Company ("SWA")	<u>109,629</u>	<u>135,533</u>
	<b>521,735</b>	<b>2,273,334</b>
Debt to the Trade Development Agency of the United States of America ("TDA")	<u>340,000</u>	<u>340,000</u>
	<u><b>861,735</b></u>	<u><b>2,613,334</b></u>

Loans from directors and management were repaid and converted to ordinary shares after the Company successfully admitted to AIM in September 2004 (see note 9).

As of December 31, 2004 the debt to Degelen LLP, the former shareholder of Baltemir LLP, comprised payables for technical services related to geological works and was denominated in US Dollars. These payables are interest free and payable on demand.

As of December 31, 2004 loans from SWA comprised payables for surveyor and geochemical sampling services provided by SWA. The loans are denominated in US Dollars, interest free and payable on demand.

As of December 31, the grant from the Trade Development Agency of the USA was interest free and denominated in US Dollars. In accordance with the terms of the grant, the grant is refundable to the TDA when the Company succeeds in obtaining funding for the Naimanjil Project based on feasibility study that the grant was provided to finance.

During the year, the Company received proceeds from Convertible Loan Notes in the amount of £1,271,994 (US \$2,306,125 equivalent at the exchange rate in effect on that date) issued to third party investors (2003: nil). The loan agreements were unsecured, interest free, and carried no fixed terms of repayment. On 2 September 2004, the Company converted 100% of the outstanding Convertible loan Notes into 12,656,657 Ordinary Shares (see note 9).

**12. DEMAND NOTES PAYABLE**

In September 2004, notes payable denominated in US Dollars and carrying interest rates ranging from 5% to 20% per annum were fully repaid after the Company was successfully admitted to AIM. None of the notes were converted into ordinary shares.

**13. ACCOUNTS PAYABLE**

As of December 31, 2004 trade accounts payable comprise payables for geological, topographical and geophysical studies and general administrative expenses which were denominated in US Dollars.

**14. OTHER CURRENT LIABILITIES**

As of December 31 other current liabilities comprised the following:

	<u>2004</u>	<u>2003</u>
Taxes other than on income	<b>32,223</b>	19,960
Tax penalties provision	<b>335,618</b>	305,618
Due to employees	<b>218,429</b>	13,596
For audit services provided	<b>59,758</b>	20,552
Other	<u>1,038</u>	-
	<u><b>647,066</b></u>	<u>359,726</u>

*(In US Dollars)***15. GENERAL AND ADMINISTRATIVE EXPENSES**

The composition of general and administrative expenses for the years ended December 31 was as follows:

	<i>2004</i>	<i>2003</i>
Payroll and related staff costs	<b>535,869</b>	333,326
Shares grants and options to Directors, Management and employees	<b>817,709</b>	
Travel and accommodation	<b>191,733</b>	42,508
Taxes other than income tax	<b>51,293</b>	47,112
Audit and accounting fees	<b>43,750</b>	36,969
Rent and office services	<b>189,394</b>	33,733
Depreciation and amortization	<b>23,764</b>	32,710
Telecommunication	<b>73,108</b>	19,473
Loss from disposal of property and equipment	<b>3,475</b>	8,958
Printing stationary and office miscellaneous	<b>29,090</b>	8,006
Insurance	<b>98,517</b>	6,209
Transportation expenses	-	2,937
Bank charges	<b>3,199</b>	1,041
Financial and consulting services	<b>109,987</b>	60
Bad debt provision	-	(359,600)
Other expenses	<b>1,909</b>	24,363
	<b><u>2,172,797</u></b>	<b><u>237,805</u></b>

**16. FINANCE COSTS**

The composition of finance costs for the years ended December 31 was as follows:

	<i>2004</i>	<i>2003</i>
Interest on the loan from Voyager Fund	-	521,005
Interest on the loan from employees	<b>13,634</b>	67,249
Interest on notes payable	<b>38,794</b>	130,285
Interest on loans from SWA	-	16,942
Unwinding of discount for site restoration provision	<b>4,549</b>	3,549
	<b><u>56,977</u></b>	<b><u>739,030</u></b>

*(In US Dollars)***17. TAXATION**

The Corporate income tax expenses as of December 31, 2004 comprises:

	<u>2004</u>	<u>2003</u>
Current tax charge	-	106

The effective income tax rate differs from statutory income tax rates. A reconciliation of the income tax expenses based on statutory rates with actual is as follows for year ended December 31, 2004:

Loss before income tax	(2,093,238)	(976,115)
Statutory tax rate	<u>30%</u>	<u>30%</u>
Theoretical income tax benefit at the statutory rate	(627,971)	(292,835)
	-	106
Payroll and related staff cost	234,406	90,285
Travel and accommodation	57,520	21,905
Taxes other than income tax	13,135	13,633
Audit and accounting fees	-	4,047
Rent and office expenses	20,955	5,414
Depreciation and amortisation	7,129	7,246
Telecommunication services	6,447	8,264
Loss from disposal of property and equipment	-	2,687
Printing stationary and office miscellaneous	8,727	1,855
Insurance	29,555	2,053
Transportation expenses	-	179
Bank charges	960	593
Financial and consulting services	32,996	589
Bad debt provision	-	(107,880)
Other expenses	573	12,376
Changes in unrecognized deferred tax assets	215,569	229,589
	<u>-</u>	<u>106</u>

As of December 31, 2004, for financial reporting purposes, the deferred tax assets were not recognized in accordance with the prudence concept due to the uncertainty that these deferred tax assets will be realized.

Exploration and development cost capitalized in tax books	1,505,425	1,289,856
Unrecognised deferred tax assets	<u>(1,505,425)</u>	<u>(1,289,856)</u>
Deferred tax assets	<u>-</u>	<u>-</u>

(In US Dollars)

## 18. LOSSES PER SHARE

Basic losses per share are calculated by dividing the net losses for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted losses per share are calculated by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options, warrants and other shares reserved for issuance).

The following reflects the losses and share data used in the basis and diluted losses per share computations:

	<u>2004</u>	<u>2003</u>
Net loss attributable to common shareholders for basic earnings per share	(2,093,238)	(976,221)
Net loss attributable to common shareholders for diluted earnings per share	(2,093,238)	(2,093,238)
Weighted average number of common shares for basic earnings per share	22,525,009	961,897
Effect of dilution:		
Convertible debt	-	461,699
Warrants	4,172,903	-
Adjusted weighted average number of common shares for diluted earnings per share	26,697,912	1,423,596

There have been no other transactions involving common shares or potential common shares since the reporting date and before the completion of these financial statements. The effect of warrants on earnings per share is anti-dilutive.

## 18. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

### License Commitments

In 2005 the Company prolonged contracts for exploration and production for Naimanjai and Baltemir sites. Each contract includes a work program defining the Company's obligations for investment into research and exploration of the fields. The total amount of the minimum work program commitments is US \$500,000 to December 31, 2006.

### Taxation

Legislation and regulations regarding taxation, foreign currency translations and licensing of foreign currency loans in the Republic of Kazakhstan continue to evolve as the central government manages the transformation from a command to a market-oriented economy.

The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, National Bank officials, and the Ministry of Finance. Instances of inconsistent opinions between local, regional, and national tax authorities and between National Bank and the Ministry of Finance are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's law, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid. Interest is assessable at rates of generally 0.03% per day. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes is unclear, the Company has accrued tax liabilities based on management's best estimate.

Because of the uncertainties associated with the Kazakh tax and legal systems, the ultimate amount of taxes, penalties and interest, if any, assessed may be in excess of the amount expensed to date and accrued at December 31, 2003. Although such amounts are possible and may be material, it is the opinion of the Company's management that these amounts are either not probable, not reasonably determinable, or both.

(In US Dollars)

### Environmental Matters

The Company 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 assurances that contingent liabilities do not exist.

### Legal Issues

In the ordinary course of business, the Company can be subject to legal actions and complaints. Management is not aware of any current or pending legal action or complaint. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

## 19. FINANCIAL INSTRUMENTS

The Company, in connection with its activities, is exposed to various financial risks associated with its financial instruments. Financial instruments are comprised primarily of cash, receivables, payables and borrowings.

### Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. The Company has raised and expects to continue to raise a substantial portion of its equity capital in Great British Pounds and transacts the majority of its business in US Dollars and Kazakhstan Tenge. The management of the Company believes that any possible fluctuations of foreign currency exchange rates will not have a material impact on the financial position of the Company and the results of its operations.

### Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet currently budgeted commitments as they become payable. The Company keeps its funds in cash and interest-bearing demand accounts at financial institutions where management believes there is little risk of loss of principal. The management of the Company believes that any possible fluctuations of future cash flows associated with monetary financial instruments will not have a material impact on the Company's operations.

Additional finance will be required to fund any material expenditure relating to new mineral exploration projects or advancing its current projects. While the company has been successful in raising additional finance, there can be no assurance that the Company will be able to continue to raise such additional financing as may be required for future operations.

## 20. RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties for the year ended December 31, 2004 and balances as of this date were carried out at market terms and were as follows:

	2004		2003	
	Related party transactions	Total category	Related party transactions	Total category
Trade and other receivables	3,156	100,246	7,000	13,752
Short term debt	412,106	861,735	2,273,334	2,613,334
Notes Payable	-	-	343,791	495,823
Trade accounts payable	31,576	201,340	98,913	208,594
Other current liabilities	322,682	647,066	-	-
Finance cost	52,428	56,977	723,481	739,030

As December 31, 2004, related parties primarily include the directors and management of the Company who own the majority of the Company's share capital

*(In US Dollars)*

## **21. SUBSEQUENT EVENTS**

### **Share Capital Increase**

On 4 March 2005, the Company placed 17,500,000 ordinary shares of US \$0.01 **par value** each ("New Ordinary Shares") with institutional investors in the United Kingdom at a price of 25 pence per ordinary share to raise £4.375 million before expenses (US \$8.122 million equivalent at the exchange rate in effect on that date). These New Ordinary Shares were admitted to trading on AIM on March 10, 2005.

As of June 27, 2005, 9,552,240 warrants were exercised at a price of 16.5 pence per ordinary share providing the Company with £1.576 million additional proceeds (US \$2.993 million equivalent at the exchange rate in effect on that date). The ordinary shares issued upon exercise of warrants are admitted to trading on the AIM as soon as possible after their issuance.

On June 17, 2005 Numis Securities Limited exercised its option to purchase 605,709 ordinary shares of US \$0.01 each at a price of 15 pence per ordinary share (US \$0.27 equivalent at the exchange rate in effect on that date) providing the Company with £90,856 (US \$163,541.43 equivalent at the exchange rate in effect on that date).

### **Short term debt repayment**

In May 2005, the Company repaid in full the outstanding Degelen LLP historical debt in the amount of US \$412,106 (see note 11 & 21).

### **Subsurface contracts & licenses**

In March 2005, Center KazNedra ("KazNedra"), the Kazakhstan regional governmental agency responsible for exploration and mining, approved "Commercial Discoveries" and exploration extensions for two gold and two copper/gold projects located within the Naimanjal contract and license to December 2007.

Kaznedra also approved the Baltemir exploration contract and license was extended for two years to March 2007.

### **Naimanjal Gold Mining Complex**

The Company had spent approximately US\$2.94 million on capital expenditures for the Naimanjal Complex from start of construction in January 2005. The Company plans to commence gold production in 2005.