ZAO POLYUS RESOURCE AND RESERVE AUDIT: KYUCHUS GOLD EXPLORATION PROJECT

Prepared for:

Yakut Mining Company
Lenin Pr. 3/1
Yakutsk
Yakutia
Russia

Prepared by:

SRK Consulting
Windsor Court
1-3 Windsor Place
Cardiff
CF10 3BX

Tel: +44 (0) 2920 348150
Fax: +44 (0) 2920 348199
www.srk.co.uk

TABLE OF CONTENTS

LIST OF TABLES

SRK Consulting UK Ltd
Windsor Court
1-3 Windsor Place
Cardiff, UK
CF10 3BX

E-mail: enquiries@srk.co.uk
URL: www.srk.co.uk

Tel: + 44 (0)29 2034 8150
Fax: + 44 (0)29 2034 8199

P:\U2921 Polyus 2006\Reps\2006FINAL\U2921_KYUCHUS_Armi001.doc **February 2006**

ZAO POLYUS RESOURCE AND RESERVE AUDIT: KYUCHUS GOLD EXPLORATION PROJECT

1 INTRODUCTION

In December 2005, ZAO Polyus (Polyus) approached SRK Consulting (UK) Ltd (SRK) to undertake an audit of the resource and reserve estimates for three of its assets. The overall objective of the work was to produce audited resource and reserve statements suitable for publication in the public domain and classified according to an internationally recognised resource and reserve reporting code, in this case the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code).

This report presents SRK's findings and audited Mineral Resource statement for the Kyuchus Gold Exploration Project (Kyuchus) which is located in the north of the Sakha Republic (Yakutia), Far East Russia and operated by OAO Yakut Mining Company (YMC).

2 STATEMENT OF QUALIFICATION

SRK is part of an international group (the SRK Group), which comprises over 500 professional staff offering expertise in a wide range of engineering and scientific disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. SRK has offices in the UK, South Africa, North and South America, Canada, China and Australia.

This particular commission has been undertaken by James Gilbertson, Mining Geologist with SRK and John Miles, Associate Mining Engineer and reviewed by Dr Mike Armitage, Principal Mining Geologist and Managing Director of SRK. All have experience in undertaking and auditing resource and reserve estimates throughout the world and particularly in Russia and other CIS countries.

3 SCOPE OF WORK

SRK has reviewed all of the key issues on which the most recently reported resource statement for Kyuchus is based. Specifically, SRK has reviewed information on the:

- geological setting and nature of the deposit especially with regard to the resource estimation methodology;
- nature of the gold mineralisation;
- historical and current sampling and assaying methodology and coverage;
- resource estimation methodology and classification; and the
- depth of, and results of, studies completed to date to demonstrate that the reported resource can be technically and economically exploited.

In undertaking the above work, SRK has visited the YMC office in Yakutsk to review the available documentation and supporting data as well as discuss the relevant issues with YMC staff. SRK has not, for this commission, been to site or observed the drilling and logging procedures first hand but has reviewed the documented sampling and assaying procedures used.

4 PROJECT DESCRIPTION

The Kyuchus gold exploration project is located in the north of Yakutia 200 km from the northern Artic coast, a region that experiences a range of temperatures from 30°C in summer to -60°C in winter. The licence area is around 40 km from the nearest permanent population, but can be accessed by helicopter or via unpaved roads.

A significant amount of exploration work has been completed at Kyuchus since discovery of gold in the early 1970s. The orebody has been extensively explored by surface trenching, drilling and the development of two underground levels. This is typical for steep dipping tabular gold vein deposits in Russia.

A large, 28,000 m, follow up drilling programme has commenced this month involving six drilling rigs. This is largely targeting a parallel zone to the north-west and adjacent to the currently defined resource and will be conducted in conjunction with a programme of re-sampling of existing core. In SRK's opinion this will increase both confidence in the existing resource and, potentially, the resource.

The above geological work has been supplemented by a certain amount of analysis in other technical areas, which, though not yet to a feasibility study level of confidence, has enabled the production of conceptual mining and processing scenarios and infrastructure requirements. There is, however, little formal documentation available for this and SRK's review of these areas has, therefore, largely been based on discussions and reviews of translated extracts from various documents. This report should be read with this in mind.

Certainly, the mining, processing and infrastructure aspects of the project are less advanced than the geological and resource aspects. SRK understands that YMC is planning to continue research into these aspects to a prefeasibility study level and to use the digital block model to complete a pit optimisation exercise as the basis of the mine design presented in this.

5 GEOLOGY

5.1 Regional Geology

The Kyuchus deposit is located within the Mesozoic sedimentary sequences of a major north-northeast trending anticline structure which forms part of an arcuate mobile belt which developed during continental collision towards the end of the Jurassic. The Cretaceous was marked by intrusion of large granite bodies which are now exposed in the cores of a series of broad anticline and syncline structures. The area is dissected by the Yansky structure, a major suture zone characterised by a zone of intense fracturing and breccia development, which trends north-east along the grain of the suture zone.

5.2 Orebody Geology

The host rocks to the mineralisation are mid-Triassic siltstones and mudstones with minor interbeds of sandstone. These sediments have undergone folding and low grade greenschist facies metamorphism and have developed a poorly schistose structure. The outcrop of the orebody is covered by up to 30 m of Quaternary alluvium and glacial debris, particularly close to river beds.

The mineralised structures occur in a series of en-echelon fractures and quartz vein arrays which are roughly parallel to the Yansky Suture and the axis of the Kyuchus syncline. The structures are variously quartz filled fractures or highly silicified zones of brecciation. Currently, the zone of mineralisation has been identified over a strike length of some 3.5 km striking north-east and dipping to the north-west at between 60-80°, and has been proved through drilling to extend to a depth of some 550 m below surface. A sub-parallel zone to the north-west is due to be explored in the next phase of drilling over a similar strike length to that of the Kyuchus main orebody.

It is postulated that there have been multiple phases of mineralisation during the development of the shear structures, the general sense of movement along which has been one of left lateral (sinistral) reverse displacement which has had the effect of folding and shearing the quartz carbonate veins which host the mineralisation and which developed during periods of normal fault movement.

From initial exploration and from further investigation, it is believed that only weak oxidation is encountered to a depth of around 30m and takes the form of weak haematisation and argillisation.

The mineralisation occurs in a number of "vein zones", each comprised of a series of individual quartz veins up to tens of centimetres in width. These vein zones can reach thicknesses of up to 20 m in places, although the average thickness is reported to be just over 4 m. Brecciation, often containing disseminated mineralisation, is commonly associated around the vein zones but these areas generally have lower grades than the veins themselves.

The gold is primarily fine grained and associated with arsenopyrite (80%) hosted in clay based rocks, but can also be found associated with pyrite (20%), hosted in sand based rocks. Minor sulphides are present as stibnite, galena, sphalerite and cinnabar. Silver is also present, with grades of up to 7 g/t reported, but there is no information about whether this forms as an amalgam with gold or occurs separately. The vein gangue minerals comprise quartz and carbonates.

Mineralisation is generally confined to the vein zones which have well defined contacts with little or no wallrock alteration beyond the 3 g/t gold (Au) cut-off defined contact. These zones cross cut the host stratigraphy of dark laminated siltstones and porous medium grained polymictic sandstones, the later displays evidence of flooding by ore fluids. These areas are characterised by up to 10% disseminated arsenopyrite hosted within the sandstone. Although these zones do host gold mineralisation, they are generally below the 3 g/t Au cut off grade used to report resource estimates to date.

Stibnite (antimony ore) and cinnabar (mercury ore) occur in minor amounts in quartz and kaolinite-carbonate-quartz veins respectively and are intimately associated with the ore. There is reported to be a distinct lateral zonation along strike with higher concentrations of stibnite in the north-east, cinnabar concentrated in the centre of the orebody, and the highest concentrations of arsenopyrite in the south-west. No explanation could be given for this zonation, but it does not appear to have a direct effect on the gold grade.

6 MINERAL RESOURCE

6.1 Introduction

SRK has not independently re-calculated a Mineral Resource estimate for Kyuchus, but has rather reviewed and commented upon the quantity and quality of the underlying data and the methodologies used to derive the estimate as reported by YMC and then re-reported this using the terminology and guidelines of the JORC Code.

6.2 Quantity and Quality of Data

The deposit was first discovered in the late 1950s, but was originally classed as a cinnabar prospect until the discovery of gold in the early 1970s. Since 1971, the orebody has been extensively explored by surface trenching, drilling and the development of two underground levels.

In the area around the underground workings, the drill spacing comprises a 40 x 20 m grid, but away from these workings it increases to its original 80 m x 80 m grid. In total, the orebody has been identified from surface mapping and 18 trenches to extend over a strike length of 3.5 km and has been intersected by 520 diamond drill holes over a 2.1 km strike length.

Drillholes were generally orientated at 70° to the vertical and drilled using a 57 mm diameter core barrel. All core was crushed for analysis, apart from a three year period in the late 1980s when the core was split and half retained. SRK has seen photographic evidence of the retained core and it appears that it has been stored outside and that a large number of the core boxes may have deteriorated to the extent where it is not possible to read any hole or sample identification information. In many cases, the core also appears to have spilt from the boxes. It is therefore SRK's opinion that it is unlikely that a full and meaningful check analysis programme could be undertaken from this core and that any grade verification would require further drilling.

It is reported that the average core recovery was 78% and that any samples with a recovery of less than 70% were excluded from the resource estimation process. The steep nature of the orebody coupled with the steep dip of the drilling means that intersection angles of the core are relatively shallow. It is understood that the drill rigs available for the core drilling were generally incapable of drilling at shallower angles.

Underground sampling has been carried out in cross cuts developed from the drives at 4-6 m intervals. Crosscuts are sampled along both sidewalls where the full width of the orebody is exposed. Sampling was carried out using a mechanical hammer to cut a channel. Sample lengths are generally 1 m, although they can be up to 1.5 m at contacts.

SRK has not had access to the underground workings or the core storage facilities and has not, therefore, been able to observe the sampling methodology first hand. SRK has also not carried out independent sample checking nor had direct access to check assay information. Notwithstanding this, SRK have discussed the methodologies and protocols used for sample analysis and consider these to be generally appropriate.

Prior to 1988, all samples were analysed by fire assay, but since 1988 they have been assayed using XRF. All samples were prepared on site and a duplicate sample was submitted every 20th sample. Additional duplicate samples were sent to independent laboratories at Aldan, Magadan, and to TsNigri in Moscow. Check samples are assayed using fire assay. SRK was informed that all laboratories used for these analyses carried out regular internal checks using duplicates, repeats, standards and blanks, however as these results were not available to SRK at the time of the site visit they were not reviewed.

Russian quality control protocols are based on an analytical variance calculated from check assays of duplicate sampling. For the Kyuchus deposit, all grade intervals were within the

approved limits for analytical variance except for the low grade (<0.5 g/t) samples. Due to the unreliability of the results for this interval, all samples with grades of 0.5 g/t or less were converted to a 0 g/t value, thus introducing an element of conservatism to the grade interpolation calculations. In total, some 10% of the samples from Kyuchus have been checked by internal check analysis.

A full documentation and statistical analyses of the duplicate and check assay results has not yet taken place, although SRK understands that this process is planned to take place in 2006. SRK considers that it would only be appropriate to class any of the Kyuchus resource as Measured once this and the planned re-sampling has been completed.

A specific gravity value of 2.78 t/m^3 has been used for the Russian resource estimate. It is understood that this value is derived from work carried out during the original resource estimation exercise. A total of 60 samples were taken for volumetric calculation of density from original core samples and with a wide range of gold grades. The average density is calculated as 2.78 t/m^3, but individual results were recorded as low as 2.63 t/m^3

While SRK considers this value to be reasonable for an unaltered orebody such as Kyuchus, no information is available on the depths that these samples were taken and SRK recommends that an analysis of the variation of specific gravity with depth be undertaken.

6.3 Resource Estimation Methodology

The Kyuchus orebody was originally modelled in 1996 using standard Russian methodology on 2D vertical longitudinal projections (VLP) spaced at 80 m with widths rarely exceeding 10 m in width. It is this estimate that forms the basis the Yakutia State Committee approved statement provided below in Table 6.1.

Grade interpolation on these VLP was carried out on a block by block process with drill and trench intersections forming the block boundaries.

True width and length weighted grade composites were calculated for each intersection. Composites were defined using a 3 g/t cut-off and blocks defined on a 5 g/t cut-off for composites. Assay cutting was carried out if any single assay contributed more than 10% of the block value or if any composite contributed more than 20% of the block value. The maximum allowable internal waste (<3 g/t) was 3 m and a minimum thickness was set at either 1.5 m or 7.5 m g/t. The grade of individual blocks is based on a length weighted average of all intersections within a block based on the above parameters.

The resource was then classified using the Russian State Committee for Reserves guidelines. C1 material is that defined by drilling on at least an 80 x 40 m grid pattern, while C2 is based on a 160 x 80 m grid.

In the upper central portion of the orebody, mining blocks have subsequently been defined on the VLP based on the two underground development levels and using the same parameters as defined above for the original blocks.

More recently, in 2004, a digital computer based block model of the Kyuchus orebody has been produced using the Micromine software package. A geostatistical analyses of the assay grades held within the wireframe was undertaken and Inverse Distance Weighting (IDW) to the power of three and a search ellipse of 28 x 66 x 47 m subsequently used to populate the 5 x 5 x 10 m block model. This model has not, however, been submitted to the state for approval.

6.4 YMC Mineral Resource Statement

The following Mineral Resource Statement is based on the Yakutia State Committee approved statement dated 1 March 1996. Off balance material is that which is either below the cut-off grade of 3 g/t, or where the orebody was deemed too narrow to be mined economically.

Table 6.1: YMC Resource Estimate

	Category	Tonnes (millions)	Gold Grade (g/t Au)	Gold Content (Moz)
On Balance	C1	6.4	10.2	2.1
	C2	7.5	9.6	2.3
	Total On Balance	13.9	9.9	4.4
Off Balance	C1	1.4	5.3	0.2
	C2	9.6	4.2	1.3
	Subtotal	**11**	**4.3**	**1.5**
	Total (On Balance + Off Balance)	24.9	7.4	5.9

6.5 SRK Comments

SRK has reviewed the methodologies and sampling protocols used to define the original state approved resource statement and is of the opinion that this is appropriate given the level of detailed sampling described and the level of geological knowledge. The Russian method

of driving underground development during the exploration phase of a project has allowed a detailed model of the orebody to be built up and detailed sampling to be carried out which has helped categorise the orebody morphology.

SRK does not consider any of the current resource to be equivalent to be sufficiently well known to be categorised as a Measured Mineral Resource as defined by the JORC code given the issues over lack of confidence in XRF grade analyses comparisons with traditional fire assay and the lack of available quality assurance data to scrutinise. Broadly speaking, SRK considers the C1 resources to be within the "Indicated" category, and the C2 resources to be within the "Inferred" category, as defined by the JORC Code.

SRK also considers the Off Balance resources to be outside of any Mineral Resource classification defined by the JORC Code.

SRK does some concerns regarding the digital model. Notably the block sizes are small, the wireframes contain a high degree of extrapolation and despite robust variograms, only an inverse distance weighting interpolation algorithm was used.

6.6 SRK Audited Mineral Resource Statement

The computerised model has an advantage over the original estimate in that it can easily be interrogated in terms of running a range of check calculations, interpolation methodologies and varying cut off grades. For this reason, SRK has taken this model, which initially reported 53.3 Mt at 4.1 g/t Au for 7.1 Moz at a 0.0 g/t cut off, and run a number of check calculations on this. In addition, SRK has performed a new rough IDW3 interpolation into the current block model to derive a new blockmodel the results of which are given below in Table 6.2.

Blocks were interpolated using drillhole data (underground assay results are currently unavailable to SRK) and a larger search ellipse but in the same directions of continuity as used in the original model.

The central portion of the deposit, where there is both close space drillhole data and underground development, and an area to the south-west where wider spaced drill results are supplemented with (currently unavailable) underground development sampling, down to the average drillhole depth of this area, were then classified by SRK as Indicated. The remainder of the deposit that has been intersected with a roughly 80 to 160 m drill spacing down to a vertical depth of roughly 600 m has been defined by SRK as Inferred.

While all blocks were interrogated at a 1.5 g/t Au cut off grade, blocks below 300 m vertical depth (the maximum pit depth SRK considers to be potentially economic) have been interrogated using a 4.0 g/t Au cut off as they are seen rather as a potential underground mining target, as shown in Table 6.2 below.

Table 6.2: SRK Block Modelled Resource Statement

Category	Tonnes (millions)	Gold Grade (g/t)	Gold Content (Moz)
Indicated	10.6	4.7	1.6
Inferred	10.5	5.1	1.7
TOTAL	**21.0**	**4.9**	**3.3**

Although SRK did not have the underground assay data to use in its analysis, the result is significantly different from that produced from the same area within the model created using the Micromine software raising some concerns with the latter. SRK recommends that further work is undertaken to reconcile the differences between these models before either is used as the basis of an updated resource statement.

For the purpose of this report, SRK has used the original Russian resources estimate as a basis to produce a final audited Mineral Resource statement given in Table 6.3. As already commented, SRK believes that within the Kyuchus gold prospect C1 resources equate to Indicated Mineral Resources and C2 resources to Inferred Mineral Resources as defined by the JORC Code.

Table 6.3: SRK Audited Mineral Resource Statement

Category	Tonnes (millions)	Gold Grade (g/t)	Gold Content (Moz)
Indicated	6.4	10.2	2.1
Inferred	7.5	9.6	2.3
TOTAL	**13.9**	**9.9**	**4.4**

7 ORE PROCESSING

Kyuchus is a semi refractory sulphide gold ore body typically containing between 7 and 9 g/t gold, 1 to 2 % arsenic, up to 1% antimony, around 0.1 to 0.2 % mercury and up to 0.3% carbon. Quartz, micas and carbonate minerals predominate (39%, 40% and 7% respectively) and the main sulphides are pyrite, arsenopyrite, antimonite and cinnabar (HgS) (2.5%, 2.8%, 0.9% and 0.2% respectively). Gold occurrence is predominantly in sulphides (61%), silicates and quartz (18%) and acid soluble minerals (4%). Some free gold is present.

Limited information is currently available on the metallurgy of the Kyuchus ore body. Ore processing was investigated by the Russian Institute VNIIKhT on Kyuchus sample 52 in August 2005.

There are three ore types; oxide, primary and mixed, and testwork performed has focussed predominantly on the primary material. Testing has indicated that gravity concentration and flotation can be applied to produce gold rich concentrates. Overall typical gold recoveries into concentrate are 77% for oxide, 75% for mixed ore and up to 86% for primary ore.

Approximately 40% of the gold can be recovered into a gravity concentrate and 45 to 50% recovered into two flotation concentrates. The mass pull to achieve these recoveries is however relatively high, around 7% for gravity and around 24% overall for both flotation concentrates (all calculated on a run of mine basis).

Reagent regimes have been established but not optimised; the same is true of the grind required.

SRK considers that further testwork is required to bring metallurgical aspects of the project to feasibility study level. The concentrates contain arsenic, antimony and mercury species and the environmental implications of any concentrate treatment methods must be considered. Some testwork on the extraction of gold from concentrates using roasting has demonstrated that overall gold recovery would be around 80 to 90% depending on the conditions used. The roasting testwork should be considered as very preliminary and is indicative only that the technique is potentially applicable. Certainly, this method requires significant further testing before it could be used in a feasibility study.

Finally, previous reports have also implied that some amenability testwork for biological oxidation has been performed in South Africa, although this report is currently unavailable to SRK. This method could be applicable to the sulphides, while gold recovery from the oxidised residue would probably be less than that achieved by roasting. Further testing would be required and it is essential that the oxidised residue is characterised in sufficient detail to identify any potential environmental issues.

8 ORE RESERVES

The region has a history of gold mining principally associated with placer mining, although due to deteriorating economic conditions this has significantly reduced in recent times. Kyuchus therefore has the potential to be the first new operating gold mine in region. The area in the vicinity of the deposit is served by road, river and air access and a 35 km extension for mains power would need to be installed. Principal work has focused on exploration and definition of a Mineral Resource and there is no current pre-feasibility study or feasibility study that defines the project in terms of mining, processing and construction. Consequently, SRK cannot yet report an Ore Reserve Statement for Kyuchus.

A study has been undertaken using Micromine software into the prospective mining of an open pit to some 130m in depth below surface. SRK has not, however, been able to review this work or the pit optimisation process on which the estimates of tonnes and grade are

based. SRK understands that YMC's objectives for future work include increasing the known resources through the establishment of an exploration programme; the consideration of a deeper open pit to some 300 m below surface; and further investigation into the prospective process options particularly for the processing of concentrates.

The area of the deposit is subject to harsh weather conditions and the layer of permafrost extends to some 340 m below surface. Some 2 km of underground development has been installed in addition to the drilling and trenching exploration that has been conducted. Previously a purely underground operation was considered for the deposit, but YMC has now changed the focus to be primarily one of open pitting. Subsequent to completion of the work scheduled by Polyus/YMC, as outlined above, SRK would fully expect Polyus/YMC to complete a feasibility study into the open pit mining of the deposit.

9 CONCLUDING REMARKS

SRK considers the Kyuchus gold project to be at an advanced exploration stage with impressive further exploration potential that YMC is currently assessing with a well organized exploration drilling programme.

Although the data is currently of insufficient confidence to delineate a Measured Mineral Resource as defined by the JORC Code, and while there is currently no pre-feasibility or feasibility type study available,

SRK considers that further studies into the data quality as well as into the technical and economic viability of the project will confirm both its status as a significant resource and allow the definition of an Ore Reserve.

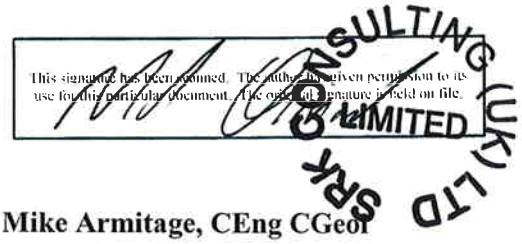
10 WARRANTY

The observations, comments and conclusions presented in this report represent SRK's opinion as of February 2005 and are based on discussions with YMC staff and consultants, SRK's review of reports and information provided and check analyses and verifications as deemed to be required.

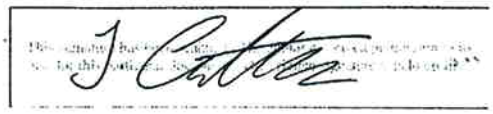
SRK cannot accept any liability, either direct or consequential for the validity of information that has been accepted in good faith.

SRK requires to be able to approve any extract from this report which may be presented in any public domain literature or which is used for the purposes of financing or presentation to third parties.

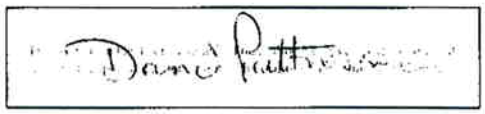
For and on behalf of SRK Consulting (UK) Ltd



Mike Armitage, CEng CGeol
Managing Director, SRK (UK) Ltd.



James Gilbertson
Resource Geologist



Dr David Pattinson
Principal Metallurgist