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# **KRYSO RESOURCES PLC**

*Company Registration Number 05190505*

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2010**

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# KRYSO RESOURCES PLC

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# KRYSO RESOURCES PLC

## Company Information

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<b>Directors</b>	Tao Luo Craig William Brown  Abuali Ismatov David Tang Leonard Lee Dr Trevor Davenport	<i>(Non-Executive Chairman)</i> <i>(Managing Director and Finance Director)</i> <i>(Executive Director)</i> <i>(Non-Executive Director)</i> <i>(Non-Executive Director)</i> <i>(Non-Executive Director)</i>
<b>Company Secretary</b>	Craig William Brown	
<b>Business Address</b>	Unit 3H, Cooper House 2 Michael Road London SW6 2AD	
<b>Registered Office</b>	Unit 3H, Cooper House 2 Michael Road London SW6 2AD	
<b>Nominated Adviser</b>	Evolution Securities Limited 100 Wood Street London EC2V 7AN	
<b>Bankers</b>	National Westminster Bank Plc Knightsbridge Commercial Business Centre 180 Brompton Road London SW3 1HL	
<b>Independent Auditors</b>	Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD	
<b>Solicitors</b>	Speechly Bircham LLP 6 New Street Square London EC4A 3LX	

# KRYSO RESOURCES PLC

## Chairman's Statement

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### Financial Highlights

- Development work costs up 50% to US\$2,640,000 (2009: US\$1,759,000). These costs have been fully capitalised.
- Administration costs down 21% to US\$935,000 (2009: US\$1,184,000).
- Loss down 11% to US\$1,117,000 (2009: US\$1,259,000).
- Allotment of 73,333,333 new ordinary shares at a price of 15p per share to China Nonferrous Metals Int'l Mining Co. Ltd. ("CNMIM"), raising approximately £11,000,000 resulting in CNMIM holding 29.9% of our Company. In addition, CNMIM were also issued 73,333,333 warrants, each entitling CNMIM to subscribe for one ordinary share in the Company at a price of 21p per share.

### Operational Highlights

- 2010 drilling programme results confirm that mineralization is continuing at depth at Pakrut. Eastern Pakrut drilling confirms consistency of thickness and grade with previous drilling results at the prospect, demonstrating significant potential to expand the resources in the Pakrut general area.
- Bankable Feasibility Study ("BFS") completed by the Beijing General Research Institute of Mining and Metallurgy ("BGRIMM").
- Following tender process, BGRIMM appointed to complete engineering design of the mine and plant for the development of the Pakrut Gold Deposit.

### Highlights since year end

- April 2011 JORC compliant resources at Pakrut increased 18% to 3,578,000 oz Au at a 0.0 g/t Au cut-off grade (June 2010: 3,024,000 oz Au), with total Measured Resources up 54% to 1,488,000 oz Au at a 0.5 g/t cut-off (June 2010: 969,000 oz Au).
- Export Import Bank of China ("China Eximbank") issued a LOI on 7 March 2011 confirming its interest in providing 70% of the financing required by our Company for the Pakrut project production development.

In my first annual statement to Shareholders as Non-Executive Chairman of Kryso Resources PLC, I am extremely pleased to report on significant progress in our operations and Company structure. I believe that 2010 will in the future prove to be a very significant year in the development of our Company.

Since the publication of our 2010 interim results statement, Kryso has made considerable technical progress at the Pakrut Gold Deposit including, amongst other developments, the release of the BFS, which has included the results of our 2010 diamond drilling programme and an updated JORC Resource estimate.

In addition, the investment and cooperation by our new major shareholder, CNMIM, has not only progressed our financing objectives for the Pakrut project but has also helped add key technical, management and financing expertise to our management team.

### *The Pakrut Gold Project*

#### *Drilling Results and JORC Resources Updates*

In March 2011, we announced some highly positive results of our Pakrut drilling programme completed during 2010. The results improved the definition of the Pakrut resources and confirmed that mineralization is continuing at depth. In addition, our objective to further investigate Eastern Pakrut confirmed that the mineralization also continues at depth. In total 6,967 metres were drilled during 2010 in a total of 16 drill holes. Significant mineralized intercepts were obtained from 15 of the drill holes.

These results were especially encouraging in terms of the Indicated Resource of the lower eastward extension of Ore Zone 1 and by the consistency of thickness and grade with previous drilling results from the whole Pakrut ore zone. They demonstrate the significant potential to expand the resource at Pakrut.

We are also delighted to announce significant increases in our resource estimates. Following the completion by Snowden Mining Industry Consultants (Pty) Ltd ("Snowden") of an updated JORC Code-compliant resource estimate, we announced in April 2011 that total JORC resources increased to 3,578,000 oz Au at a 0.0 g/t cut-off

# KRYSO RESOURCES PLC

## Chairman's Statement (continued)

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– up 18% from the 3,024,000 oz Au announced in June 2010. Total Measured Resources increased by 54% to 1,488,000 oz Au at a 0.5 g/t cut-off (June 2010: 969,000 oz Au). Significantly, the Eastern Pakrut Inferred Resource increased by 354% to 369,000 oz Au at a 0.5 g/t cut-off. Snowden's updated estimates include the results of the 2010 drilling programme at Pakrut and Eastern Pakrut referred to above.

### *Bankable Feasibility Study*

In October 2010, the results of the BFS, completed by the Beijing General Research Institute of Mining & Metallurgy ("BGRIMM"), detailed some very positive findings. These are summarised below:

- A mine life of 14 years with average gold production of 82,000 oz over the first four years
- Life of mine operating costs of US\$377/oz Au
- At a US\$897/oz gold price the project would have:
  - NPV (10%) of US\$121 million
  - IRR of 40%
  - Payback period of 3.0 years
- At a US\$1,250/oz gold price the project would have:
  - NPV (10%) of US\$227 million
  - IRR of 58%
  - Payback period of 2.7 years
- Total capital required for development of approximately US\$108 million.

BGRIMM has further recommended that optimisation of the project be carried out prior to construction to further improve the economic viability of the mine. The above figures are all pre-tax but allow for anticipated debt financing costs.

Following the BGRIMM recommendation and a tender process completed in December 2010, Kryso announced in January 2011 that BGRIMM had been appointed to complete the detailed engineering design of the mine and plant for the development of the Pakrut Gold Deposit. These plans are now close to optimisation and approaching completion.

Further progress on the Pakrut project, post the year end, includes negotiating with potential contractors for construction and the procurement of equipment. Two bulldozers, a D7 and D8, have been purchased, allowing for the provision of earthworks; in addition, an agreement has been signed to purchase two new and more powerful core drill rigs to continue exploration at greater depths at the Pakrut deposit.

### *CNMIM Transaction and Finance Progress*

Following a number of months of technical and financial due diligence on the part of CNMIM, our Company was delighted to announce on 23 November 2010 the allotment of 73,333,333 new ordinary shares in the Company at a price of 15p per share to CNMIM. This transaction raised approximately £11,000,000 before expenses for our Company, resulting in CNMIM holding 29.9% of our Company's shares. In addition, CNMIM were also issued 73,333,333 warrants, each entitling CNMIM to subscribe for one ordinary share in the Company at a price of 21p per share.

The proceeds of this Placing were immediately deployed to fund the development of the Pakrut Gold Project and accelerate exploration within the Pakrut Licensed Area, as well as to undertake further exploration at the Company's Hukas nickel-copper project.

As a condition of this investment, CNMIM had agreed to use its best endeavours to secure debt financing of a minimum of 70% of the funding required to bring the Pakrut Gold Project into production. Following BFS approval by the Board in January 2011, the Export Import Bank of China ("China Eximbank") issued a LOI on 7 March 2011 confirming its interest in providing 70% of the financing required by our Company for the Pakrut project production development. The funding amount has been calculated as 70% of the total BFS capital expenditure estimate as prepared by the Beijing General Research Institute of Mining & Metallurgy ("BGRIMM"), equal to approximately US\$77,000,000. In addition, CNMIM has arranged for its parent company, China Nonferrous Metals Group Co. Ltd., to act as guarantor in respect of the proposed financing from China Eximbank.

# KRYSO RESOURCES PLC

## Chairman's Statement (continued)

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The LOI is dependent on concluding final documentation and is subject to a number of conditions including due diligence and further approvals, and is valid for six months from the date of issue.

### *Management and Operational Changes*

I am also pleased to report on a number of management and board level changes at the Company. I was delighted to be appointed as Non-Executive Chairman, along with the appointment of Mr We Li Tang (also known as David Tang) as a Non-Executive Director, in December 2010. As part of these changes, Dr Trevor Davenport agreed to step down as Non-Executive Chairman, remaining as a Non-Executive Director of our Company where his technical expertise and input continues to be significant.

I am the President and a Director of China Nonferrous Metal Mining (Group) Ltd ("CNMC") and also a Director of CNMIM amongst others. Mr Tang is a Director of CNMIM. CNMIM is a PRC mining investment company with shareholders that include CNMC and 15 other PRC mining industry shareholders. CNMIM has investments in mining projects in Zambia, Kyrgyzstan, Australia, Laos and the PRC.

Since the beginning of 2011, we have further strengthened our team with two appointments. Li Li (also known as Leonard Lee) was appointed as Non-Executive Director of the Company in January 2011. Leonard represents Golden Max Group Limited, our second largest shareholder with 13.4% of the Company's shares, and brings a wealth of corporate finance experience to our team. Richard Li was appointed as our Chief Operating Officer. Richard has 28 years mining experience, as an engineer and department manager for China ENFI Engineering Co. Ltd and more recently as Vice President of CNMIM.

We have also appointed Evolution Securities Limited as our Nominated Advisor and Joint Broker in April 2011. Evolution's mining expertise and first-rate Nomad team strengthens our London AIM advisory team significantly.

Finally, we were also very pleased to announce the legal registration of our Beijing Representative Office in February 2011. This office is responsible for the procurement of goods for the Pakrut Project as well as the provision of administrative services in China.

I am very confident that the above changes will significantly strengthen our management and advisory teams in terms of technical, logistical and financial expertise.

### *Financial Results for the Year ended 31 December 2010*

The amount spent by the Company on development work during the year increased by 50% to US\$2,640,000 (2009: US\$1,759,000). Administration expenditure decreased by 21% to US\$935,000 (2009: US\$1,184,000). The overall loss incurred by the Company decreased by 11% from US\$1,259,000 to US\$1,117,000. Total cash equity funding raised from exercising warrants and options during the period was US\$2,654,998.

### *Outlook*

Kryso has made significant technical progress during 2010 in advancing its 100% owned Pakrut gold project, and the detailed engineering design of the mine and plant is approaching final optimisation. CNMIM's investment, and its progress in the work to secure debt funding for Pakrut's development, has moved the Company into a strong financial position from which to accelerate its progress toward full commercial production. I am therefore very confident that we remain on target to reach production in the second half of 2012.

I would like to take this opportunity to thank all of our employees, management and advisors for their efforts during 2010 and also thank our shareholders for their continued support of our Company. We look forward to our Company's further progress in the coming year.



Tao Luo  
**Non-Executive Chairman**  
7 June 2011

# KRYSO RESOURCES PLC

## Report of the Directors

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The Directors present their report and the audited Financial Statements of the Group for the year ended 31 December 2010.

### **Principal Activity**

The principal activity of the Company during the year was that of a holding company. The principal activity of the Group is that of mineral exploitation and development.

### **Business Review**

#### **Introduction**

Kryso Resources is a mineral exploration Company that is principally focused on evaluating gold and other precious and base metal deposits discovered in Central Asia during the Soviet era and then, where appropriate, bringing them into production.

Kryso Resources, which has its head office in London, is a public company that was admitted to AIM in December 2004 in order to continue funding the development of the Pakrut Gold Deposit and the exploration of the Pakrut Licence Area, and better position the Group to obtain and acquire other gold and base metal deposits in Tajikistan.

The Company's Executive Directors have a proven track record of operating in Tajikistan and they believe Kryso Resources to be the first foreign company to obtain a 100% interest in a mining and exploration project in the country.

#### **Strategy**

Kryso's strategy is to maximise shareholder value through the development of the Group's exploration properties, through proving up additional resources, completing feasibility studies on the properties and, where and when appropriate, putting the projects into production.

Kryso believes it has high quality senior and local management who have the right technical skills and in-country experience to develop current and future projects into profitable mining projects.

#### **Operating Review**

Over the past year the Company has:

- Expanded the JORC resource at the Pakrut gold project to 3,578,000 oz Au (based on a 0.0g/t cut-off grade) in April 2011.
- Drilled down to the 1,800 metre level which has confirmed high grade mineralisation at depth in the Pakrut deposit. The mineralisation now extends down vertically 600 metres from trenches on surface. Mineralisation is still open at depth.
- Drilled over 6,967 metres at Pakrut – 2,277 metres more than 2009.
- Analysed 6,365 samples at the Group's Laboratory in Tajikistan and exported 1,818 samples which were assayed at the SGS Laboratory in South Africa.
- Completed a bankable feasibility study with the Beijing General Research Institute of Mining and Metallurgy ('BGRIMM') for the Pakrut gold project.

# KRYSO RESOURCES PLC

## Report of the Directors (continued)

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### **Pakrut Gold Deposit and Licence Area**

In April 2004, LLC Pakrut, a wholly owned subsidiary of the Company, was granted a licence and geological lease to explore and exploit the Pakrut Licence Area which comprises the Pakrut gold deposit and the surrounding 6,300 hectare exploration area located in the metalliferous southern Tien-Shan Fold Belt. This belt is reputed to have the second largest known gold resource after the Witwatersrand in South Africa.

During 2010, the Company completed two diamond drill holes at Eastern Pakrut, and combined with five grade control trenches, Snowden Mining Industry Consultants (Pty) Ltd calculated an estimated inferred resource at Eastern Pakrut of 473,000 ounces.

### **The Hukas Ni-Cu-Co-PGM Project**

The Hukas Ni-Cu-Co-PGM Project is within Kryso's Gishun Licence Area, which is located in central Tajikistan approximately 325km from the capital city Dushanbe. Kryso was granted a seven-year exploration licence over the Gishun Licence Area in June 2006, and has 100% ownership of the licence. In 2006, Kryso excavated three cuts across an isolated mineralized outcrop at Hukas. Analysis of samples returned encouraging grades of 1.03-1.57% Ni and 0.62-1.21% Cu over true widths of 2-6.7m. Limited diamond drilling on targets located by a TEM geophysical survey intersected low grade disseminated sulphides.

During 2010, the Pamir geological expedition completed a topographical survey, geological mapping and surface sampling at Hukas.

### **Financial Review**

The results for the year ended 31 December 2010 and the year ended 31 December 2009 were as follows:

	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
Turnover	–	–
Exploration costs capitalised as intangible assets	2,640	1,759
Administrative expenses	935	993
Exceptional expenses	–	191
Total costs	3,575	2,943
% Administrative expenses	26.2%	33.7%
Operating loss	1,128	1,262
Less: interest received	11	3
Loss on ordinary activities before taxation	1,117	1,259
Loss per share (cents)	0.65	1.08

The main financial Key Performance Indicator ('KPI') for the Company is administration costs as a percentage of total costs. This KPI allows the Company to monitor costs.

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## **Report of the Directors (continued)**

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### **Corporate Responsibility**

The Company will endeavour to build a sustainable and profitable business to maximise the return to its shareholders and in doing so will not knowingly overlook our Corporate Responsibilities.

Certain of the Directors also serve as directors of other companies involved in natural resource exploration, development and mining and consequently there exists the possibility for such Directors to be in a position of conflict. Any decision made by such Directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such Directors will declare, and refrain from voting on, any matter in which such Directors may have a conflict of interest.

### **People**

The Company recognises that the success of its ventures is based on the well-being and health of its employees. All employees have to pass through an induction process where they are briefed on the Company's health and safety policies. The safety of the Company's employees is of the utmost importance and is therefore taken seriously in all areas in which the Company's employees operate.

The Company is also committed to the development of its employees and encourages them to attend courses and programmes to further develop their own skills. The Company also aims to provide a favourable working environment which will continue to draw, retain and motivate its employees so that they can reach their true potential and share in the Company's success.

### **Social**

The Company continues to have a strong relationship with the local communities in the areas in which it operates, respecting their laws and customs. The Company employs local people in all levels within the organisation; this ensures a transparent and fair transfer of benefits and support to their communities where appropriate. The Company engages the local communities in all aspects of the projects it is actively involved in, from exploration through to feasibility and production, ensuring that concerns are addressed and that support is maintained throughout the entire process.

### **Environment**

The Company has a strict environmental code with which all its employees are well-versed during the induction process; this not only satisfies the local environmental code, but also the international code. The Company has contracted the services of a local environmental consultant who monitors its operations to ensure that any lapses are immediately brought to the attention of the management.

### **Risk Factors**

There are several principal risk factors outlined below that may affect the Company's businesses and which may not all be within the Company's control. Other factors not listed below may also adversely affect the Company, but the management may take action to mitigate some of these risks; these are identified where appropriate.

### **Risks and Uncertainties**

#### **Exploration and Development Risk**

The exploration for and the development of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored ultimately develop into producing mines. Major resources may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure

# **KRYSO RESOURCES PLC**

## **Report of the Directors (continued)**

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that the current exploration programmes planned and being carried out by the Company will result in profitable commercial mining operations.

There is no certainty that the exploration expenditures made by the Company as described in these financial statements will result in discoveries of commercial quantities of ore. There is aggressive competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company will compete with other companies, many of which have greater financial resources, for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production from successful exploration efforts.

The commercial viability of a deposit is dependent on a number of factors. These include deposit attributes such as size, grade and proximity to infrastructure; current and future market prices which can be cyclical; government regulations including those relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The effect of these factors, either alone or in combination, cannot be entirely predicted, and their impact may result in the Company not receiving adequate return on invested capital.

The risks inherent in developing the Company's projects is mitigated to some extent due to the strategic alliance with China Nonferrous Metals Int'l Mining Co. Ltd.

### **Economic Risk**

The profitability of the Company's future operations may be significantly affected by changes in the market prices for the materials it may produce and is affected by numerous factors beyond the Company's control. The level of interest rates, the rate of inflation, world supply, and the stability of exchange rates can all cause fluctuations in the price. Such external factors are in turn influenced by changes in international investment patterns and monetary systems and also political developments. Metal prices have fluctuated in recent years, and future significant price declines could cause future commercial production to be uneconomic and have a material adverse effect on the Company's financial condition.

Certain Company payments, in order to earn or maintain property interests, are to be made in local currency in the jurisdiction where the applicable property is located. As a result, fluctuations in the British Pound against the Tajik Somoni could have a material adverse effect on the Company's financial results which are denominated and reported in US dollars.

The Company currently does not carry insurance to protect against certain risks. As a result, the Company may become subject to liability to include environmental pollution, political risk and other hazards against which the Company cannot insure or which it may elect not to insure. The payment of such liabilities may have a material adverse effect on the Company's financial condition.

### **Financial Risk**

The Group's operations expose it to a number of financial risks. These are discussed under 'Financial Risk Management' within the Accounting Policies.

### **Political Risk**

The political situation in Tajikistan introduces a certain degree of risk with respect to the Company's activities. The Government of Tajikistan exercises control over such matters as exploration and mining licensing, permitting, exporting and taxation, which may adversely impact the Company's ability to carry out exploration, development and mining activities.

# KRYSO RESOURCES PLC

## Report of the Directors (continued)

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No assurance can be given that the Company will be able to maintain or obtain effective security or insurance for any of its assets or personnel at its operations in Tajikistan where civil war and guerrilla activities have disrupted exploration and mining activities in the past; this may affect the Company's operations or plans in the future. A moderate degree of security is also required to mitigate the risk of loss by theft, either by the Company's employees or by third parties. No assurance can be given that such factors will not have a material adverse effect on the Company's ability to undertake exploration, development and mining activities in respect to present and future properties in Tajikistan.

### Performance of Key Personnel and Employees

The Company is dependent on a relatively small number of employees, the loss of any of whom could have an adverse effect on the Group.

There has been a steady emigration of skilled personnel from Tajikistan in recent years that could adversely affect the Company's ability to retain its employees.

### Additional Funding Requirements

The further development and exploration of the various properties in which the Company holds interests, is dependent upon the Company's ability to obtain financing through any or all of the joint venturing of projects, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining the required financing.

### Results and Dividends

The results for the year and the Group's financial position at the end of the year are shown in the attached Financial Statements. The Directors do not recommend the payment of a dividend.

### Future Developments

A review of the business and future prospects is set out in the Chairman's Statement on pages 3 to 5 and above.

### Directors and their Interests

The Directors who served the Company during the year together with their beneficial interests in the shares of the Company were as follows:

	<i>At 31 December 2010</i>	<i>At 1 January 2010</i>
Trevor George Davenport	550,000	550,000
Craig William Brown	100,000	100,000
Abuali Ismatov	7,100,000	7,100,000
Tao Luo	–	–
David Tang	–	–

Steven James Poulton was removed from the Board at the AGM on 30 June 2010. Gennady Tolmachev resigned from the Board on 1 June 2010. Ferdinand Dippenaar resigned from the Board on 15 June 2010. Andrew Malim resigned from the Board on 2 July 2010. Tao Luo and David Tang were both appointed to the Board on 9 December 2010. Leonard Lee was appointed to the Board on 21 January 2011.

# KRYSO RESOURCES PLC

## Report of the Directors (continued)

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The Directors' holdings of options at the year-end was as follows:

	<i>At 31 December 2010</i>	<i>At 1 January 2010</i>
Dr Trevor Davenport	600,000	600,000
Craig William Brown	800,000	800,000
Abuali Ismatov	800,000	800,000
Tao Luo	–	–
David Tang	–	–

### Substantial shareholdings

As at 25 May 2011, the Directors were aware of the following shareholdings in excess of 3% of the Company's issued share capital.

	<i>Number of ordinary shares</i>	<i>Percent of issued ordinary share capital</i>
China Nonferrous Metals Int'l Mining Co Ltd	73,333,333	28.81%
HSBC Client Holdings Nominee (UK) Limited Des:636167	34,049,779	13.38%
TD Waterhouse Nominees (Europe) Limited Des:SMKTNOMS	18,247,011	7.17%
Pershing Nominees Limited Des:PERNY	12,473,408	4.90%
Lynchwood Nominees Limited Des:2006420	10,897,784	4.28%
Anson Registrars Limited Des:ALTUS	10,000,000	3.39%
JIM Nominees Limited Des:Jarvis	9,147,415	3.59%
Worldwide Nominees Limited Des:ORBNO	8,845,904	3.47%
Barclayshare Nominees Limited	8,477,166	3.33%

### Share Capital

During the year a total of 95,173,470 new ordinary shares of £0.01 each were issued, details of which are set out in note 19 to the Financial Statements.

# KRYSO RESOURCES PLC

## Report of the Directors (continued)

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### Directors

The Board comprises:

#### **Tao Luo (aged 58), Non-Executive Chairman**

Tao Luo is the Chairman of China Nonferrous Metals Int'l Mining Co., Ltd (CNMIM). He is a senior economist with over 30 years experience in the nonferrous metals industry in China. He was Vice Director of Beijing General Research Institute for Nonferrous Metals. He was also the Chairman of Committee of Supervisors and Vice President of Aluminium Corporation of China Ltd (CHALCO), a company listed on the New York Stock Exchange and the Hong Kong Stock Exchange. He is presently the President of China Nonferrous Metals Mining (Group) Corp. (CNMC).

#### **Craig Brown C.A. (aged 40), Finance Director**

Craig Brown qualified as a Chartered Accountant in New Zealand in 1993. He has spent ten years working in the mining industry in Central Asia. Prior to working in Central Asia, Craig was a Chartered Accountant working in private practice in New Zealand. Craig worked for Nelson Resources Limited, from 1995 to 2001 in various positions ranging from Chief Accountant to Director of the Joint Venture Company that operated the Zeravshan gold mine. From 2001 to 2003 he was Chief Financial Officer for Gulf International Minerals Inc. and from 2003 to 2004 he worked part-time as a consultant to that company. He has been a director of several mining joint ventures in Central Asia.

#### **Abuali Ismatov, (aged 51), Executive Director**

Abuali is a prominent businessman in the Republic of Tajikistan. Abuali graduated in 1981 from the Tajik Agricultural Institute with a diploma in Hydro Engineering and in 2001, completed his Masters in Finance and Economics from the Tajik State National University. Since 1992, Abuali has been a founder and shareholder of several multi-national companies established in Tajikistan with foreign investment.

#### **David Tang (aged 45), Non-Executive Director**

David Tang is President of CNMIM. He graduated with a Bachelor of Science degree (1988) majoring in computer science from Central-South University, China and also holds a Master of Science degree (1991). In the early 1990s he pioneered the trading system for the first nonferrous metals future commodity exchange in China. He worked for several years in Canada in the investment management and consulting industry before returning to China to take up office at CNMIM.

#### **Leonard Lee (aged 45), Non-Executive Director**

Leonard is a director of Top Consultant (Hong Kong) Company Limited, has an MBA from the University of Rochester in New York and is fluent in Mandarin and English. He successfully set up businesses in Canada and China, and provided consultancy services to companies such as BASF and DZ BANK. Leonard is a representative on behalf of Golden Max Group Limited, Kryso's second largest shareholder.

#### **Trevor Davenport, B.Sc, M.Sc., Ph.D., C. Eng. (aged 70), Non-Executive Director**

Dr Davenport has worked in the mining industry for over 30 years where he has been involved in mineral exploration and mining geology in over 17 countries both for mining companies and in consultation work. From 1994 to 1997 he was Chief Geologist and Exploration Manager for Nelson Gold Limited (subsequently renamed Nelson Resources Limited) in Tajikistan. In 1996 he was made a Director of Zeravshan Gold Company. His experience varies from six years as Chief Exploration Geochemist for Bamangwato Concessions Ltd. in Botswana in the search for nickel/copper deposits, working as a senior exploration geologist with the United Nations Development Programme in Burma exploring for base metals, to numerous involvements with gold mining companies over the last 20 years.

# **KRYSO RESOURCES PLC**

## **Report of the Directors (continued)**

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### **Charitable and Political Donations**

The Company made no charitable or political donations during the year.

### **Corporate Governance**

The Company's shares are traded on the AIM market of the London Stock Exchange and the Company is not therefore required to report on compliance with the Combined Code (recently renamed the UK Corporate Governance Code) appended to the listing rules of the Financial Services Authority. However, the Board of Directors supports the principles of good governance. It is the Board's policy to comply as far as is reasonable for a business the size of Kryso Resources PLC.

### **Internal Control**

The Directors acknowledge their responsibilities for the Group's system of internal control. The Board considers major business and financial risks. All strategic decisions are decided by the Board and the making of individual investment and loan decisions is designated to members of the Board. Accepting that no systems of control can provide absolute assurance against material misstatement or loss, the Directors believe that the established systems for internal control within the Group are appropriate to the business.

### **Audit Committee**

The Audit Committee of the Company comprises the Non-Executive Directors of the Company and meets at least twice each year. The Audit Committee is responsible for ensuring that the Group's financial performance is properly monitored, controlled and reported. It also meets the auditors and reviews reports from the auditors relating to Financial Statements and internal control systems. The Audit Committee meets once a year with the auditors, without executive board members present.

### **Remuneration Committee**

The Remuneration Committee comprises the Non-Executive Directors of the Company. It is responsible for reviewing the performance of the Executive Directors, setting their remuneration, considering the grant of the options under any share option scheme and in particular the price per share and the application of performance standards which may apply to any such grant.

### **Going Concern**

After making enquiries, the Directors have formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Company and Group have adequate resources to continue its operations for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

### **Supplier Payment Policy**

The Group seeks to maintain good relations with all of its trading partners. In particular, it is the Group's policy to abide by the terms of payment agreed with each of its suppliers. As at 31 December 2010 the number of creditors days in respect of trade creditors was 6 days (2009 – 53 days).

# **KRYSO RESOURCES PLC**

## **Report of the Directors (continued)**

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### **Relevant Audit Information**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are individually aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought reasonably have taken as a Director to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### **Auditors**

Littlejohn LLP has signified its willingness to continue in office as auditors.

Signed by order of the Directors



**Craig William Brown**

*Director*

Approved by the Directors on 7 June 2011

# **KRYSO RESOURCES PLC**

## **Statement of Directors' Responsibilities**

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The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Under that law the Directors have prepared the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year, and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable Accounting Policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Financial Statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records, that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the Financial Statements since they were initially presented on their website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Company is compliant with AIM Rule 26 regarding the Company's website.

# KRYSO RESOURCES PLC

## Report of the Auditors

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### **Independent Auditor's Report to the Members of Kryso Resources PLC**

We have audited the Financial Statements of Kryso Resources PLC for the year ended 31 December 2010 which comprise the Statement of Consolidated Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Company's circumstances, and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements.

### **Opinion on Financial Statements**

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

# **KRYSO RESOURCES PLC**

## **Report of the Auditors (continued)**

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### **Matters on which we are required to report by exception**

The Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of the above matters.



**Mark Ling (Senior statutory auditor)**  
*For and on behalf of Littlejohn LLP*  
*Statutory Auditor*

1 Westferry Circus  
Canary Wharf  
London E14 4HD

7 June 2011

# KRYSO RESOURCES PLC

## Consolidated Statement of Comprehensive Income – Year ended 31 December 2010

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		2010	2009
	<i>Note</i>	<i>US\$000</i>	<i>US\$000</i>
<b>Turnover</b>	1	–	–
Cost of sales		–	–
		<hr/>	<hr/>
<b>Gross Profit</b>		–	–
Administrative expenses		(935)	(993)
Exceptional expenses	3	–	(191)
Loss on foreign exchange	2	(193)	(78)
		<hr/>	<hr/>
<b>Operating Loss</b>	3	(1,128)	(1,262)
Interest receivable		11	3
		<hr/>	<hr/>
<b>Loss on Ordinary Activities before Taxation</b>		(1,117)	(1,259)
Tax on loss on ordinary activities	8	–	–
		<hr/>	<hr/>
<b>Loss on Ordinary Activities after Taxation attributable to equity holders of the Company</b>		<u>(1,117)</u>	<u>(1,259)</u>
<b>Total comprehensive income attributable to equity holders of the Company</b>		<u>(1,117)</u>	<u>(1,259)</u>
<b>Basic and Diluted Loss per Share attributable to equity holders of the Company (expressed in dollars per share)</b>	10	<u>\$(0.0065)</u>	<u>\$(0.0108)</u>

All of the activities of the Group are classed as continuing.

The Company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Statement of Comprehensive Income.

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Consolidated Balance Sheet – As at 31 December 2010

Company Registration Number: 05190505

	<i>Note</i>	<i>2010</i> <i>US\$000</i>	<i>2009</i> <i>US\$000</i>
<b>Fixed Assets</b>			
Intangible assets	11	18,292	15,652
Tangible assets	12	84	63
		<u>18,376</u>	<u>15,715</u>
<b>Current Assets</b>			
Inventories	14	722	518
Debtors	15	81	108
Cash and cash equivalents		16,591	1,826
		<u>17,394</u>	<u>2,452</u>
<b>Current Liabilities</b>			
Trade and other payables	16	(239)	(383)
		<u>(239)</u>	<u>(383)</u>
<b>Net Current Assets</b>		<u>17,155</u>	<u>2,069</u>
<b>Total Assets less Current Liabilities</b>		<u>35,531</u>	<u>17,784</u>
<b>Equity</b>			
Called-up share capital	19	4,216	2,725
Share premium account		34,381	17,778
Retained earnings		(3,066)	(2,719)
<b>Total Equity</b>		<u>35,531</u>	<u>17,784</u>

These Financial Statements were approved and authorised for issue by the Directors on 7 June 2011 and are signed on their behalf by:



**Craig Brown**  
Managing Director



**Abuali Ismatov**  
Director

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

# KRYSO RESOURCES PLC

## Company Balance Sheet – As at 31 December 2010

Company Registration Number: 05190505

	<i>Note</i>	<i>2010</i> <i>US\$000</i>	<i>2009</i> <i>US\$000</i>
<b>Fixed Assets</b>			
Investments	13	22,168	18,621
<b>Current Assets</b>			
Debtors	15	139	259
Cash and cash equivalents		16,466	1,719
		<u>16,605</u>	<u>1,978</u>
<b>Current Liabilities</b>			
Trade and other payables	16	(53)	(166)
		<u>(53)</u>	<u>(166)</u>
<b>Net Current Assets</b>		<u>16,552</u>	<u>1,812</u>
<b>Total Assets less Current Liabilities</b>		<u>38,720</u>	<u>20,433</u>
<b>Equity</b>			
Called-up share capital	19	4,216	2,725
Share premium account		34,381	17,778
Retained earnings		123	(70)
<b>Total Equity</b>		<u>38,720</u>	<u>20,433</u>

These Financial Statements were approved and authorised for issue by the Directors on 7 June 2011 and are signed on their behalf by:



**Craig Brown**  
Managing Director



**Abuali Ismatov**  
Director

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

# KRYSO RESOURCES PLC

## Consolidated Statement of Changes in Equity – Year ended 31 December 2010

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*Attributable to owners of the parent*

	<i>Share capital US\$000</i>	<i>Share premium US\$000</i>	<i>Retained earnings US\$000</i>	<i>Total US\$000</i>
<b>Balance at 1 January 2009</b>	1,680	14,529	(2,707)	13,502
Loss and comprehensive income for the year	–	–	(1,259)	(1,259)
Share based payments	–	–	1,247	1,247
Issue of ordinary shares	1,045	4,722	–	5,767
Costs of share issues	–	(1,473)	–	(1,473)
<b>Balance at 31 December 2009</b>	2,725	17,778	(2,719)	17,784
Loss and comprehensive income for the year	–	–	(1,117)	(1,117)
Share based payments	–	–	770	770
Issue of ordinary shares	1,491	18,599	–	20,090
Costs of share issues	–	(1,996)	–	(1,996)
<b>Balance at 31 December 2010</b>	<u>4,216</u>	<u>34,381</u>	<u>(3,066)</u>	<u>35,531</u>

The cost of share issues in the year ended 31 December 2010 for the Group and Company includes a charge of US\$770,167 relating to the fair value of the placing warrants (note 19).

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Company Statement of Changes in Equity – Year ended 31 December 2010

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	<i>Share capital US\$000</i>	<i>Share premium US\$000</i>	<i>Retained earnings US\$000</i>	<i>Total US\$000</i>
<b>Balance at 1 January 2009</b>	1,680	14,529	(558)	15,651
Loss and comprehensive income for the year	–	–	(759)	(759)
Share based payments	–	–	1,247	1,247
Issue of ordinary shares	1,045	4,722	–	5,767
Costs of share issue	–	(1,473)	–	(1,473)
<b>Balance at 31 December 2009</b>	2,725	17,778	(70)	20,433
Loss and comprehensive income for the year	–	–	(577)	(577)
Share based payments	–	–	770	770
Issue of ordinary shares	1,491	18,599	–	20,090
Costs of share issue	–	(1,996)	–	(1,996)
<b>Balance at 31 December 2010</b>	<u>4,216</u>	<u>34,381</u>	<u>123</u>	<u>38,720</u>

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Consolidated Cash Flow Statement – Year ended 31 December 2010

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	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
<b>Net Cash Outflow from Operating Activities</b>	<u>(1,443)</u>	<u>(1,634)</u>
<b>Cash flows from Investing Activities</b>		
Payments to acquire intangible fixed assets	(2,572)	(1,660)
Payments to acquire tangible fixed assets	(95)	(3)
Interest received	11	3
<b>Net Cash Outflow from Investing Activities</b>	<u>(2,656)</u>	<u>(1,660)</u>
<b>Cash flows from Financing Activities</b>		
Issue of equity share capital (net of issue costs)	18,864	3,940
Proceeds from borrowings	–	727
<b>Net Cash generated from Financing Activities</b>	<u>18,864</u>	<u>4,667</u>
<b>Net Increase in Cash and cash equivalents</b>	<u>14,765</u>	<u>1,373</u>
<b>Cash and cash equivalents at beginning of the year</b>	<u>1,826</u>	<u>453</u>
<b>Cash and cash equivalents at end of the year</b>	<u><u>16,591</u></u>	<u><u>1,826</u></u>

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Notes to the Consolidated Cash Flow Statement – Year ended 31 December 2010

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	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
	<hr/>	<hr/>
<b>Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities</b>		
Operating loss	(1,128)	(1,262)
Depreciation	6	11
Share based payments	–	35
Increase in stocks	(204)	(66)
Decrease/(Increase) in debtors	27	(30)
Decrease in creditors	(144)	(437)
Non-cash interest on convertible loan	–	53
Foreign exchange on convertible loan	–	62
	<hr/>	<hr/>
<b>Net Cash Outflow from Operating Activities</b>	<b>(1,443)</b>	<b>(1,634)</b>
	<hr/> <hr/>	<hr/> <hr/>

### Major non-cash transaction

The Group and Company had the following major non-cash transactions during the year:

As disclosed in note 19, placing warrants were granted to investors during the year with a fair value of US\$770,167 which has been fully charged against the share premium account.

In the year ended 31 December 2009, the convertible loan plus accrued interest from Great Basin Gold amounting to US\$839,052 was converted into 10,723,389 ordinary shares at a strike price of 5p per share. In addition, a mandatory convertible bond of US\$727,250 was received during 2009 from Vertex Mining International (Cyprus) Limited. This was subsequently converted into 9,090,909 ordinary shares at a strike price of 5.5p per share.

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Company Cash Flow Statement – Year ended 31 December 2010

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	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
<b>Net Cash Outflow from Operating Activities</b>	<u>(582)</u>	<u>(681)</u>
<b>Cash flows from Investing Activities</b>		
Payments to increase investments	(3,546)	(2,705)
Interest received	11	3
<b>Net Cash Outflow from Investing Activities</b>	<u>(3,535)</u>	<u>(2,702)</u>
<b>Cash flows from Financing Activities</b>		
Issue of equity share capital (net of issue costs)	18,864	3,940
Proceeds from borrowings	–	727
<b>Net Cash generated from Financing Activities</b>	<u>18,864</u>	<u>4,667</u>
<b>Net Increase in Cash and cash equivalents</b>	<u>14,747</u>	<u>1,284</u>
<b>Cash and cash equivalents at beginning of the year</b>	<u>1,719</u>	<u>435</u>
<b>Cash and cash equivalents at end of the year</b>	<u><u>16,466</u></u>	<u><u>1,719</u></u>

The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Notes to the Company Cash Flow Statement – Year ended 31 December 2010

---

	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
	<hr/>	<hr/>
<b>Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities</b>		
Operating loss	(589)	(762)
Share based payments	–	35
Decrease/(Increase) in debtors	120	(67)
Decrease in creditors	(113)	(2)
Non-cash interest on convertible loan	–	53
Foreign exchange on convertible loan	–	62
	<hr/>	<hr/>
<b>Net Cash Outflow from Operating Activities</b>	<b>(582)</b>	<b>(681)</b>
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The accounting policies and notes on pages 27 to 46 form part of these Financial Statements.

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# KRYSO RESOURCES PLC

## Accounting Policies

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### **Basis of Accounting**

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention.

The preparation of Financial Statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The functional currency of the Company and Group is US dollars and accordingly the amounts in the Financial Statements are denominated in that currency. The Balance Sheet rates of exchange for the US dollar to UK Sterling were \$1.55 to £1 (2009: \$1.59257 to £1).

### **Adoption of new and revised International Financial Reporting Standards (IFRSs)**

The following standards and amendments to existing standards have been published and are mandatory for the Group's financial year beginning on 1 January 2010, but are not currently relevant to the Group.

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" addressed concerns that retrospectively determining the cost of an investment in separate financial statements and applying the cost method in accordance with IAS 27 on first-time adoption of IFRSs cannot, in some circumstances, be achieved without undue cost or effort. Further amendments to IFRS 1 addressed the retrospective application of IFRSs to particular situations (oil and gas assets and leasing contracts), and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process.
- Amendments to IFRS 2 "Share-based Payment" clarified the accounting for group cash-settled share based payment transactions.
- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IFRS 3 (revised) continues to apply the acquisition method to business combinations but with some significant changes compared to IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. All acquisition costs are expensed.
- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and the transactions will no longer result in gains and losses. The standard also specifies the accounting when control is lost.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" provided additional guidance on what can be designated as a hedged item.

# KRYSO RESOURCES PLC

## Accounting Policies (continued)

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- IFRIC 17 “Distributions of Non-cash Assets to Owners” standardised practice in the measurement of distributions of non cash assets to owners.
- IFRIC 18 “Transfers of Assets from Customers” clarified the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

### **Adoption of new and revised International Financial Reporting Standards (IFRSs)**

The following new standards, amendments and interpretations have been issued but are not effective for the financial year commencing 1 January 2010 and have not been adopted early.

- IFRS 9 “Financial Instruments” specifies how an entity should classify and measure financial instruments, including some hybrid contracts, with the aim of improving and simplifying the approach to classification and measurement compared with IAS 39. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement.
- A revised version of IAS 24 “Related Party Disclosures” simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This revision is effective for periods beginning on or after 1 January 2011.
- An amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by “Improving Disclosures about Financial Instruments” (Amendments to IFRS 7). This amendment is effective for periods beginning on or after 1 July 2010.
- Further amendments to IFRS 1 replace references to a fixed date of 1 January 2004 with “the date of transition to IFRSs”, thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs, and provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. This amendment is effective for periods beginning on or after 1 July 2011, subject to EU endorsement.
- Amendments to IFRS 7 “Financial Instruments: Disclosures” are designed to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position. These amendments are effective for periods beginning on or after 1 January 2011, subject to EU endorsement.
- Amendments to IAS 12 “Income Taxes” introduce a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 “Investment Property” will normally be through sale. These amendments are effective for periods beginning on or after 1 January 2012, subject to EU endorsement.
- Amendments to IAS 32 “Financial Instruments: Presentation” address the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. These amendments are effective for periods beginning on or after 1 February 2010.
- “Improvements to IFRSs” are collections of amendments to IFRSs resulting from the annual improvements project, a method of making necessary, but non-urgent, amendments to IFRSs that

# KRYSO RESOURCES PLC

## Accounting Policies (continued)

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will not be included as part of another major project. These improvements have various implementation dates; for May 2010 improvements, the earliest is effective for periods beginning on or after 1 July 2010, subject to EU endorsement.

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” clarifies the treatment required when an entity renegotiates the terms of a financial liability with its creditor, and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. This interpretation is effective for periods beginning on or after 1 July 2010.
- An amendment to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”, on prepayments of a minimum funding requirement, applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is effective for periods beginning on or after 1 January 2011.

The impact on the Group’s financial statements of the future standards, amendments and interpretations is still under review, but the Group does not currently expect any of these changes to have a material impact on the results or the net assets of the Company or the Group.

### **Basis of Consolidation**

The consolidated Financial Statements incorporate the Financial Statements of the Company and all Group undertakings. These are adjusted, where appropriate, to conform to Group accounting policies. Subsidiaries are all entities over which the Group has power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. All significant intercompany transactions and balances between group undertakings are eliminated on consolidation.

Investments in subsidiaries are accounted for at cost less impairment.

### **Goodwill**

Goodwill arising on consolidation, representing the fair value of the consideration over fair value of the identifiable assets acquired is capitalised and reviewed annually for impairment in value.

### **Share Capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Costs attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

### **Financial Instruments**

Financial assets are classified as loans and receivables and recognised in the balance sheet at amortised cost, less provision for impairment. Trade and other payables are held at amortised cost.

### **Intangible assets – Exploration and Evaluation Expenditure**

Research and exploration expenditure is written off in the year in which it is incurred. The Group recognises expenditure as exploration and evaluation assets when it determines that those assets will be successful in finding specific mineral resources. When a decision is taken that a mining property becomes viable for commercial production, all further pre-production expenditure is capitalised. Expenditure included in the initial measurement of exploration and evaluation assets and which are classified as intangible assets relate to the acquisition of rights to undertake topographical, geological,

# KRYSO RESOURCES PLC

## Accounting Policies (continued)

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geochemical and geophysical studies, exploratory drilling, trenching, sampling and other activities to evaluate the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation assets are assessed for impairment annually. The assessment is carried out by allocating exploration and evaluation assets to cash generating units which are based on specific projects and geographical areas. Where exploration for and evaluation of mineral resources in cash generating units does not lead to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities at the unit, the associated expenditure will be written off to profit or loss.

### Fixed Assets

All fixed assets are initially recorded at cost.

### Depreciation

Land is not depreciated. Depreciation on other assets is provided to write off the cost of an asset, less its estimated residual value, over the expected useful economic life of that asset as follows:

Plant and Machinery	–33% straight line
Motor Vehicles	–33% straight line
Office Furniture and Equipment	–33% straight line

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (ie. cash generating units). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

### Inventory

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is determined using the first-in, first-out (FIFO) method.

### Foreign Currencies

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group Financial Statements are presented in US dollars, which is the Group's presentation currency.

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Exchange differences are dealt with through profit or loss.

### Deferred Taxation

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit or loss. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

# **KRYSO RESOURCES PLC**

## **Accounting Policies (continued)**

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No liability to UK corporation tax arose on ordinary activities for the current period or prior periods. The Group has losses to be carried forward on which no deferred tax asset is recognised.

### **Operating Lease Agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit or loss on a straight line basis over the period of the lease.

### **Share Based Payments**

The Group operates a share option scheme to encourage participation by Directors and employees in the Group's performance and also issues warrants to third party service providers and investors. The fair value of the services received in exchange for the grant of options and warrants is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of any option and warrant granted, excluding non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimate of options that are expected to vest.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options and warrants are exercised.

### **Going Concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Business review in the Report of the Directors. The accounting policies include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instrument; and its exposure to liquidity risk.

At the year end the Company and Group had a significant cash and cash equivalents balance following investment by CNMIM. This will be utilised to finance the Company's and Group's operating expenses and ongoing exploration and evaluation costs. Based on the budgeted levels of expenditure the Directors are satisfied that the cash resources available are sufficient to cover the Company's and Group's ongoing costs for at least 12 months from the date of signing of these Financial Statements.

With respect to the proposed development of a mining operation at Pakrut, it is intended that this will be the subject of separate debt funding. The Group has not made any commitments in relation to the development of a mining operation at Pakrut. The absence of financial or time constraints will allow the Group to put in place the necessary financing arrangements required to bring the Pakrut gold resource into production.

The Directors have a reasonable expectation that the Company and Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

### **Segment Reporting**

Management has determined the operating segments based on the internal reports provided to the executive directors and which are used to make the Group's and Company's strategic decisions. The Group operates in two geographical areas and operations are managed on a project by project basis within each geographical area.

# KRYSO RESOURCES PLC

## Accounting Policies (continued)

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### Capital Risk Management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to enable the Group to continue its exploration and evaluation activities. The Group's current policy for raising capital is through equity issues and debt financing.

### Financial Risk Management

The Group's operations expose it to a number of financial risks; principally the availability of adequate funding, movements in interest rates and fluctuations in foreign currency exchange rates. Continuous monitoring of these risks ensures that the Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

The continued operation of the Group is dependent on the ability to raise sufficient working capital. The Group currently finances itself through the issue of equity share capital and management monitors its cash and future funding requirements through the use of cash flow forecasts. The Group does not enter into commitments for exploration expenditure. All cash not immediately required for working capital purposes is held on short term deposit. The Group's only exposure to interest rate fluctuations is restricted to the rate earned on these short term deposits. At the year end the Group had a deposit of US\$16,400,000, held in a sterling deposit account. A 1% change to the interest rate would give rise to a US\$164,000 increase or decrease in interest on this deposit, on an annual basis.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US dollar, UK sterling and Tajik somoni. Foreign exchange risk arises from future transactions and net investments in foreign operations. The Group does not currently hedge its exposure to foreign currencies and recognises the profits and losses resulting from currency fluctuations as and when they arise. At the year end the Company had significant exposure to foreign exchange risk relating to its sterling bank deposit. If sterling had weakened/strengthened 1% against the US dollar, the Group's foreign exchange would have increased or decreased by approximately US\$163,000.

### Critical Accounting Estimates and Judgements

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are set out below. The most significant judgement for the Group is the assumption that exploration at its sites will ultimately lead to a commercial mining operation. Failure to do so could lead to the write-off of the intangible assets relating to the particular site. Estimation is also required in the valuation of the Group's options and warrants.

### Estimated impairment of intangibles

The Group tests annually whether exploration and evaluation assets have suffered any impairment. The recoverable amounts of the cash generating units have been determined based on value in use calculations which require the use of estimates.

In assessing the carrying amounts of its exploration and evaluation assets at Pakrut, the Directors have used an independently prepared and Director approved bankable feasibility study. The assessment period used in the report is the anticipated life of the mine of 15.5 years, which consists of 1.5 years of construction, 1 year to prepare for full production, 13 years of full production. Gold revenues have been estimated over that period at a price ranging from US\$850 to US\$1,143 per ounce, which is based on and are consistent with external sources of information. The calculation assumes a mining capacity of 2,000 ounces of ore daily. The total cost per ounce including depreciation and amortisation is US\$475.99, after taking into account external information available and adjusted according to prevailing

# KRYSO RESOURCES PLC

## Accounting Policies (continued)

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market prices and forecasts over the period of production. Royalties have been calculated at 6% of sales revenues and corporate income tax at 25%, according to the relevant laws in Tajikistan. A discount rate of 10% has been utilised. Based on the calculations, the value in use of the Pakrut project is approximately US\$63,000,000.

The calculations have been tested for sensitivity to changes in the key assumptions. The most sensitive inputs in the calculation of the value in use are operating costs and the gold price. A 15% change in the gold price used in the study would not result in reducing the value in use of the project to less than its carrying value of US\$13,540,456. The headroom in the cashflow projections would be removed at a gold price of US\$667 per ounce.

Certain of the Group's other exploration and evaluation projects are at an early stage of development and no JORC compliant resource estimates are available to enable value in use calculations to be prepared. The Directors therefore undertook an assessment of the following areas and circumstances which could indicate the existence of impairment:

- The Group's right to explore in an area has expired, or will expire in the near future without renewal.
- No further exploration or evaluation is planned or budgeted for.
- A decision has been taken by the Board to discontinue exploration and evaluation in an area due to the absence of a commercial level of reserves.
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

Following their assessment the Directors concluded that no impairment of these exploration and evaluation assets arose as at 31 December 2010.

Goodwill is not considered to be separable from the underlying value of the exploration and evaluation assets and its carrying value is reviewed in conjunction with the value in use calculations as noted above. As such, no separate value in use calculations are performed. For the purpose of the impairment review, all of the goodwill has been allocated to the Pakrut cash generating unit.

### **Valuation of share options and warrants**

As described in note 19, the Group has awarded options and warrants to certain employees and third parties. The valuation of these is based on a number of estimates including the share price volatility, expected life of the options and forfeiture rates. The charge in the year amounted to US\$770,167, which has been included in costs of share issue.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements

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### 1. Revenue

The Group did not trade in the year.

### 2. (Loss)/Gain on Foreign Exchange

The loss on foreign exchange in both years arises as a result of translating the Group's bank balances at the year end.

### 3. Operating Loss

Operating loss is stated after charging:

	<i>2010</i> <i>US\$000</i>	<i>2009</i> <i>US\$000</i>
Depreciation	74	110
less transfer to exploration costs	(68)	(99)
Exceptional expenses (see below)	–	191
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the Group's and Company's annuals accounts	39	44
Other services under legislative requirements	4	3
Taxation services	3	2
Services relating to corporate finance transaction	–	16
Operating lease rentals-other	41	41
Loss on foreign exchange	193	78

The exceptional expenses in the year ended 31 December 2009 relate to legal fees incurred in connection with the aborted Vertex Mining deal.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 4. Segment Reporting

The Group operates in two geographical areas, UK and Tajikistan, with operations managed on a project by project basis within Tajikistan.

The Group's exploration and evaluation activities are located in Tajikistan, principally with two different projects, Pakrut and Hukas. Support and administration services are provided from the UK. Sales between segments are carried out at arm's length.

2010	UK	Tajikistan		Total US\$000
	US\$000	Pakrut US\$000	Hukas US\$000	
Operating loss	(892)	(175)	(39)	(1,106)
Financial income	11	–	–	11
Financial costs	(8)	(13)	(1)	(22)
Loss for the year	(889)	(188)	(40)	(1,117)
Intersegment revenue	546	–	–	–
Total Assets	21,037	14,296	437	35,770
Total Liabilities	197	27	15	239
Depreciation of fixed assets	5	69	1	75
Additions to tangible assets	3	93	–	96
Additions to intangible assets	–	2,567	73	2,640
2009				
Operating loss	(880)	(325)	(4)	(1,209)
Financial income	3	–	–	3
Financial costs	(44)	(7)	(2)	(53)
Loss for the year	(921)	(332)	(6)	(1,259)
Intersegment revenue	371	–	–	–
Total Assets	6,245	11,485	437	18,167
Total Liabilities	379	4	–	383
Depreciation of fixed assets	11	98	1	110
Additions to tangible assets	–	3	–	3
Additions to intangible assets	–	1,759	–	1,759

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 5. Particulars of Employees

The average number of staff employed by the Group during the financial year amounted to:

	<i>2010</i>	<i>2009</i>
	<i>No.</i>	<i>No.</i>
Administrative and management	20	23
Exploration, evaluation and mining	91	68
	<u>111</u>	<u>91</u>

The aggregate payroll costs of the above were:

	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
Wages and salaries	1,016	903
Social security costs	22	121
Share based payments	–	35
	<u>1,038</u>	<u>1,059</u>

### 6. Directors' Emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
Emoluments receivable – from the company	195	128
– from group companies	253	426
	<u>448</u>	<u>554</u>

During the year no Director (2009 – no Director) participated in a money purchase pension scheme. During the year, no Director (2009 – one Director) exercised share options.

The highest paid Director received emoluments as follows:

	<i>2010</i>	<i>2009</i>
	<i>US\$000</i>	<i>US\$000</i>
Emoluments receivable	<u>195</u>	<u>172</u>

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

### 6. Directors' Emoluments (continued)

<i>2010</i>	<i>Salary and fees US\$</i>	<i>Bonus US\$</i>	<i>Other benefits US\$</i>	<i>Total US\$</i>
C Brown	177,049	17,195	868	195,112
A Ismatov	111,442	11,500	–	122,942
T Luo	2,323	–	–	2,323
D Tang	1,743	–	–	1,743
Dr T Davenport	74,000	1,060	–	75,060
G Tolmachev	11,743	–	–	11,743
F Dippenaar	11,743	–	–	11,743
A Malim	27,651	–	–	27,651
	<u>417,694</u>	<u>29,755</u>	<u>868</u>	<u>448,317</u>

  

<i>2009</i>	<i>Salary and fees US\$</i>	<i>Bonus US\$</i>	<i>Other benefits US\$</i>	<i>Total US\$</i>
C Brown	156,362	15,636	800	172,798
A Ismatov	156,323	23,534	–	179,857
Dr T Davenport	38,222	5,988	–	44,210
G Tolmachev	16,165	1,617	–	17,782
F Dippenaar	28,667	2,867	–	31,534
A Malim	28,667	2,867	–	31,534
V Carellas	71,666	3,400	800	75,866
	<u>496,072</u>	<u>55,909</u>	<u>1,600</u>	<u>553,581</u>

### 7. Expenses by Nature

	<i>2010 US\$000</i>	<i>2009 US\$000</i>
Employee benefit expenses	253	388
Operating lease expenses	41	52
Depreciation	6	10
Change in inventory	204	66
Other expenses	431	668
	<u>935</u>	<u>1,184</u>

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 8. Taxation on Ordinary Activities

#### (a) Analysis of Charge in the Year

Current tax:	2010 US\$000	2009 US\$000
UK Corporation tax based on the results for the year	–	–
Overseas tax credits	–	–
Total current tax	–	–

A subsidiary undertaking, Kryso Resources Limited, is registered as an exempted company for British Virgin Islands income tax purposes and the subsidiary undertakings have recorded no assessable profit for Tajikistan profits tax purposes and accordingly, no provision for British Virgin Islands income tax or Tajikistan profits tax has been made.

No provision for deferred taxation on accelerated capital allowances has been made on the grounds that it is immaterial.

#### (b) Factors Affecting Current Tax Charge

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2009 – 28%).

	2010 US\$000	2009 US\$000
Loss on ordinary activities before taxation	(1,117)	(1,259)
Loss on ordinary activities by rate of tax at 28% (2009 – 28%)	(313)	(353)
Disallowed expenditure	1	88
Losses utilised	10	–
Losses carried forward	141	115
Overseas losses	161	150
Total tax – (note 8(a))	–	–

Deferred tax assets amounting to US\$478,800, at a UK tax rate of 26%, have not been recognised in the Financial Statements in respect of UK tax losses of approximately US\$1,842,000, as the Directors are uncertain as to when they will be utilised.

### 9. Loss Attributable to Members of the Parent Company

The loss dealt with in the Financial Statements of the parent company was US\$578,300 (2009 – loss US\$751,687).

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 10. Loss per Share

	<i>2010</i>	<i>2009</i>
	<i>US\$</i>	<i>US\$</i>
Basic and diluted loss per ordinary share	<u>(0.0065)</u>	<u>(0.0108)</u>

The basic loss per share is calculated by dividing the loss on ordinary activities after tax of US\$1,117,000 (2009 – loss US\$1,259,000) by the weighted average number of shares in issue and carrying the right to receive dividend. For the year ended 31 December 2010 this was 172,566,797 (2009 – 116,883,775) shares.

As the Group has incurred a loss for the year, no option or warrant is potentially dilutive, and hence the basic and diluted loss per share are the same. At the year ended there were 2,500,000 share options and 114,021,202 warrants outstanding that are potentially dilutive in future.

### 11. Intangible Fixed Assets

<b>Group</b>	<i>Exploration and evaluation costs US\$000</i>	<i>Goodwill US\$000</i>	<i>Total US\$000</i>
<b>Cost</b>			
At 1 January 2009	9,150	4,743	13,893
Additions	1,759	–	1,759
At 1 January 2010	10,909	4,743	15,652
Additions	2,640	–	2,640
At 31 December 2010	<u>13,549</u>	<u>4,743</u>	<u>18,292</u>
<b>Net Book Value</b>			
At 31 December 2010	<u>13,549</u>	<u>4,743</u>	<u>18,292</u>
At 31 December 2009	<u>10,909</u>	<u>4,743</u>	<u>15,652</u>
At 31 December 2008	<u>9,150</u>	<u>4,743</u>	<u>13,893</u>

Exploration costs represent internally generated exploration and evaluation costs relating to the Group's exploration activities. No amortisation has been charged on these assets as the assets have not yet been brought into use for commercial production. Based upon independent valuations of the existing proven resource at Pakrut gold project and licence, in the opinion of the Directors the exploration costs and associated goodwill are fully recoverable.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

### 12. Tangible Fixed Assets

Group	Land	Office furniture and equipment	Motor vehicles	Plant and machinery	Total
	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Cost</b>					
At 1 January 2009	–	130	193	1,231	1,554
Additions	–	2	–	1	3
At 1 January 2010	–	132	193	1,232	1,557
Additions	30	12	53	1	96
At 31 December 2010	<u>30</u>	<u>144</u>	<u>246</u>	<u>1,233</u>	<u>1,653</u>
<b>Depreciation</b>					
At 1 January 2009	–	109	174	1,101	1,384
Charge for the year	–	13	10	87	110
At 1 January 2010	–	122	184	1,188	1,494
Charge for the year	–	10	21	44	75
At 31 December 2010	<u>–</u>	<u>132</u>	<u>205</u>	<u>1,232</u>	<u>1,569</u>
<b>Net book value</b>					
At 31 December 2010	<u>30</u>	<u>12</u>	<u>41</u>	<u>1</u>	<u>84</u>
At 31 December 2009	<u>–</u>	<u>10</u>	<u>9</u>	<u>44</u>	<u>63</u>
At 31 December 2008	<u>–</u>	<u>21</u>	<u>19</u>	<u>130</u>	<u>170</u>

Depreciation of US\$67,596 (2009 – US\$99,483) has been capitalised as part of exploration and evaluation assets. The net book value of tangible assets used in exploration and evaluation was US\$83,003 (2009 – US\$59,168).

### 13. Investments

#### Company

Company	Shares in Group Undertakings	Loans to Group Undertakings	Total
	US\$000	US\$000	US\$000
<b>Cost</b>			
At 1 January 2009	5,440	10,476	15,916
New loan in the year	–	2,705	2,705
At 1 January 2010	5,440	13,181	18,621
New loan in the year	–	3,547	3,547
At 31 December 2010	<u>5,440</u>	<u>16,728</u>	<u>22,168</u>

The loans are interest-free and are not repayable within 12 months.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

### 13. Investments (continued) Subsidiary Undertakings

<i>Name of Company</i>	<i> Holding</i>	<i>Country of incorporation</i>	<i>Proportion of Voting Rights Held</i>	<i>Nature of Business</i>
<u>Directly held</u>				
Kryso Resources Limited	Ordinary Shares	British Virgin Islands	100%	Holding Company
<u>Indirectly held</u>				
Limited Liability Company Pakrut	Ordinary Shares	Tajikistan	100%	Mineral Exploitation
Limited Liability Company Kuhi Zarin	Ordinary Shares	Tajikistan	100%	Mineral Exploitation
International Mining Supplies and Services Limited	Ordinary Shares	UK	100%	Service Company
Limited Liability Company Gumas	Ordinary Shares	Tajikistan	100%	Mineral Exploitation
Limited Liability Company Asia Oil and Gas	Ordinary Shares	Tajikistan	100%	Mineral Exploitation

### 14. Inventories

	<i>Group 2010 US\$000</i>	<i>Company 2010 US\$000</i>	<i>Group 2009 US\$000</i>	<i>Company 2009 US\$000</i>
Consumables	722	–	518	–

### 15. Debtors

	<i>Group 2010 US\$000</i>	<i>Company 2010 US\$000</i>	<i>Group 2009 US\$000</i>	<i>Company 2009 US\$000</i>
Amounts due from group undertaking	–	115	–	181
Other debtors	57	6	40	36
Prepayments and deposits	24	18	68	42
	81	139	108	259

None of the debtors are past due.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 16. Trade and other payables

	<i>Group</i> 2010 <i>US\$000</i>	<i>Company</i> 2010 <i>US\$000</i>	<i>Group</i> 2009 <i>US\$000</i>	<i>Company</i> 2009 <i>US\$000</i>
Trade and other creditors	194	9	336	123
Accruals and deferred income	45	44	47	43
	<u>239</u>	<u>53</u>	<u>383</u>	<u>166</u>

Trade and other payables include amounts due of US\$21,220 (2009 – US\$415) in relation to exploration and evaluation activities.

### 17. Treasury Policy and Financial Instruments

The Group operates informal treasury policies which include ongoing assessments of interest rate management and borrowing policy. The Board approves all decisions on treasury policy.

Facilities are arranged, based on criteria determined by the Board, as required to finance the long term requirements of the Group. The Group has financed its activities by the raising of funds through the placing of shares and through the issue and subsequent exercise of options and warrants.

At 31 December 2010 there were no monetary assets denominated in currencies other than the functional currencies of the operations.

There are no material differences between the book value and fair value of the financial assets at the year end.

### 18. Related Party Transactions

At the year end, Trevor Davenport, a Director of the Company, was due US\$Nil for director's fees (2009 – Trevor Davenport was due US\$16,262). At the year-end, Craig Brown was due US\$21,710, in respect of his expenses (2009 – US\$9,531 was due to Craig Brown for salary and holiday pay). At the year-end, Abuali Ismatov was due US\$2,408 (2009 – US\$37,133 was due to Abuali Ismatov) in respect of his expenses and charges to the Group for the rent of office, laboratory and warehouse space in Tajikistan. The rental charge to the Group during 2010 was US\$73,600 (2009 – US\$23,950).

Kryso Resources PLC charged Kryso Resources Limited a management fee of US\$180,000 during 2010 (2009 – US\$180,000). International Mining Supplies & Services Limited charged Kryso Resources PLC a management fee of US\$90,970 during 2010 (2009 – US\$56,331) for the supply of office services. International Mining Supplies & Services Limited provided goods and services to LLC Pakrut of US\$545,820 during 2010 (2009 – US\$370,354). As at 31 December 2010 the amount due from Kryso Resources Limited and International Mining Supplies & Services Limited to Kryso Resources PLC was US\$16,728,348 (2009 – US\$13,180,586) and US\$115,111 (2009 – US\$181,285) respectively.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

### 19. Share Capital

#### Group and Company

#### Allotted, Called up and Fully Paid

	<i>2010</i> <i>US\$000</i>	<i>2009</i> <i>US\$000</i>
At 1 January, 156,542,947 (2009 – 89,247,285)		
Ordinary shares of £0.01 each	2,725	1,680
95,173,470 (2009 – 67,295,662) Ordinary £0.01 shares allotted during the period	1,491	1,045
At 31 December, 251,716,417 (2009 – 156,542,947)		
Ordinary shares of £0.01 each	<u>4,216</u>	<u>2,725</u>

During the year 95,173,470 ordinary shares of £0.01 were allotted fully paid for a consideration of \$18,864,270 after cash expenses. Warrants were granted to certain investors which have been valued at \$770,167, to give net consideration of \$18,094,103.

#### Share Option Scheme

Options can be granted to any employee of the Group. The option price is not to be less than the initial Placing Price or the price on the day of issue. The options cannot be exercised for a period of at least one year from the date of grant. In event of any employee to whom options have been granted ceasing to be an employee of the Group he or she will have a set period in which to exercise those options (depending on the reasons for leaving), failing which, the options will lapse.

Details of share options granted by the Company were as follows:

	<i>2010</i>		<i>2009</i>	
	<i>No. of share options</i>	<i>Weighted average price (pence)</i>	<i>No. of share options</i>	<i>Weighted average price (pence)</i>
<b>Share Option Scheme</b>				
Outstanding at beginning of year	3,850,000	10	7,825,000	11
Exercised during the year	(1,350,000)	10	(2,050,000)	10
Lapsed during the year	–	–	(1,925,000)	13
Outstanding at end of year	<u>2,500,000</u>	<u>10</u>	<u>3,850,000</u>	<u>10</u>
Exercisable at 31 December	<u>2,500,000</u>	<u>10</u>	<u>3,850,000</u>	<u>10</u>

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

### 19. Share Capital (continued)

The Group is required to recognise an expense for all share based payments made after 7 November 2002 which had not yet fully vested at the relevant effective date of 1 January 2006 together with options granted after 1 January 2006. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. The expected volatility used in the model was determined using the historical volatility of the Company's share price. The assumptions used to value the options, which are outstanding at the year end are set out below:

<b>Option granted on</b>	<i>5 October 2007</i>	<i>10 September 2008</i>
Shares under option	300,000	2,200,000
Exercise price (£)	0.13	0.10
Exercise from (years)	1	1
Option life (years)	4	5
Risk free rate	4.41%	4.21%
Expected volatility	33%	23%
Expected dividend yield	0%	0%
Forfeiture rate	33%	33%
Fair value (£)	0.02	0.01
Bid price discount	5%	5%
Fair value of options granted (£)	4,020	13,132

The weighted average share price at the date of exercise of the options during the year was 15.9 pence. The weighted average option life as at 31 December 2010 is 1.6 years. The exercise price of the outstanding options at 31 December 2010 ranges from 10 to 13 pence.

The total fair value has been spread over the relevant vesting periods and has resulted in a charge to the statement of comprehensive income for the year ended 31 December 2010 of US\$ Nil (2009 – US\$34,907).

### Warrants

Details of warrants granted by the Company were as follows:

	<i>2010</i>		<i>2009</i>	
	<i>No. of Warrants</i>	<i>Weighted average price (pence)</i>	<i>No. of Warrants</i>	<i>Weighted average price (pence)</i>
Outstanding at beginning of year	62,264,962	8.7	7,203,823	14.3
Granted during the year	73,333,333	21.0	56,946,694	7.9
Exercised during the year	(20,490,137)	8.0	(1,885,555)	7.0
Lapsed during the year	(1,086,956)	15.0	–	–
Outstanding at end of year	<u>114,021,202</u>	<u>16.7</u>	<u>62,264,962</u>	<u>8.7</u>
Exercisable at 31 December	<u>114,021,202</u>	<u>16.7</u>	<u>62,264,962</u>	<u>8.7</u>

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 19. Share Capital (continued)

On 5 October 2007, 640,587 warrants were granted to FD Holdings Limited pursuant to the placing of 12,689,024 ordinary shares during the year by Fox-Davis Capital Limited. The exercise price for these warrants is 11.5p per ordinary share. The warrants are exercisable up to five years from the date of grant. In October 2010, 619,718 of these warrants were exercised.

On 18 December 2006, 5,000,000 warrants were granted to Great Basin Gold Limited pursuant to their investment in 10,000,000 ordinary shares of 1p each. The exercise price for these warrants is 15p per ordinary share. The warrants are exercisable up to five years from the date of grant.

On 25 April 2008, 1,086,956 warrants were granted to Great Basin Gold Limited in consideration for the issue of a convertible unsecured interest free loan to the Company of £500,000. The warrants were exercisable for a period of 24 months at a price of 15 pence per share. The warrants lapsed during the year.

On 31 July 2008, 153,780 warrants were granted to FD Holdings Limited pursuant to the placing of 3,558,261 ordinary shares during the year by Fox-Davies Capital Limited. The exercise price of these warrants was 9p per ordinary share. The warrants were exercisable until 31 July 2013 and all of these warrants were exercised in 2010.

On 31 July 2008, 322,500 warrants were granted to Orbis Equity Partners pursuant to the placing of 6,450,000 ordinary shares during the year by Orbis Equity Partners. The exercise price for these warrants is 9p per ordinary share. The warrants are exercisable until 31 July 2013.

On 8 June 2009, 8 July 2009 and 19 August 2009 warrants of 5,000,000, 9,550,000 and 9,905,000 respectively were granted to Orbis Equity Partners pursuant to the placing of 24,455,000 shares. The exercise price for these warrants is 8p per ordinary share. The warrants are exercisable for a period of 24 months. Warrants totalling 1,340,000 were exercised by Orbis Equity Partners in December 2009. In addition to the placing warrants, Orbis Equity Partners were granted 1,052,750 warrants with an exercise price of 5p per share exercisable for a period of 24 months. During 2010 Orbis Equity Partners exercised 7,940,000 warrants at an exercise price of 8p, as well as all of its 1,052,750 warrants at an exercise price of 5p.

On 8 July 2009, 10,723,389 warrants were granted to Great Basin Gold Limited in consideration for the conversion of the convertible loan. The warrants were exercisable for a period of 24 months at a price of 8p per share. All of these warrants were exercised during 2010.

On 14 August 2009, 20,000,000 warrants were granted to Altus Resource Capital Limited pursuant to their investment in 10,000,000 ordinary shares. The warrants are exercisable for a period of 60 months at a price of 8p per share.

Scarab Capital Partners LLP have been granted 170,000 warrants for acting as placing agent in relation to share placings on 8 July 2009 and 19 August 2009. The warrants are exercisable for 24 months at a price of 5.5p per share.

On 27 July 2010, 73,333,333 warrants were granted to China Nonferrous Metals International Mining Company Limited, in conjunction with a subscription for 73,333,333 shares in the Company. The warrants are exercisable for a period of 36 months at a price of 21p per share.

# KRYSO RESOURCES PLC

## Notes to the Financial Statements (continued)

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### 19. Share Capital (continued)

The warrants were valued using the Black-Scholes pricing model. The volatility used in the model has been determined from the historic volatility of the Company's share price. The assumptions used to value the warrants are set out below:

<i>Warrants granted on</i>	<i>8 June 2009</i>	<i>8 July 2009</i>	<i>14 August 2009</i>	<i>19 August 2009</i>	<i>19 August 2009</i>	<i>23 November 2010</i>
Shares under option	5,000,000	20,273,389	20,000,000	9,905,000	1,222,750	73,333,333
Exercise price (£)	0.08	0.08	0.08	0.08	0.05	0.21
Warrant life (years)	2	2	5	2	2	3
Risk free rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Expected volatility	41.9%	41.9%	41.9%	41.9%	41.9%	17%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Forfeiture rate	0%	0%	0%	0%	0%	0%
Fair value (£)	0.01	0.01	0.02	0.01	0.02	0.007

The weighted average share price at the date of exercise of the warrants during the year was 14 pence. The weighted average warrant life as at 31 December 2010 is 2.23 years (2009 – 2.65 years).

The total fair value charged to the share premium account in respect of warrants during the year ended 31 December 2010 was US\$770,167 (2009 – US\$1,212,228).

Any ordinary shares allotted pursuant to an exercise of warrants will rank pari passu in all respects with the ordinary shares in issue at the date of exercise of the warrants.

### 20. Contingent Liability

The Company has entered into an agreement dated 5 August 2010 with Top Consultant (Hong Kong) Company Ltd, in which Leonard Lee is Director. Under this agreement, a debt commission fee of 3% of any financing of the Pakrut funding required and secured by Top Consultant (Hong Kong) Company Ltd after the completion of the bankable feasibility study, will become payable.

### 21. Controlling Party

There is no controlling party.

# KRYSO RESOURCES PLC

## Notice of Annual General Meeting

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Notice is hereby given that the Annual General Meeting (the “Meeting”) of Kryso Resources PLC (the “Company”) will be held at the offices of Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX at 10 a.m. on 30 June 2011 for the following purposes:

### Ordinary Business

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and consider the statement of accounts for the period ended 31 December 2010 together with the reports of the directors and the auditors thereon.
2. To elect Wei Li Tang (also known as David Tang), who stands for election in accordance with the Company’s Articles of Association, as a director.
3. To elect Leonard Lee (also known as Li Li), who stands for election in accordance with the Company’s Articles of Association, as a director.
4. To elect Tao Luo, who stands for election in accordance with the Company’s Articles of Association, as a director.
5. To re-elect Dr Trevor Davenport, who retires by rotation in accordance with the Company’s Articles of Association, as a director.
6. To re-appoint Littlejohn LLP as auditors to act as such until the conclusion of the next General Meeting of the Company at which accounts are laid before the Company and to authorise the directors of the Company to fix their remuneration.

### Special Business

To consider and, if thought fit, to pass the following resolutions of which resolution 7 will be proposed as an ordinary resolution and resolution 8 which will be proposed as a special resolution:

7. That the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (“the Act”) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £2,000,000, provided that the authority hereby conferred shall:
  - (a) operate in substitution for and to the exclusion of any previous authority given to the directors pursuant to section 551 of the Act; and
  - (b) expire on whichever is earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this resolution unless such authority is renewed, varied, or revoked by the Company in general meeting, save that the Company may at any time before such expiry make an offer or agreement which might require shares in the Company to be allotted, or rights to subscribe for or to convert any security into shares in the Company to be granted, after such expiry and the directors may allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company in pursuance of such offer or agreement as if the authority hereby conferred had not expired.

# KRYSO RESOURCES PLC

## Notice of General Meeting (continued)

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8. That, subject to the passing of Resolution 7, the directors be and they are hereby empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash as if section 561(1) of the Act did not apply to any such allotment pursuant to the general authority conferred on them by Resolution 7 above (as varied from time to time by the Company in general meeting) and/or by way of a sale of treasury shares PROVIDED THAT such power shall be limited to:
- (a) the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the directors may consider appropriate to deal with treasury shares, fractional entitlements or legal or practical difficulties under the laws of or the requirements of any recognised regulatory body in any territory or otherwise;
  - (b) in connection with the issue of any shares pursuant to the exercise of any options granted under the Company's unapproved employee share scheme, adopted by the board of the Company on 24 November 2004 (as amended from time to time) up to an aggregate nominal amount of £80,000;
  - (c) in connection with the issue of any share warrants to be granted by the Company up to an aggregate nominal amount of £20,000; and
  - (d) the allotment (otherwise than pursuant to sub paragraphs (a), (b) and (c) above) of equity securities up to an aggregate nominal amount of £1,000,000,

and the power hereby conferred shall operate in substitution for and to the exclusion of any previous power given to the directors pursuant to sections 570 or 573 of the Act and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this resolution unless such power is renewed, extended, varied or revoked prior to or at such meeting, except that the Company may before the expiry of any power contained in this resolution make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board  
**Craig Brown, Secretary**

Dated 7 June 2011

Registered Office:  
Unit 3H, Cooper House  
2 Michael Road  
London SW6 2AD

# KRYSO RESOURCES PLC

## Notes to the Notice of General Meeting

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### **Entitlement to attend and vote**

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:
  - 6.00 p.m. on 28 June 2011; or
  - if this Meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting,
  - shall be entitled to attend and vote at the Meeting.

### **Appointment of proxies**

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy your proxy card or contact Neville Registrars Limited to obtain an extra proxy card on 0121 585 1131, or from outside the UK on +44 (0)121 585 1131. Lines are open 9 am to 5 pm Monday to Friday, excluding UK bank holidays.
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

### **Appointment of proxy using hard copy proxy form**

6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA; and
- received by Neville Registrars Limited no later than 10 a.m. on 28 June 2011.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

# KRYSO RESOURCES PLC

## Notes to the Notice of General Meeting (continued)

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Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

### **Appointment of proxies through CREST**

7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: 7RA11) by 11 a.m. on 28 June 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

### **Appoint for proxy by joint members**

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-name being the most senior).

### **Changing proxy instructions**

9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited on 0121 585 1131, or from outside the UK on +44 (0)121 585 1131. Lines are open 9 am to 5 pm Monday to Friday, excluding UK bank holidays.

# KRYSO RESOURCES PLC

## Notes to the Notice of General Meeting (continued)

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If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### **Termination of proxy appointments**

10. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Neville Registrars Limited no later than 10 a.m. on 28 June 2011.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

### **Corporate representatives**

11. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

### **Issued shares and total voting rights**

12. As at 6.00 p.m. on 6 June 2011, the Company's issued share capital comprised 255,447,917 ordinary shares of £0.01 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 6 June 2011 is 255,447,917.

### **Communication**

13. You may not use any electronic address provided either in this notice of meeting; or any related documents (including the letter with which this notice of meeting was enclosed and proxy form) to communicate with the Company for any purposes other than those expressly stated.





