

***China Shen Zhou Mining &  
Resources (AMEX: SHZ)  
Yet Another Massively Over-  
Valued Chinese Reverse-Merger...***

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# China Shen Zhou Mining & Resources

## (AMEX: SHZ) Summary Financials & Information

\$mm, except per share data	
AMEX Ticker:	SHZ
Closing Price on 03/07/11	\$5.25
Market Capitalization	\$169.3
Firm Value	\$165.5
Diluted Shares Outstanding	32.3
Dividend Yield	0.0%
Average Volume (3-Months/10-Days)	4.4mm/1.6mm
<b>Price Target</b>	<b>\$1.25</b>
<b>Recommendation</b>	<b>CONVICTION SELL</b>

**Business Summary:** China Shen Zhou Mining & Resources engages in the development, mining, and processing of fluorite and nonferrous metals. It owns the Sumochaganaobao fluorite mine and Qingxing zinc/copper mine in northern China and is currently exploring the Keyinbulake multi-metal development project in northwest China. The company is headquartered in Beijing, went public in the United States via a reverse-merger on 09/15/06, and was listed on the AMEX on 01/31/08.

\$mm	Historical Financials				Management Guidance <sup>1</sup>	
	FY07	FY08	FY09 <sup>2</sup>	3Q10-LTM <sup>2</sup>	FY10E	FY11E
<b>Summary Results</b>						
Revenue	\$14.4	\$7.1	\$4.2	\$7.9	\$14.5	\$43.5
EBITDA	\$2.8	(\$2.7)	(\$3.2)	(\$0.9)	--	--
Net Income	(\$4.0)	(\$12.1)	(\$8.8)	(\$4.1)	--	\$14.0
Operating Cash Flow	\$3.6	(\$2.2)	(\$1.2)	(\$5.1)	--	--
CAPEX	\$19.6	\$1.9	\$2.5	\$3.1	--	--
<b>Current Trading Multiples</b>						
FV/Revenue	11.5x	23.2x	39.5x	21.1x	11.4x	3.8x
FV/EBITDA	58.2x	N.M.	N.M.	N.M.	N.A.	N.A.
FCF Yield	N.M.	N.M.	N.M.	N.M.	N.A.	N.A.
P/E	N.M.	N.M.	N.M.	N.M.	N.A.	12.1x

***In this Initiating Coverage Report, Absaroka will demonstrate that SHZ's FY11 forward-looking guidance cannot be relied upon and the business should be valued based upon its historical results. SHZ is not a rare earths producer and is currently massively over-valued as it is trading at 21.0x LTM Revenue of \$7.9mm, has produced negative EBITDA since FY07's diminutive \$2.8mm results, and has yet to generate positive free cash flow since going public via a reverse-merger in FY06.***

<sup>1</sup> SHZ Management Guidance from 12/03/10 press release and filings from the 55% acquisition of Xinyi Fluorite announced 01/13/11

<sup>2</sup> Please note in 4Q09 SHZ benefited from a non-recurring, non-cash \$14.0mm gain with the repurchase of its convertible note at a 50% discount to face value; as a result, Absaroka has included this pro-forma adjustment to the reported financials for the Summary Financials and Current Trading Multiples information. As a reminder, please review important Legal Information and Disclaimers on Page 2 of this document

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# Executive Summary – China Shen Zhou Mining & Resources (AMEX: SHZ)

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In this Initiating Coverage Report, Absaroka will present compelling evidence that China Shen Zhou Mining & Resources (“SHZ” or the “Company”) is fraudulently misrepresenting its business and thus is massively over-valued by the market at this time. Prior to starting detailed research in SHZ, Absaroka was excited about the potential prospects of a mining company to supply China’s rapidly growing commodity needs for continued economic development. Unfortunately, Absaroka’s due diligence process unearthed a plethora of serious concerns about the validity of the Company, including:

1. SHZ’s main product is fluorite (a.k.a fluorspar or  $\text{CaF}_2$ ): Despite a common misconception in the market, fluorite is not a rare earth nor does SHZ have any exposure to the rare earths business
2. SHZ Management is significantly exaggerating the size of critical mines: For example, its fluorite mine supposedly has a production capacity of >2x historical output and the Qingxing mine is allegedly 777.4km long, which would make it one of the world’s largest underground mines and violate the sovereignty of Mongolia
3. SHZ’s FY11 guidance cannot be reconciled with prior results and Management is making promises it cannot meet: Even if SHZ is able to achieve its extremely aggressive production forecasts of >2x volume growth, the implied commodity prices are irrationally high based on the revenue guidance
4. The recent Xinyi Fluorite Company investment appears to be a fraudulent scheme to transfer equity to related parties and includes a put-option that is highly dilutive to public shareholders
5. Significant CFO turnover, low quality auditors, and a dubious Audit Committee raises grave concern about the validity of published historical financials and forward-looking guidance: 2 of the auditors of the alleged China Education Alliance (NYSE: CEU) fraud have also signed off on SHZ’s financials
6. Audit Committee Chairman and Independent Director Mr. Gene Michael Bennett appears to have a fabricated employment history, a non-existent CPA certification, overstated educational achievements, and has been a Board member for four other Chinese reverse-merger frauds
7. Multiple material differences between Management statements and reality, including a 60% miss on FY09 fluorite production guidance, mysterious fluorite pricing data, and failed development projects
8. The recent trading history was significantly impacted by the Company’s prolific and misleading investor relations effort while insiders were selling stock prior to the \$20mm equity offering
9. \$20mm equity offering in January 2011 had no rational explanation based on business needs and significantly increases the risk of corporate malfeasance

Any of these serious issues on a stand-alone basis should be enough to convince public shareholders to question the current \$5.25/share valuation and pursue the “Wall Street Walk” form of shareholder activism.

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***Recommendation: CONVICTION SELL***  
***Price Target: \$1.25***

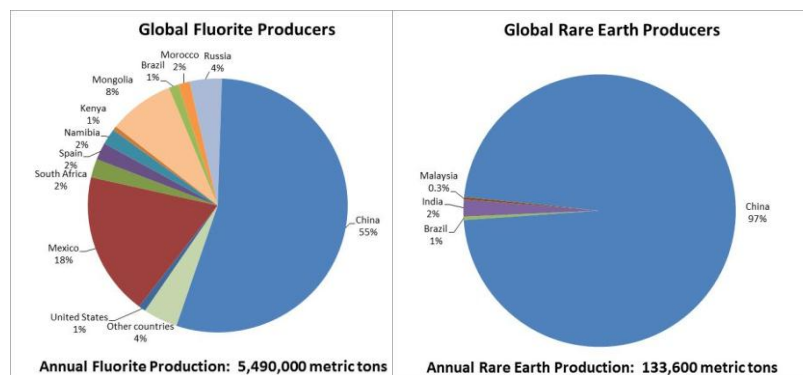
## 1: SHZ's Main Product is Fluorite (a.k.a Fluorspar or $\text{CaF}_2$ ) - Fluorite is not a rare earth element nor does SHZ have any exposure to the rare earths business, despite a common misperception in the market

Based on statements from numerous investors and commentators, the market apparently believes SHZ is a producer of rare earths and/or has exposure to the sky-rocketing rare earths business.<sup>3</sup> While prices for rare-earth metals have soared to record heights (cerium oxide is currently trading at \$71,000 per ton, up 992% from July 2010 and lanthanum oxide is at \$73,000 per ton, up 769% from July 2010), fluorite prices have only increased approximately 19% over the same time period according to *Industrial Minerals*.<sup>4</sup> **SHZ's main product is fluorite, which is not a rare earth element, and SHZ is not certified by the People's Republic of China to mine, process, refine, export or use rare earths.** Because of the false belief about rare earths exposure, SHZ has traded up in correlation with other rare earths equities (the Bloomberg Rare Earth Equity Index is up 273% from 07/08/10 to 03/04/11) and thus is massively over-valued by the market at this time. Please review Appendix B for the complete list of Chinese certified rare earth companies.

Unlike rare earths, a significant portion of the global fluorite demand, geological reserves, and production occurs outside of China. Moreover, the United States' core allies, such as Mexico, Spain, and South Africa, have both significant fluorite production capacity and economically viable, proven geological reserves. Also, the refiners, processors, and end-users of fluorite are distributed globally, which is significantly different from the very narrow rare earths value chain, in which most of China's rare earth ore is shipped directly to Japan for further refining and inclusion in value-added goods; the rare earths value chain has been significantly impacted by recent political tension between China and Japan. Finally, multiple substitutes, recycling, and the synthetic production of fluorite in chemical and industrial processes result in elastic demand and drastically dampens price volatility relative to rare earths.

### Geo-Political Supply Considerations: Fluorite vs. Rare Earths<sup>5</sup>

Due to the global production capacity, fluorite does not benefit from the same geo-political supply considerations and scarcity premium as the rare earths. Moreover, the U.S. Congress is not placing any importance on the sources of the fluorite supplies or advocating the stockpiling of fluorite supplies for defense industry applications.<sup>6</sup> As



discussed in greater detail in the following table, rare earths are critical components for numerous critical modern military and green technologies, while fluorite is mainly a basic feedstock for industrial and chemical processes.

<sup>3</sup> For example, please review: [www.goo.gl/nTJSQ](http://www.goo.gl/nTJSQ), [www.goo.gl/dXpGR](http://www.goo.gl/dXpGR), or [www.goo.gl/QfLYq](http://www.goo.gl/QfLYq)

<sup>4</sup> *Industrial Minerals MarketTracker* \$/ton midpoint for FOB China Metallurgical Fluorspar ( $\text{CaF}_2 > 80\%$ , wet-bulk); "Molycorp Pays Off for Buyout Believers" Gregory Zuckerman *The Wall Street Journal*, 02/23/11, available at: <http://professional.wsj.com/article/SB10001424052748704071304576160753303293530.html>

<sup>5</sup> "Mineral Commodity Summaries 2011" U.S. Geological Survey, available at: <http://minerals.usgs.gov/minerals/pubs/mcs/2011/mcs2011.pdf>

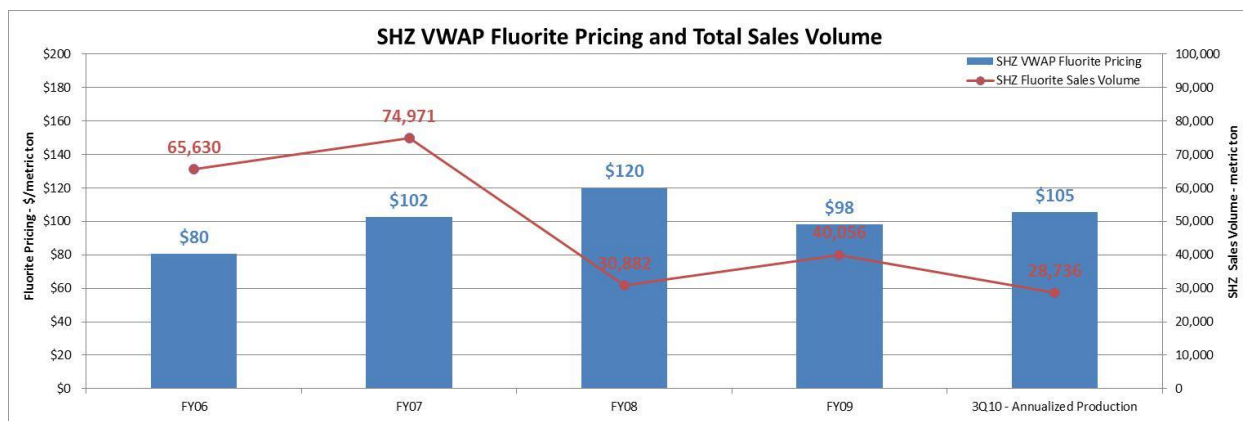
<sup>6</sup> "China Builds Up Strategic Reserves Of Rare-Earth Metals" James Adredy *The Wall Street Journal*, 02/06/11, available at: <http://professional.wsj.com/article/TPDJ00000020110206e7260001d.html>

## Product Characteristics: Fluorite vs. Rare Earths

	Fluorite <sup>7</sup>	Rare Earths <sup>8</sup>
<b>Description</b>	<ul style="list-style-type: none"> <li>Halide mineral composed of calcium fluoride (CaF<sub>2</sub>)</li> <li>Isometric shape with a cubic habit configuration, though octahedral and more complex isometric forms are not uncommon</li> </ul>	<ul style="list-style-type: none"> <li>17 chemically similar metallic elements</li> <li>Elements number 21, 39, and 57-71 on the periodic table</li> </ul>
<b>Classification</b>	<i>Classified based on purity:</i> <ul style="list-style-type: none"> <li>Metallurgical grade - low</li> <li>Ceramic grade fluorite - medium</li> <li>Acid grade - high</li> </ul>	<i>Classified based on atomic weight and location on the periodic table:</i> <ul style="list-style-type: none"> <li>Heavy Rare Earth (HREE)</li> <li>Light Rare Earth (LREE)</li> </ul>
<b>Uses</b>	<ul style="list-style-type: none"> <li>Metallurgical grade used as a flux to lower the melting point of raw materials in steel production</li> <li>Ceramic grade fluorite is used in the manufacture of opalescent glass, enamels and cooking utensils</li> <li>Acid grade is used to make hydrofluoric acid by decomposing the fluorite with sulfuric acid</li> </ul>	<ul style="list-style-type: none"> <li>Precision-guided munitions</li> <li>High-energy lasers</li> <li>Night vision equipment</li> <li>Radar systems</li> <li>High-efficiency magnets and fiber optics</li> <li>Hybrid car batteries and motors</li> </ul>
<b>Recycling &amp; Synthetic Production</b>	<ul style="list-style-type: none"> <li>Aluminum producers recycle hydrofluoric acid and fluorides from smelting operations</li> <li>Hydrofluoric acid is also recycled in the petroleum alkylation process</li> <li>Synthetic fluorspar is recovered from uranium enrichment, petroleum alkylation and stainless steel pickling</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to recycle economically</li> <li>Not possible to synthetically create elements</li> </ul>
<b>Substitutes</b>	<ul style="list-style-type: none"> <li>Aluminum smelting dross, borax, calcium chloride, iron oxides, manganese ore, silica sand, and titanium dioxide have been used as substitutes for fluorspar fluxes</li> <li>Fluorosilicic acid has been used as a substitute in aluminum fluoride production and also can be used as a substitute in hydrofluoric acid production</li> </ul>	<ul style="list-style-type: none"> <li>Limited at this time</li> <li>Difficult to replace without losing performance</li> </ul>

## SHZ's Historical Fluorite Pricing and Sales Volume<sup>9</sup>

As clearly visible below, while SHZ's realized fluorite pricing increased to record levels in FY08, sales volume dropped by over 50%. Fluorite sales volume recovered slightly in FY09 to 40,056 tons, but SHZ's VWAP fluorite price decreased 22%. In 3Q10, fluorite pricing increased slightly from FY09 levels, but the annualized sales volume was at a record low relative to prior full-year results. Thus, SHZ's fluorite business has not benefited from inelastic demand and sky-rocketing prices like some of the Chinese rare earth producers.



<sup>7</sup> "Mineral Commodity Summaries 2011" U.S. Geological Survey, available at: <http://minerals.usgs.gov/minerals/pubs/mcs/2011/mcs2011.pdf>

<sup>8</sup> "Rare Earth Materials in the Defense Supply Chain" United States Government Accountability Office, available at: <http://www.gao.gov/new.items/d10617r.pdf>

<sup>9</sup> Please note "VWAP" refers to the volume weighted average price for SHZ's fluorite lumps and concentrate/powder sales; fluorite price and volume information as per SHZ 10-K and 10-Q SEC filings



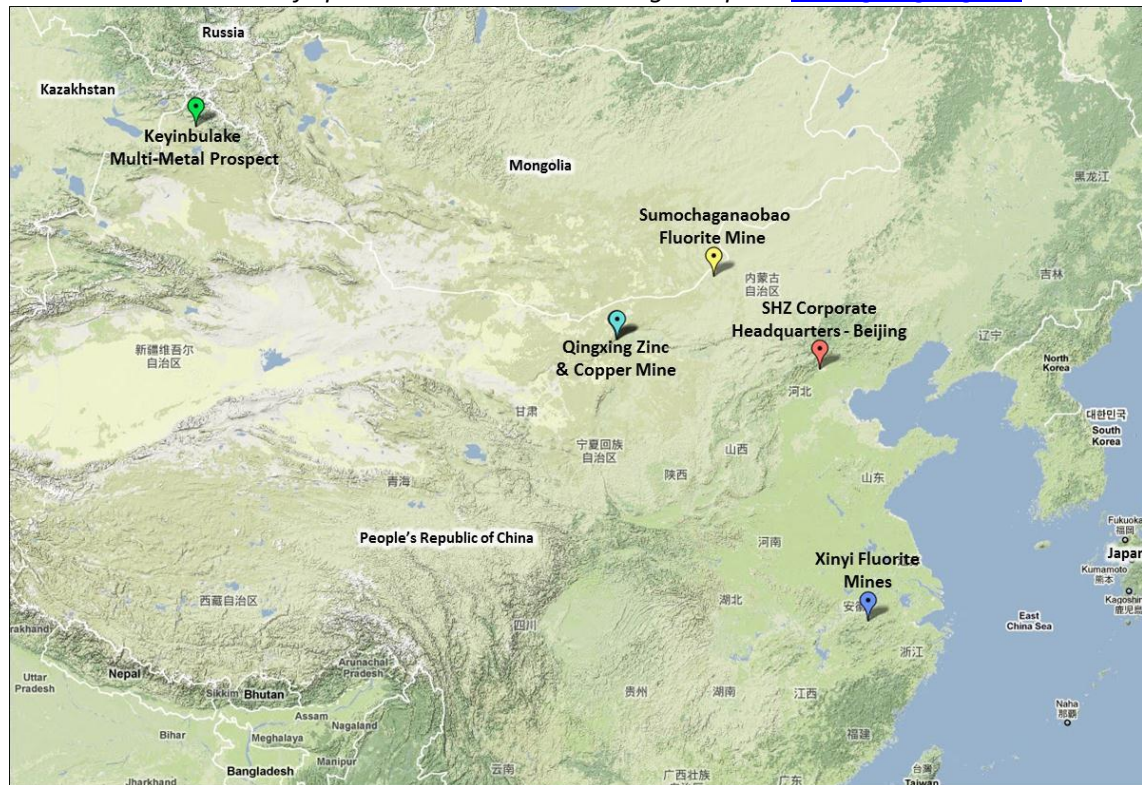
## 2: SHZ Business Overview – *Management is significantly exaggerating the size of critical mines*

### Current Business Operations as per SHZ Management<sup>10</sup>

	Sumochaganaobao Fluorite Mine	Qingxing Zinc & Copper Mine	Keyinbulake Multi-Metal Prospect	Xinyi Fluorite Mines <sup>11</sup>
<b>Mine owner</b>	Inner Mongolia Xiangzhen Mining Group Ltd.	Qingshan Nonferrous Metal Development Ltd.	Buerjin County Xingzhen Mining Co.	Xinyi Fluorite Company Ltd.
<b>% SHZ</b>	100%	60%	90%	55%
<b>Mine type</b>	Non-metal fluorite	Zinc & copper	Zinc & copper	Non-metal fluorite
<b>Status</b>	Production	Production	Exploration	Production
<b>PRC license #</b>	1500000820156	1500000820421	6500000712980	3418252009036120010379 & 3418002009046120011698
<b>PRC license period</b>	April 2008 to March 2011	September 2008 to September 2011	August 2007 to August 2013	April 2009 to April 2011
<b>Ore type</b>	Fluorite	Zinc, copper, & sulfur	Zinc & copper	Fluorite
<b>Mining mode</b>	Underground	Underground	T.B.D.	Underground
<b>Annual capacity</b>	150,000 metric tons	100,000 metric tons	T.B.D.	T.B.D.
<b>PRC location</b>	Inner Mongolia	Inner Mongolia	Xinjiang Uygur	Anhui Province

### Map of Major Operations Based on Information from SHZ Management

Detailed satellite view of operations available via GoogleMaps at [www.goo.gl/YqnUz](http://www.goo.gl/YqnUz).<sup>12</sup>



<sup>10</sup> SHZ 12/31/09 10K, page 20 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>11</sup> SHZ 01/14/11 8-K <http://www.sec.gov/Archives/edgar/data/790024/000114420411002268/0001144204-11-002268-index.htm>

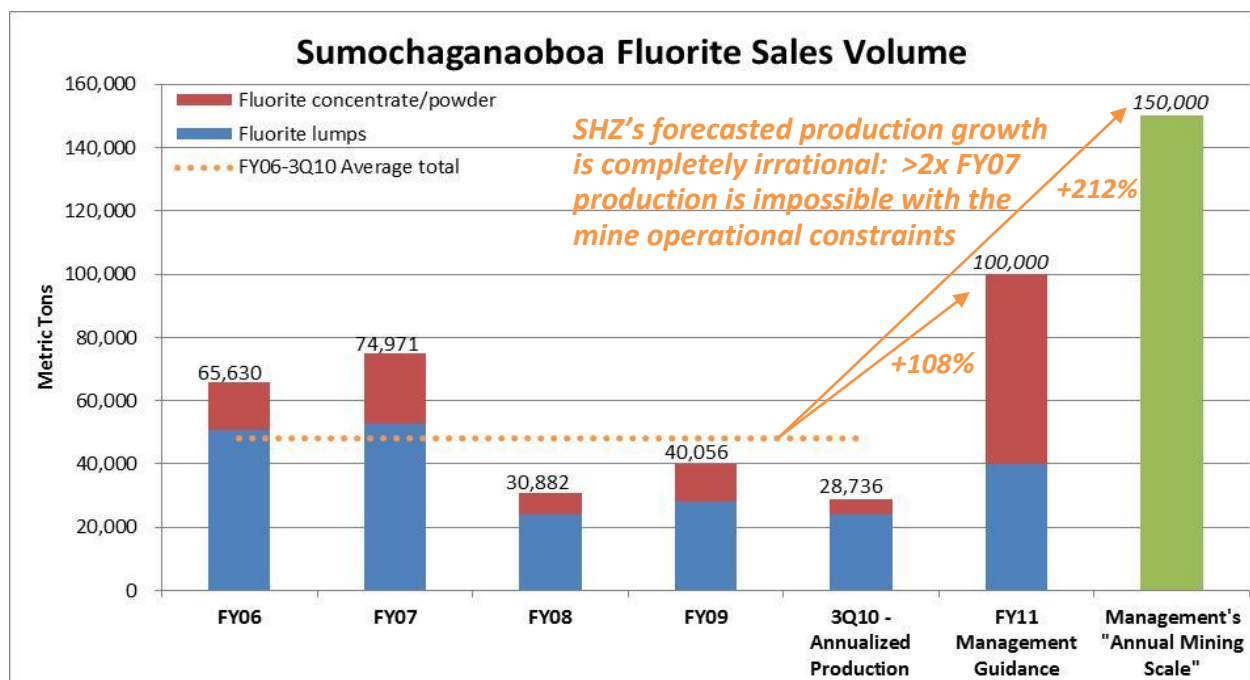
<sup>12</sup> Plot as per lat/long coordinates provided in SHZ 12/31/09 10-K; Qingxing Mine location based on Absaroka's best estimate as SHZ's reported mine length of 777.4km is impossible

## Sumochaganaobao Fluorite Mine – *Approximately half the size SHZ claims*

SHZ's Sumochaganaobao fluorite mine was acquired in 2002 from a state-owned enterprise and has been expanded to transition from the historical open-pit operations to underground mining; at this time, most of the fluorite veins economically accessible via open-pit mining have been depleted. Located on the high altitude, desert steppes of Inner Mongolia, the mine has historically been forced to close during the winter due to the extreme weather conditions.

The Sumochaganaobao fluorite mine is extremely isolated and thus the operating costs of the mine are significant higher relative to fluorite producers with reserves in southern China. Located approximately 90km from the nearest town on a mud road, all supplies to the mine and all the ore from the mine must be transported via truck, which is significantly more expensive than rail transport. Prior to 2007, all electrical power for production and the miners living quarters was produced on-site with inefficient diesel generators, which were quite expensive to operate and maintain. Although the mine is now connected to the state power network, the mine's operating costs do not appear to have materially improved. Water for the production processes and the miners' living needs is sourced from three wells about one kilometer away from the mine; the arid climate makes it difficult to secure alternative water supplies.

According to SHZ's 10-K and 10-Q SEC filings, in its best operating year, Sumochaganaobao achieved fluorite sales volume of 74,971 metric tons. However, fluorite volumes have been materially lower since FY07, despite several operational improvements, with 40,056 metric tons in FY09 and annualized 3Q10 sales (prime mining season in Inner Mongolia) were only 28,736 metric tons. Because of the low historical production volumes and the significant production issues discussed in the next section, **Absaroka is highly confident the annual fluorite production capacity of Sumochaganaobao is approximately half of the 150,000 metric tons claimed by Management.**

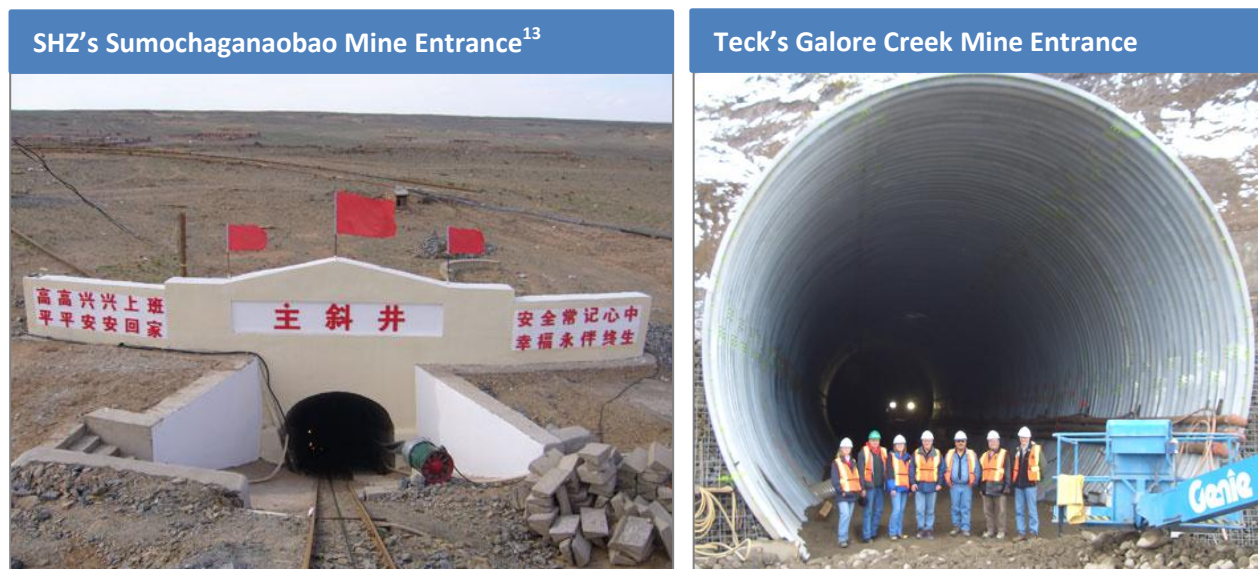




## Sumochaganaobao Fluorite, continued – Approximately half the size SHZ claims

### **Absaroka is aware of at least two fatal flaws which limits SHZ's production at Sumochaganaobao:**

First, underground mining requires detailed engineering and operational optimization to ensure the mine access is large enough to handle the throughput of miners starting shifts and supplies (bolting steel, explosives, cement, etc.) entering the mine and the backhaul of ore, waste rock, and miners ending shifts out of the mine. Based on estimated throughput/backhaul calculations for the Sumochaganaobao facility performed by Absaroka's mine engineering consultant, it is difficult to believe that the maximum annual production from the underground mine could ever be more than 75,000 metric tons of fluorite. This significant production constraint is also visible when comparing the scale of Sumochaganaobao's main shaft mine entrance to a legitimate mining project, such as Teck's Galore Creek. <sup>13</sup> For an approximate comparison of the relative mine entrances, please compare the size of the set of stairs (approximately 1 meter tall) on the left side of the Sumochaganaobao entrance relative to the size of the group of people standing (approximately 2 meters tall) in front of Galore Creek.



Second, access to adequate water supply is a critical component for a successful mining facility as large amounts of clean water are required to separate concentrated ore from waste rock. Historically, SHZ has had problems with the Sumochaganaobao water supplies “temporarily [failing to] meet processing requirements for large-scaled production.” <sup>14</sup> Northern China is currently experiencing the worst drought in at least 60 years and drinking water is being rationed in communities surrounding Beijing. <sup>15</sup> It seems highly implausible SHZ will now be able to get enough water in 2011 for its critical mine located in the high altitude, desert steppes of Inner Mongolia when even industrialized city dwellers cannot find enough water.

### **Difficult to Believe Sumochaganaobao's Annual Fluorite Production Could Ever Be More Than Half of the 150,000 Metric Tons Claimed by Management**

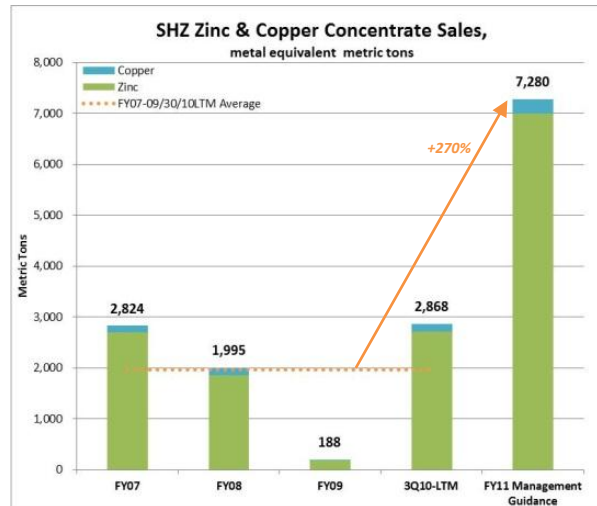
<sup>13</sup> Retrieved from SHZ's mandarin language website on 03/06/11, available at: <http://chinaszky.com/upimg/20069855907765.jpg>

<sup>14</sup> SHZ 12/31/09 10-K, page 31 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>15</sup> "China Drought Threatens Wheat Crop" [BBC News](http://www.bbc.co.uk/news/world-asia-pacific-12497459), published 02/17/11, available at: <http://www.bbc.co.uk/news/world-asia-pacific-12497459>

## Qingxing Zinc & Copper Mine – Definitely NOT 777.4km long as claimed by SHZ

The Qingxing Zinc & Copper Mine was established in 2003 and acquired by SHZ in 2006. The mine has been intermittently closed by SHZ since its acquisition due to the high cost of extracting its lower-grade ore relative to the price of zinc and copper concentrate, especially during the extreme Inner Mongolia winters; in 2009, the mine produced very few products because of “technological difficulties.”<sup>16</sup> As of 12/03/10, SHZ Management expects to keep the mine open throughout FY11 and increase production levels by approximately 270% over the historical average levels since FY07. However, the high production costs for the ore relative to the prices of zinc and copper concentrate will limit free cash flow generation in FY11.



According to SHZ’s SEC filings, the mine coordinates are E106°45’15”-106°45’45”, N47°57’14”-40°57’45”, which implies the mine is 777.4km long, crosses the international border into Mongolia, and proceeds to the outskirts of Ulaanbaatar, Mongolia.<sup>17</sup> For reference, this claimed length makes it one of the world’s largest underground mines and is approximately twice the length of the trenched portion of the Great Wall of China. **Absaroka is highly confident the mine is significantly smaller than the 777.4km length SHZ Management claims.**

Based on the age of the mine, the main shaft is likely at most 20km long, assuming an aggressive 2,500m of mainline shaft progress per year of operation.



## Other Major Operations

SHZ’s Keyinbulake Project in the Xinjiang Uygur Autonomous Region of China is currently in the exploration stage with significant development risk and a long horizon before any potential positive free cash flow generation. In 2009, political unrest and violence because of ethnic conflicts between the minority Uygur and the Han Chinese in Xinjiang Uygur prevented SHZ from accessing the project site.<sup>18</sup>

The Xinyi Fluorite Ltd. investment is discussed in Section 4 of this document.

<sup>16</sup> SHZ 09/30/10 10-Q, page 24 [http://www.sec.gov/Archives/edgar/data/790024/000114420410059516/v201752\\_10q.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410059516/v201752_10q.htm)

<sup>17</sup> SHZ 12/31/09 10-K, page 24 (see also FY07 & FY08 10-Ks) [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>18</sup> SHZ 12/31/09 10-K, page 14 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

### **3. SHZ's FY11 Guidance – Not possible to reconcile with prior results and SHZ appears to be making promises it cannot meet**

On 12/03/10, SHZ distributed the press release entitled “China Shen Zhou Announces Operational and Financial Guidance” which provided forward-looking statements on FY11. For reference, below is a quotation of the relevant section of the press release (emphasis added for clarity):

*“For 2011, China Shen Zhou expects production to reach approximately 60,000 metric tons of fluorite powder and approximately 40,000 metric tons of fluorite lumps. Nonferrous metal production should reach approximately 15,000 metric tons of zinc concentrate (equal to 7,000 metric tons of zinc metal) and nearly 1,500 metric tons of copper concentrate (equal to 280 metric tons of copper metal) in the 2011 year...For the year to end December 31, 2011, net revenues are expected to approximate \$38.0 million, a 164% increase compared with the 2010 estimated net revenues of \$14.5 million. All this anticipated growth is organic from the current product portfolio. Net income for the 2011 year is estimated to reach approximately \$11.0 million.”*

Utilizing some simple arithmetic, it becomes crystal clear that SHZ's FY11 forecast cannot be relied upon, even if one makes the heroic assumption that SHZ is able to achieve its extremely aggressive production forecasts despite the fatal mine flaws discussed in the prior sections. Please review Appendix C for a complete reconciliation of Absaroka's calculations and third-party data sources.

In summary, after backing-out the revenue associated with SHZ's estimated FY11 zinc and copper concentrate sales by utilizing forward pricing data from the Shanghai Futures Exchange, it appears SHZ is forecasting its volume-weighted average fluorite price to increase by approximately 124.0% from its realized 3Q10 fluorite price and 135.6% from its fluorite VWAP from FY06-FY09. Based on independent, third-party fluorite data from *Industrial Minerals*, the highly regarded global non-metallic minerals pricing data and news source, SHZ's pricing growth forecast is comically aggressive and does not reconcile with forecasts from other fluorite industry participants. For example, *Industrial Minerals* data shows Chinese Metallurgical Fluorspar pricing in 2011 has only increased approximately 16.3% since 09/30/10 versus SHZ's forecast of 124.0%.<sup>19</sup> Moreover, based on discussions Absaroka's in-country investigator had with Chinese fluorite industry participants, SHZ's Inner Mongolia fluorite vein deposits have significantly higher levels of naturally occurring silica impurities versus southern producers, which will limit SHZ's ability to increase pricing over its historical levels. Finally, it is critical to note that SHZ specifically mentions the financial guidance is “organic from the current product portfolio,” so the January acquisition of Xinyi Fluorite would be additive to the December FY11 financial guidance.

Thus, based on the massive forecasted production volume growth and aggressive commodity pricing estimates, **Absaroka is highly confident SHZ's FY11 financial guidance cannot be relied upon** and the FY11 results will most likely only be incrementally better than the operating losses and negative free cash flow SHZ achieved in FY07.

<sup>19</sup> *Industrial Minerals* MarketTracker fluorspar pricing quote, \$/ton midpoint for FOB China Metallurgical Fluorspar (CaF<sub>2</sub>>80%, wet-bulk) as of 02/28/11, available with a Euromoney Institutional Investor PLC subscription at: [www.indmin.com](http://www.indmin.com)

#### 4: Xinyi Fluorite Company Investment – Deal structure includes a dilutive equity put-option and shockingly low transaction multiples<sup>20</sup>

On January 13, 2011, SHZ announced it signed a \$13.5mm equity transfer agreement with the shareholders of Xinyi Fluorite Company Ltd. (“Xinyi”) in order to acquire a 55% equity interest in the company. Xinyi was established in 2003, operates in Anhui Province (southeastern China), and purportedly operates three fluorite mines. Because Xinyi is located 2,000km from SHZ’s current mine and freight costs are a significant consideration for the end-users of fluorite, it is difficult to understand how Management intends to, as per the press release, “leverage our sales, production, and our marketing network” to successfully integrate these geographically separate mines, especially as SHZ currently does “not employ any marketing staff.”<sup>21</sup>

Moreover, analysis of the Equity Transfer Agreement filed with the SEC raises several material concerns. First, SHZ is paying for a majority, \$7.6mm, of the acquisition with parent company stock (i.e. issuing new AMEX shares). As per contract point 4.9 “Party B [SHZ] warrants that the equity share value of the Parent Company in the amount of RMB fifty million Yuan [\$7.6mm] will not devalue, otherwise Party B [SHZ] shall make up the difference.” **This equity put-option deal structure is extremely disadvantageous to SHZ public shareholders.** As SHZ has traded down since the January 13<sup>th</sup> announcement, the potential number of shares to be issued has increased by approximately 67%, which will further dilute public shareholders. For example, one of the key catalysts in the collapse of Enron was the exercise of the equity put-options after the implosion of the Raptor II and LJM Management off-balance sheet partnerships.

Next, SHZ is also allowing Mr. Min Yong (10%) and Mr. Wang Changman (5%) to acquire ownership stakes in Xinyi for \$0.9mm and \$0.5mm, respectively. These acquisition prices for Mr. Min Yong and Mr. Wang Changman represent a **64% and 57%, discount respectively, to SHZ’s cost basis** for Xinyi and further dilutes SHZ’s public shareholders. Absaroka’s in-country investigator found indications Mr. Yong and Mr. Changman are commodity traders with prior dealings with SHZ management; if anything, this structure is analogous to “letting the fox into the henhouse.” According to SHZ, Mr. Yong and Mr. Changman received the acquisition discount because they paid cash versus SHZ’s cash/equity, but this a deceitful excuse because the selling Xinyi shareholders are protected by the put-option on the SHZ shares. Finally, although SHZ acquired a 55% equity interest in Xinyi and is the majority contributor to the renovation fund, the conditional profit sharing agreement limits SHZ’s percentage to **less than 50%** of future potential production.

Lastly, SHZ forecasted Xinyi will generate \$10mm in revenue and \$5-6mm net income in FY11 (an implausible 55% margin for a commodity business), which implies total enterprise value transaction multiples of 2.4x revenue and 4.4x net income. Because of these extremely low transaction multiples, it appears either 1) the Xinyi transaction was conducted at arms-length and these very low multiples are indicative of the intrinsic value of Chinese fluorite miners, or 2) Xinyi is not a legitimate fluorite miner and the transaction is a fraudulent scheme to transfer equity to related parties. Taking into account the even more shocking FY11 net income implied acquisition multiples of 1.6x and 1.9x for Mr. Yong and Mr. Changman, respectively, **Absaroka is highly confident the Xinyi transaction is fraudulent** and is not fair to public shareholders.

*For a complete transaction spread of the Xinyi investment, please review Appendix D located at the end of this report.*

<sup>20</sup> SHZ 01/14/11 8-K <http://www.sec.gov/Archives/edgar/data/790024/000114420411002268/0001144204-11-002268-index.htm>

<sup>21</sup> SHZ 01/19/11 424B5 Prospectus, page S-6 [http://www.sec.gov/Archives/edgar/data/790024/000114420411002771/v208283\\_424b5.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420411002771/v208283_424b5.htm)



## **5: Significant CFO Turnover, Low Quality Auditors, and a Dubious Audit Committee Chairman – Raises grave concern about the validity of published historical financials and forward-looking guidance**

### **Four CFOs in less than the last three years....**

Date	Name	Comments
August 2010 – Present	Lifeng (Steven) Wang	<ul style="list-style-type: none"> <li>From October 2009 to August 2010, he served as a manager of Zhongrong International Trust</li> <li>From January 2008 to April 2009, he served as a senior auditor for Huaming Accounting Beijing</li> <li>Mr. Wang has a <u>Bachelor's Degree in History</u> from Capital Normal University in China and is only <u>34 years old</u></li> </ul>
March 2009 – July 2010	Jiusheng Zhang	<ul style="list-style-type: none"> <li>From August 2004 to December 2008, he served as Chief Financial Officer and Vice General Manager of Zhong Xing Company</li> <li>From January 2001 to August 2004, he served as Chief Financial Officer of Tianjin Olympic Garden Investment Limited of China Sport Industry Group Co. Ltd.</li> <li>Mr. Zhang has a Master of Arts in Economics from the Xi'an Finance and Economics College</li> </ul>
June 2008 – February 2009	Hu Ye	<ul style="list-style-type: none"> <li>From December 2007 to May 2008, Mr. Ye worked as CFO of BOCO Enterprises Ltd.</li> <li>From March 2007 to November 2007, he worked as CFO of EMarket Holding Group Corp</li> <li>Mr. Hu Ye received his Bachelor's in Electrical Engineering from Huazhong University of Science and Technology, China and Master of Arts in Economics from University of Toronto</li> </ul>
April 2007 – June 2008	Steven Jiao	<ul style="list-style-type: none"> <li>From 2002-2005, Mr. Jiao was CFO for Zoom Technologies Inc.</li> <li>Mr. Jiao obtained an MBA degree in Accounting and Corporate Financing from University of International Business and Economics and Bachelors' in English and Journalism from Shanghai University of International Studies</li> </ul>

### **...a History of low quality auditors (none is a top 100 global accounting firm<sup>22</sup>)...**

Fiscal Year	Firm	Comments
2008-Present	Sherb & Co.	<ul style="list-style-type: none"> <li><u>Auditor for the recent alleged China Education Alliance fraud</u><sup>23</sup></li> <li>Most recent PCAOB inspection was in 2007 and listed six partners, 17 staff members, and 73 issuer clients<sup>24</sup></li> </ul>
2006-2008	Grobstein, Horwath & Company, LLP	<ul style="list-style-type: none"> <li><u>Registration currently withdrawn from PCAOB</u><sup>25</sup></li> <li>Most recent PCAOB inspection was in 2007 and listed 22 partners, 48 staff members, and 12 issuer clients<sup>26</sup></li> </ul>
2005-2006	E-Fang Accountancy Corp.	<ul style="list-style-type: none"> <li>Audited SHZ's US-based subsidiary "American Federal Mining Group" in 2005 and 2006</li> <li><u>Another auditor involved in the alleged China Education Alliance fraud and the SHZ audit opinion fraudulently references the management of CEU</u> – please review Appendix F</li> <li>Most recent PCAOB inspection was in 2010 and listed two partners, three staff members, and no issuer clients<sup>27</sup></li> </ul>
2005	Chisholm, Bierwolf & Nilson, LLC	<ul style="list-style-type: none"> <li>Audited China Shen Zhou Mining &amp; Resources, Inc. in 2005</li> <li>PCAOB 2005 audit listed a single office in Bountiful, Utah with three partners, three staff members, and 67 issuer clients<sup>28</sup></li> <li>PCAOB 2005 inspection found <u>material deficiencies in 75% of issuers' financials</u> reviewed</li> </ul>

**...and the Board of Directors' Audit Committee Chairman, Mr. Gene Michael Bennett, appears incompetent at best and is potentially a fraudster with a fabricated employment history, a non-existent CPA certification, and overstated educational achievements.**

<sup>22</sup> "The 2010 Top 100 Accounting Firms" *Inside Public Accounting*, August 2010, available at: [http://insidepublicaccounting.com/PDF/top100\\_2010.pdf](http://insidepublicaccounting.com/PDF/top100_2010.pdf)

<sup>23</sup> "China Education Drops As Conference Call Doesn't Ease Worries" Nathan Becker *The Wall Street Journal*, 12/07/10, available at: <http://online.wsj.com/article/BT-CO-20101207-709789.html?mod=cnews>

<sup>24</sup> Public Company Accounting Oversight Board, Sherb & Co., LLP Inspection Report Dated June 14, 2007, available at: [http://pcaobus.org/Inspections/Reports/Documents/2007\\_Sherb.pdf](http://pcaobus.org/Inspections/Reports/Documents/2007_Sherb.pdf)

<sup>25</sup> Public Company Accounting Oversight Board, available at: <https://rasr.pcaobus.org/Firms/FirmSummaryPublic.aspx?FirmID=B48891DC145A9765C7C0852E5C1F8966>

<sup>26</sup> Public Company Accounting Oversight Board, Grobstein, Horwath & Company LLP Inspection Report Dated September 27, 2007, available at: [http://pcaobus.org/Inspections/Reports/Documents/2007\\_Grobstein\\_Horwath.pdf](http://pcaobus.org/Inspections/Reports/Documents/2007_Grobstein_Horwath.pdf)

<sup>27</sup> Public Company Accounting Oversight Board, E-Fang Accountancy Corp Inspection Report Dated April 29, 2010, available at: [http://pcaobus.org/Inspections/Reports/Documents/2010\\_e-Fang\\_Accountancy\\_Corp\\_CPA.pdf](http://pcaobus.org/Inspections/Reports/Documents/2010_e-Fang_Accountancy_Corp_CPA.pdf)

<sup>28</sup> Public Company Accounting Oversight Board, Chisholm, Bierwolf, & Morrill, LLC Inspection Report Dated July 25, 2005, available at: [http://pcaobus.org/Inspections/Reports/Documents/2005\\_Chisholm\\_Bierwolf.pdf](http://pcaobus.org/Inspections/Reports/Documents/2005_Chisholm_Bierwolf.pdf)



## 6. Audit Committee Chairman and Independent Director Bennett: Who Art Thou? – Incompetent at best and potentially a fraudster

In the October 2010 proxy statement, SHZ provided the following description of Mr. Gene Michael Bennett, Chairman of the Audit Committee and Independent Director (emphasis added for clarity).<sup>29</sup>

*“Mr. Gene Michael Bennett is Director and Chairman of the Audit Committee. He has over 25 years’ experience as CFO, Professor and Consultant. His abundant working experience in China has assisted Chinese firms to develop “Good Corporate Governance” and transparent infrastructures. He is a CPA (inactive), and has experience working for one of the top auditors in the world, Grant Thornton. He graduated from Michigan State University. Currently, he also holds position for another US-listed Chinese company: Kunming Shenghuo Pharmaceutical (AMEX: KUN) (Independent Director)”*

### Mr. Gene Michael Bennett’s Publicly Available Information Summary

Issue	Comments
Grant Thornton LLP	<ul style="list-style-type: none"> <li>• <b>No record of prior employment with Grant Thornton LLP</b></li> <li>• <b>No public record of any active or inactive CPA certification</b><sup>30</sup></li> </ul>
Kunming Shenghuo Pharmaceutical AMEX: KUN	<ul style="list-style-type: none"> <li>• On 09/22/10, China Kunming Shenghuo Pharmaceutical Holdings received another notice from the AMEX indicating it would be delisted unless remedial compliance actions were taken<sup>31</sup></li> <li>• On <u>10/23/08</u>, Mr. Bennett notified Kunming Shenghuo of his resignation as a director of the Board of Directors and as a member of the Audit Committee of the Company, effective 12/31/08<sup>32</sup></li> </ul>
China Architectural Engineering AMEX: CAEI	<ul style="list-style-type: none"> <li>• Served as Chief Financial Officer from 09/29/09 to 09/12/10<sup>33</sup></li> <li>• <b>CAEI share price DECREASED 51.5% during CFO tenure</b></li> <li>• Prior Board membership and CFO role <b>NOT disclosed</b> in SHZ proxy</li> </ul>
China Pharma Holding AMEX: CPHI	<ul style="list-style-type: none"> <li>• Member of CPHI Board of Directors from 02/01/08 to Present<sup>34</sup></li> <li>• Board membership <b>NOT disclosed</b> in SHZ proxy</li> </ul>
China Agritech Group AMEX: CAGC	<ul style="list-style-type: none"> <li>• Member of CAGC Board of Directors from <u>10/22/08</u> to Present<sup>35</sup></li> <li>• Board membership <b>NOT disclosed</b> in SHZ proxy</li> </ul>
China Fire and Security Group NASDAQ: CFSG	<ul style="list-style-type: none"> <li>• Mr. Bennett claimed to have a law degree from the University of Michigan in the CFSG prospectus, but there is <b>no record of his graduation or enrollment from the University of Michigan Law School</b><sup>36</sup></li> <li>• Served as an Independent Director and Audit Committee Chairman from 04/12/07 until 09/03/08</li> <li>• Prior Board membership <b>NOT disclosed</b> in SHZ proxy</li> </ul>
Duoyuan Printing NYSE: DYP	<ul style="list-style-type: none"> <li>• Director and Audit Committee Chairman from 04/23/07 to 07/18/07 and CFO from 07/18/07 to 12/20/07; served as consultant until 06/20/08<sup>37</sup></li> <li>• Prior Board membership and CFO role <b>NOT disclosed</b> in SHZ proxy</li> </ul>

*Note: Red shading indicates companies that have agreed to shareholder settlements in litigation involving making false and misleading statements or have been accused by creditable investors of making false and misleading statements*

**Four out of the six companies’ Boards of Directors Mr. Gene Michael Bennett has recently served on appear to have defrauded public investors;** at a minimum, he is failing to assist “Chinese firms develop *Good Corporate Governance*.” For additional details on the rest of the SHZ’s Board of Directors and Management Team, please review Appendix E at the end of this report.

<sup>29</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

<sup>30</sup> Absaroka completed CPA license verification requests, which includes both active and inactive certifications, on Mr. Gene Michael Bennett in the United States where he has reportedly been employed historically, including Michigan, California, and Hawaii; if Mr. Bennett was previously a licensed CPA under a different name or if there is another explanation for this inconsistency, we would welcome the clarification

<sup>31</sup> KUN Press Release, dated 09/27/10 [http://www.sec.gov/Archives/edgar/data/1335106/000114420410050957/v197515\\_ex99-1.htm](http://www.sec.gov/Archives/edgar/data/1335106/000114420410050957/v197515_ex99-1.htm)

<sup>32</sup> KUN 8-K, dated 10/30/08 [http://www.sec.gov/Archives/edgar/data/1335106/000114420408060403/v130239\\_8k.htm](http://www.sec.gov/Archives/edgar/data/1335106/000114420408060403/v130239_8k.htm)

<sup>33</sup> CAEI 8-K, dated 09/13/10 [http://www.sec.gov/Archives/edgar/data/1287668/000114420410049080/v196441\\_8k.htm](http://www.sec.gov/Archives/edgar/data/1287668/000114420410049080/v196441_8k.htm)

<sup>34</sup> CPHI 10-K dated 12/31/09, page 34 <http://www.sec.gov/Archives/edgar/data/1106644/000101054910000119/cph10k123109.htm>

<sup>35</sup> CAGC DEF-14A, dated 07/21/10, page 9 [http://www.sec.gov/Archives/edgar/data/1166389/000114420410038867/v191172\\_def14a.htm](http://www.sec.gov/Archives/edgar/data/1166389/000114420410038867/v191172_def14a.htm)

<sup>36</sup> CFSG Prospectus, dated 08/09/07, page 37 [http://www.sec.gov/Archives/edgar/data/1271940/000114420407043962/v082910\\_posam.htm](http://www.sec.gov/Archives/edgar/data/1271940/000114420407043962/v082910_posam.htm)

<sup>37</sup> DYP 8-K dated 12/27/07 (firm was called “Asian Financial” at the time), page 2

[http://www.sec.gov/Archives/edgar/data/1086142/000114420407069258/v098241\\_8k.htm](http://www.sec.gov/Archives/edgar/data/1086142/000114420407069258/v098241_8k.htm)

## Independent Director Bennett – Indications of fraudulent claims of prior employment with Grant Thornton LLP and a Law Degree from the University of Michigan<sup>38</sup>

### Grant Thornton LLP prior employment verification request:

1901 S Myers Rd  
Oakbrook Terrace, IL 60181  
630.873.2908 T  
630.872.2804 F  
Colleen.Bultsma@gt.com

Grant Thornton LLP

In the SHZ Proxy Statement filed with the United States Securities and Exchange Commission on 10/12/10, Mr. Gene Michael Bennett claimed to have “experience working for one of the top auditors in the world, Grant Thornton.”

**Fax**

<b>TO</b>	Kevin Barnes	<b>From:</b>	Colleen Bultsma
<b>Fax:</b>	(307) 316-0332	<b>Pages:</b>	2
<b>Phone:</b>		<b>Date:</b>	02/07/11
<b>Re:</b>	Verification for Gene Michael Bennett	<b>cc:</b>	

☒ Urgent   
 ☒ for Review   
 ☐ Please Comment   
 ☐ Please Reply   
 ☐ Please Recycle

**Comments:**

Kevin

As of 02/07/11 Grant Thornton LLP payroll department has no record of any prior or current employee with the name Gene Michael Bennett. Please contact me at the # below if you have any questions.

Colleen Bultsma  
Payroll Coordinator  
Grant Thornton

T 630.873-2908  
F 630.873-2804

### University of Michigan Law School degree verification request:



DAVID H. BAUM  
Assistant Dean and  
Senior Manager of Student Affairs

301 Hutchins Hall  
625 S. State Street  
Ann Arbor, MI, 48109-1215  
734.764.0516  
734.936.1973  
dbaum@umich.edu

February 3, 2011

Kevin Barnes  
Absaroka Capital Management, LLC

Dear Mr. Barnes:

Shirley Noland Lipsey in our Registrar's Office has informed me of your request concerning Gene Michael Bennett.

Based on a check of Law School and University records, we are unable to confirm that Gene Michael Bennett earned a Juris Doctor degree from the University of Michigan Law School.

I would appreciate it if you would provide me with contact information for Mr. Bennett (assuming you have it) so that I can request that he stop representing that he graduated from this Law School.

Sincerely,

David H. Baum  
Assistant Dean

<sup>38</sup> If Mr. Gene Michael Bennett was previously employed by Grant Thornton LLP or graduated from the University of Michigan Law School under a different name or if there is another explanation for this inconsistency, we would welcome the clarification

## 7: Evaluation of Prior SHZ Management Statements – Significant delta between Management statements and reality

Other than the revolving door of CFOs, SHZ's core Management Team and Board of Directors insider members have remained basically the same since the 2006 reverse-merger. Therefore, it is useful to compare SHZ Management's past statements and reality.

Issue	Comments
<b>Fluorite Production Guidance Miss</b>	<ul style="list-style-type: none"> <li>From the original reverse-merger filings through 04/14/09, SHZ claimed it would produce 100,000 metric tons of fluorite in FY09<sup>39</sup></li> <li>Actual FY09 fluorite production was 40,056 metric tons, a <b>60% miss from Management's guidance</b><sup>40</sup></li> <li>Annualized 3Q10 production was just 28,736 metric tons of fluorite</li> </ul>
<b>Kuru-Tegerek Copper-Gold Project Failure</b>	<ul style="list-style-type: none"> <li>On 11/06/06, SHZ acquired the Kuru-Tegerek Cu-Au project in Kyrgyz Republic for \$10.0mm from two Chinese private investors<sup>41</sup></li> <li>SHZ expected to construct the mine and begin full production within three years of the acquisition<sup>42</sup></li> <li>On 09/21/09, SHZ had yet to commence mine construction after costs of \$1.9mm and sold the project for only \$8.2mm (<b>~30% implied loss</b>), despite a dramatic increase in copper and gold prices over the period SHZ owned the project<sup>43</sup></li> </ul>
<b>Mysterious Fluorite Pricing Data</b>	<ul style="list-style-type: none"> <li>SHZ Management claimed "the price for fluorite ore increased approximately 30% per year from 2004 to 2006" according to data from the "Shanghai Future Exchange"<sup>44</sup></li> <li>The only commodities traded on the Shanghai Futures Exchange are gold, copper, aluminum, zinc, steel, fuel oil, and rubber; <b>the exchange has never made a market in fluorite ore or provided fluorite ore price quotes</b><sup>45</sup></li> </ul>
<b>Limited Board of Directors Oversight of SHZ Management</b>	<ul style="list-style-type: none"> <li>On 11/02/07, SHZ adopted new corporate bylaws, which supposedly included Charters for new Audit, Compensation, and Corporate Governance Committees<sup>46</sup></li> <li>As per the Audit Charter, "The Committee will meet on a regular basis <u>at least 4 times each year</u>, and will hold special meetings as circumstances require;" however, despite an auditor change, significant CFO turnover, and a history of multiple SEC filing restatements: <ul style="list-style-type: none"> <li>The Audit Committee only met 2 times in 2008<sup>47</sup></li> <li>The Audit Committee only met 3 times in 2009<sup>48</sup></li> </ul> </li> <li>As per the Compensation Charter, the Committee will have the responsibility and duty to "<u>review annually</u> and approve the Company's compensation strategy;" however, despite adopting an Omnibus Long-Term Incentive Plan in 2009 and paying out cash compensation both years: <ul style="list-style-type: none"> <li>The Compensation Committee met ZERO times in 2008<sup>47</sup></li> <li>The Compensation Committee met ZERO times in 2009<sup>48</sup></li> </ul> </li> <li>As per the Corporate Governance Charter, the Committee will meet whenever necessary to "identify and review candidates" for the Board of Directors; Mr. Konman Wong was appointed to the Board of Directors in July 2009 after the abrupt resignation of Mr. Feng Bai <ul style="list-style-type: none"> <li>The Corporate Governance Committee met ZERO times in 2008<sup>47</sup></li> <li>The Corporate Governance Committee met ZERO times in 2009<sup>48</sup></li> </ul> </li> <li><b><u>Besides presenting an illusion of adequate internal controls and corporate governance, why did SHZ's establish Board of Directors' Committees if they rarely meet and have no effective control over SHZ Management?</u></b></li> </ul>

<sup>39</sup> SHZ 09/30/08 10-Q, page 32 [http://www.sec.gov/Archives/edgar/data/790024/000114420408063122/v131282\\_10q.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420408063122/v131282_10q.htm)

<sup>40</sup> SHZ 12/31/09 10-K, page 24 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>41</sup> SHZ 12/31/06 10-K, page 39 <http://www.sec.gov/Archives/edgar/data/790024/000102317507000080/f10ksb41707cc.htm>

<sup>42</sup> SHZ 12/31/08 10-K, page 9 [http://www.sec.gov/Archives/edgar/data/790024/000114420409020834/v146281\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420409020834/v146281_10k.htm)

<sup>43</sup> SHZ 12/31/09 10-K, page 56 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>44</sup> SHZ 12/31/06 10-K, page 3 <http://www.sec.gov/Archives/edgar/data/790024/000102317507000080/f10ksb41707cc.htm>

<sup>45</sup> Shanghai Futures Exchange [www.shfe.com.cn](http://www.shfe.com.cn)

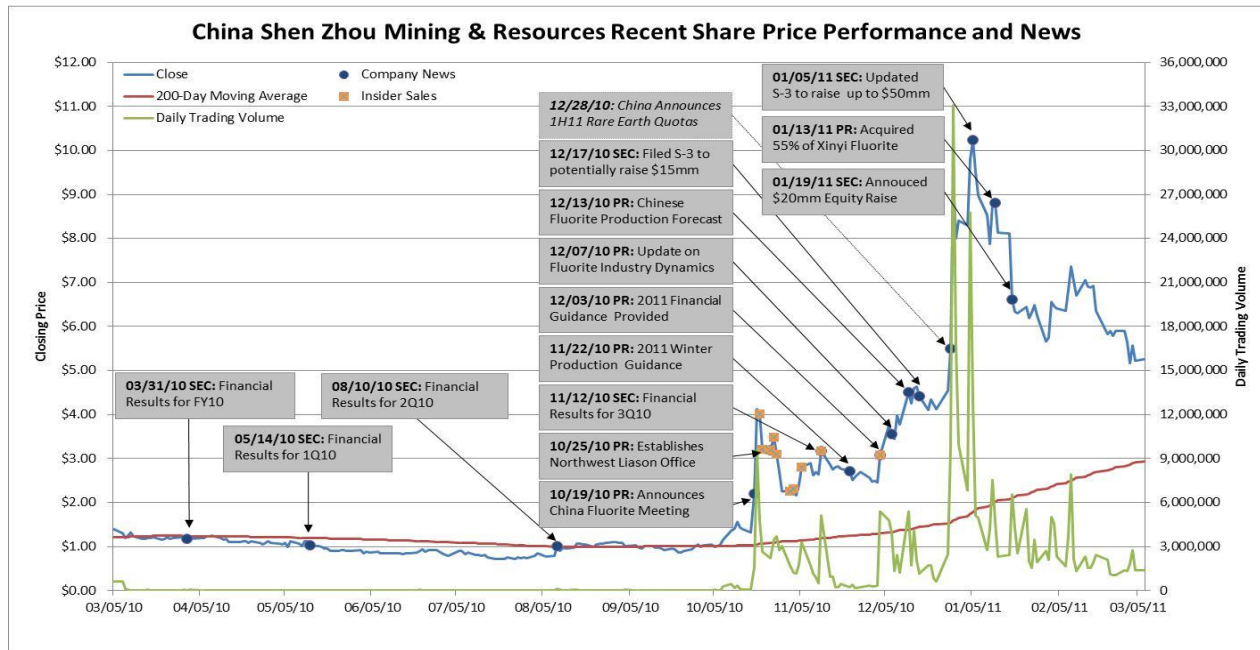
<sup>46</sup> SHZ 11/05/07 8-K, page 2 (please note the complete terms of the committee charters were not publicly disclosed until the 2008 Proxy)

<http://www.sec.gov/Archives/edgar/data/790024/000102317507000236/chinashenzhou8kauditcommitte.htm>

<sup>47</sup> SHZ 08/26/09 DEF-14A Proxy, page 10 [http://www.sec.gov/Archives/edgar/data/790024/000114420409045718/v159095\\_def14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420409045718/v159095_def14a.htm)

<sup>48</sup> SHZ 10/12/10 DEF-14A Proxy, [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

## 8: Recent Trading History – Prolific investor relations effort while insiders were selling stock prior to the \$20mm equity offering



### Significant Recent Insider Stock Sales

Name	Title	Date of Sales	Total Shares Sold	Price Range	Sales VWAP
Xueming Xu <sup>49</sup>	Director, ex-COO	10/21/10-11/02/10	120,000	\$2.40-\$4.13	\$3.38
Xiaojing Yu <sup>50</sup>	CEO	10/25/10-10/27/10	100,000	\$3.30-\$3.70	\$3.47
Helin Cui <sup>51</sup>	COO-President	10/25/10-12/03/10	203,800	\$2.60-\$3.70	\$3.24

Interestingly, according to the SEC Form 4 filings, Helin Cui, COO, sold his entire position between October 25<sup>th</sup> and December 3<sup>rd</sup>, and was a willing seller at \$2.60/share, less than half the current market value; Xueming Xu was recently a willing seller at \$2.40/share.

### SHZ's Prolific Press Releases Prior to the \$20mm Equity Offering

Date	Press Release	IR Consultant	Filed With SEC?
12/13/10	Chinese Fluorite Production Forecast	Kevin Theiss	No
12/07/10	Update on Fluorite Industry Dynamics	Kevin Theiss	No
12/03/10	2011 Operations and Financial Guidance	Kevin Theiss	No
11/22/10	2011 Winter Production Guidance	Dixon Chen	No
11/12/10	Financial Results for Q3 2010	David Elias	Yes
10/25/10	Opens Northwest Fluorite Industry Liaison Office	David Elias	No
10/19/10	China Fluorite Annual Meeting of 2010	David Elias	No

### Intensive Investor Relations Effort with Three Different Consultants While Insiders Were Liquidating Positions Prior to the \$20mm Equity Offering

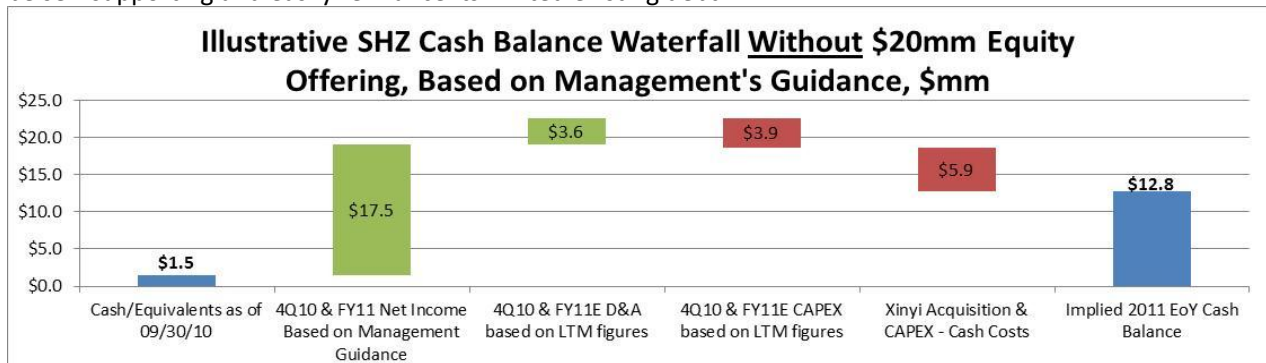
<sup>49</sup> SHZ 11/08/10 13D [http://www.sec.gov/Archives/edgar/data/790024/000114420410058064/v201357\\_sc13da.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410058064/v201357_sc13da.htm)

<sup>50</sup> SHZ 11/08/10 13D [http://www.sec.gov/Archives/edgar/data/790024/000114420410058064/v201357\\_sc13da.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410058064/v201357_sc13da.htm)

<sup>51</sup> SHZ 12/03/10 Form 4s <http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001408384>

## 9: January 19, 2011 \$20mm Equity Offering – No rational explanation based on business needs and increases the risk of corporate malfeasance

Equity offerings are one of the prime ways investors' cash is squandered. Based on SHZ's 09/30/10 balance sheet and Management's guidance, the business should be generating copious amounts of free cash flow to be self-supporting and easily refinance its limited existing debt.



For SHZ's January 19, 2011, \$20mm equity offering, it is hard to decide if the 919,151 further dilutive warrants SHZ included in the deal, the 4.5% placement agent fees, or the 13.1% price-to-close discount was worse for existing shareholders.<sup>52</sup> If Management is concerned about having liquidity on-hand for the closing of the cash portion of the Xinyi investment, wouldn't debt financing be cheaper with SHIBOR rates approximately 1.8% and less dilutive for public shareholders?<sup>53</sup> Based on the FY11 guidance, SHZ would have robust credit ratios even if the Xinyi acquisition was 100% debt funded. Also, why did SHZ run an overnight offering without any investor roadshow if Management is confident in their future business prospects and FY11 financial guidance? This equity offering is yet another example of SHZ Management's actions speaking much louder than their words.

Studying the Prospectus in detail also raises additional red flags. SHZ originally filed a S-3 Preliminary Prospectus on 12/07/10 with a proposed offering size of \$15mm and the Use of Proceeds was extremely broad.<sup>54</sup> After SHZ's stock price more than doubled from 12/07/10 when the People's Republic of China allocation of rare earth industry quotas were released on 12/28/10, a revised S-3A was filed on 01/05/11, which increased the proposed offering size by 3.3x to \$50mm and included no additional clarity on Use of Proceeds.<sup>55</sup> Under the terms of this existing shelf-prospectus, SHZ could still issue an additional \$30mm in new equity and further dilute public shareholders.

FT Global Capital served as the sole placement agent on the offering for SHZ. FT Global Capital's headquarters is a \$199/month Regus Virtual Office in suburban Atlanta, the firm only has two FINRA registered representatives (one of whom recently filed for Chapter 7 bankruptcy), and the firm has a history of representing dubious issuers.<sup>56</sup> Also, after reviewing the reported short-interest and borrow-availability around the time of the offering, Absaroka would not be surprised if some RegM/Rule105 violations occurred to assist in the transaction closing; it is a securities law violation for traders to sell-short a stock prior to a secondary public equity offering and then allow the same traders to buy-to-cover when the deal prices.

<sup>52</sup> SHZ 01/19/11 S-3 Prospectus, page S-1 [http://www.sec.gov/Archives/edgar/data/790024/000114420411002771/v208283\\_424b5.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420411002771/v208283_424b5.htm)

<sup>53</sup> Shanghai Interbank Offered Rate, overnight term, available at: [www.shibor.org](http://www.shibor.org)

<sup>54</sup> SHZ 12/07/10 S-3 Prospectus, page 9 [http://www.sec.gov/Archives/edgar/data/790024/000114420410067122/v205824\\_s3.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410067122/v205824_s3.htm)

<sup>55</sup> SHZ 01/05/11 S-3 Prospectus, page 2 [http://www.sec.gov/Archives/edgar/data/790024/000114420411000662/v207120\\_s3a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420411000662/v207120_s3a.htm)

<sup>56</sup> United States Bankruptcy Court, Northern District of Georgia, case number 10-93117; FINRA CRD numbers 2274166 & 2066284; FT Global Capital main office is 1200 Abernathy Road, Building 600-Suite 1700, Atlanta, GA 30328 as per FINRA filings & Regus Virtual Office information available at: [www.goo.gl/qAX3u](http://www.goo.gl/qAX3u)



# Valuation and Price Target Estimate

## \$/Share Equity Value Based on 32.3mm Diluted Shares & \$3.8mm Net Cash<sup>57</sup>



Absaroka's valuation calculations assume 32.3mm diluted shares outstanding and a current net cash position of \$3.8mm; these figures are based on SHZ's 09/30/10 10-Q SEC filing and have been adjusted for the January equity offering and Xinyi acquisition. Because of the numerous concerns discussed earlier, Absaroka has zero confidence in SHZ's forward-looking guidance and feels the better valuation metrics for SHZ are based on the reported historical financials. First, as SHZ has acquired all its assets relatively recently, 1.0-1.5x Net PP&E is a fair assessment of SHZ's value in a break-up liquidation scenario. Next, because revenue multiples are hampered by a lack of correlation to actual free cash flow generation, 3-5x LTM revenue seems a bit generous based on similar trading valuations for SHZ's comparable global mining peers. Finally, as SHZ had both negative LTM EBITDA and LTM Net Income, Absaroka had to take an especially optimistic view for a positive valuation based on cash flow.<sup>58</sup> Annualizing SHZ's 3Q10 (prime mining season in the Inner Mongolia region) EBITDA of \$1.3mm and applying a rich 6-8x multiple for a commodity business implies a mid-point value of ~\$1.25/share.

Triangulating all the information discussed earlier in the report, the recent trading history, and reasonable valuation metrics, Absaroka is initiating coverage of China Shen Zhou Mining & Resources with a **\$1.25 price target and a CONVICTION SELL Recommendation.**

***Whether or not you agree with this Price Target calculation methodology, Absaroka is confident the figures would receive a favorable audit opinion if subjected to review by SHZ's auditors, Sherb & Co. or E-Fang Accountancy Corp. Please review Appendix F for an example of the detail-focused work product provided by SHZ's auditors.***

<sup>57</sup> 32.3mm shares outstanding is calculated based on 27,974,514 shares out as of 01/18/11, 2,836,883 issued on 01/19/11, and makes the simplifying assumption only 1,443,001 shares are issued for the closing of the Xinyi acquisition (Based on SHZ's closing price as of \$5.25 and heroically assuming the equity put-option is not exercised in the future); at this time, the 919,151 warrants outstanding are currently out-of-the-money. \$3.8mm net cash is calculated based on 09/30/10 cash/equivalents of \$1.5mm and debt of \$10.8mm, equity offering proceeds, after placement agent fees and offering expenses, of \$18.9mm, and Xinyi cash acquisition costs of \$5.9mm.

<sup>58</sup> Please note in 4Q09 SHZ benefited from a non-recurring, non-cash \$14.0mm gain with the repurchase of its convertible note at a 50% discount to face value; this one-time gain has been excluded from Absaroka's valuation calculations

# Conclusion – China Shen Zhou Mining & Resources (AMEX: SHZ)

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To review, Absaroka's due diligence has unearthed a plethora of serious concerns about the validity of China Shen Zhou Mining & Resources' \$169mm market capitalization, including:

1. SHZ's main product is fluorite (a.k.a. fluorspar or  $\text{CaF}_2$ ): Despite a common misconception in the market, fluorite is not a rare earth nor does SHZ have any exposure to the rare earths business
2. Critical mines are significantly smaller than claimed by SHZ Management: For example, its fluorite mine supposedly has a production capacity of >2x historical output and the Qingxing mine is allegedly 777.4km long, which would make it one of the world's largest underground mines and violate the sovereignty of Mongolia
3. SHZ's FY11 financial guidance cannot be reconciled with prior results and Management is making promises it cannot meet: Even if SHZ is able to achieve its extremely aggressive production forecasts of >2x volume growth, the implied commodity prices are irrationally high based on revenue guidance
4. The recent Xinyi Fluorite Company investment appears to be a fraudulent scheme to transfer equity to related parties and includes a put-option that is highly dilutive to public shareholders
5. Significant CFO turnover, low quality auditors, and a dubious Audit Committee raises grave concern about the validity of published historical financials and forward-looking guidance: 2 of the auditors of the alleged China Education Alliance (NYSE: CEU) fraud have also signed off on SHZ's financials
6. Audit Committee Chairman and Independent Director Mr. Gene Michael Bennett appears to have a fabricated employment history, a non-existent CPA certification, overstated educational achievements, and has been a Board member for four other Chinese reverse-merger frauds
7. Multiple material differences between Management statements and reality, including a 60% miss on FY09 fluorite production guidance, mysterious fluorite pricing data, and failed development projects
8. The recent trading history was significantly impacted by the Company's prolific and misleading investor relations effort while insiders were selling stock prior to the \$20mm equity offering
9. \$20mm equity offering in January 2011 had no rational explanation based on business needs and significantly increases the risk of corporate malfeasance

Any of these serious issues on a stand-alone basis should be enough to convince public shareholders to question the current \$5.25/share valuation and pursue the "Wall Street Walk" form of shareholder activism

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***Recommendation: CONVICTION SELL***

***Price Target: \$1.25***

# Appendix Materials

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## China Shen Zhou Mining & Resources Frequently Asked Questions:

### ***But isn't Citadel Investment Group an investor in SHZ?***

Citadel Investment Group, and its affiliates, currently holds no position in SHZ. On 12/27/06, Citadel invested \$28.0mm into SHZ via a 6.75% convertible senior note with a conversion price of \$2.30/share; by 09/28/07, SHZ's actual EBITDA was already in default of the note's credit covenants. On 09/22/09, SHZ repurchase the note for \$8.0mm in cash and 5.0mm shares of SHZ common stock, which were trading at \$0.93/share, which implies at least a 50% loss for Citadel.

### ***What could happen if Mr. Gene Michael Bennett resigns as SHZ's Audit Committee Chairman and Director?***

Unfortunately for SHZ's public shareholders, the resignation of a single Board of Directors member will not be enough to solve SHZ's problems. SHZ must file its 2010 10-K by 03/31/11 or it will be in violation of AMEX requirements and could be delisted.<sup>59</sup> In order to file a valid 10-K, SHZ must have a Director that is qualified under the requirements of SarbOx section 3(a)(58)(A) as an "audit committee financial expert" and is also considered "Independent" under SEC rules. It may be difficult for SHZ to identify an appropriate candidate, perform due diligence on the candidate's background, and bring the new Independent Director up to speed on the accounting systems and internal controls so they are comfortable opining on the validity of the FY10 results under this compressed timeframe.

### ***What could happen if Sherb & Co. is replaced with another auditor?***

Unfortunately for SHZ's public shareholders, the resignation of Sherb & Co. will not be enough to solve SHZ's problems. In order to file a valid 10-K by the 03/31/11 deadline and not violate AMEX listing requirements, SHZ must have a PCAOB certified auditor provide a favorable audit opinion on its FY10 results prior to filing with the SEC. At this stage in the calendar, it would be nearly impossible for a new audit firm to complete the due diligence review of SHZ's accounting systems, certify the internal controls, and audit FY10 results by the 03/31/11 deadline. Moreover, a new auditor might need additional time to investigate some of the anomalies in the historical results identified in this report before it would be comfortable providing an audit opinion. Finally, a detailed review of historical results by a new audit firm could result in the restatements of prior SEC filings.

### ***What do SHZ's Chinese State Administration for Industry and Commerce financials show?***

For the limited years Absaroka's in-country investigator was able to retrieve SHZ's operating subsidiary SAIC financials, the de minimis revenue, operating losses, and negative cash flow reported in the historical SEC financials is somewhat similar to the SAIC results. These figures support Absaroka's thesis that SHZ is massively over-valued as its FY11 guidance does not reconcile with historical results and thus should not be relied upon.

### ***What are Absaroka's next steps after the publication of this report?***

Absaroka intends to contact the PCAOB, SEC, and AMEX to share our findings and detailed back-up with the appropriate regulators. As requested by the Dean of the University of Michigan Law School, we have shared SHZ's contact information so he can send a cease-and-desist letter to Mr. Gene Michael Bennett. Also, Absaroka plans to publish additional reports on SHZ as we learn any new and useful information.

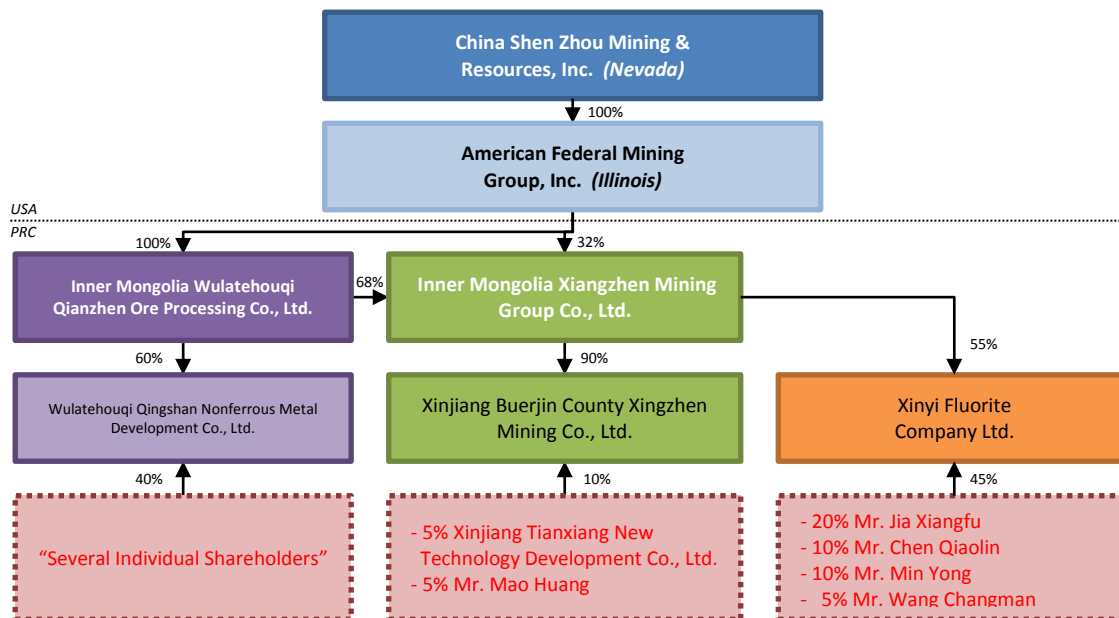
<sup>59</sup> "Calendar of SEC Holidays & EDGAR Filing Deadlines" Securedx EDGAR Filing Bureau, available at: [http://www.secfiling.net/SEC\\_calendar.htm](http://www.secfiling.net/SEC_calendar.htm)

## Appendix A: Corporate Overview – Sub-optimal reverse-merger listing history and numerous minority interest holders are positioned to siphon off cash

### SHZ Abbreviated Corporate History<sup>60</sup>

- On 09/15/06, SHZ was formed by a share exchange/reverse takeover among 1) Earth Products & Technologies, Inc. (“EPTI”), a blank-check Nevada corporation with no ongoing business, 2) American Federal Mining Group, Inc. (“AFMG”), an Illinois company, and 3) the shareholders of AFMG, who are the core of SHZ’s current Management Team and the Board of Directors insiders
- In the reverse-merger, the owners of AFMG were granted 20.0mm new shares (~94%) and the original EPTI shareholders kept 1.3 shares (~6%) of the outstanding common stock
- American Eastern Securities, the originator of the reverse merger, was granted a 10% stake in the new company after the transaction closed; its stake in SHZ was liquidated by 10/06/10
- Shares were originally traded on the OTC-BB and then listed on the AMEX on 01/31/08
- On 09/13/11, SHZ announced a \$13.5mm investment in Xinyi Fluorite Company Ltd.

### SHZ Simplified Corporate Structure<sup>61</sup>



While this onshore/offshore corporate structure is pretty standard in the reverse-merger space, the substantial number of individual shareholders with interests in the operating subsidiaries is cause for significant due diligence concern. In China, a company’s partners or suppliers often turn out to be controlled or even owned by the company’s own managers and families, a practice that lends itself to “tunneling”—using outside businesses to milk the corporation at the expense of public shareholders. SHZ has enough “tunnels” into operating subsidiaries to capitalize many extended families and friends.

<sup>60</sup> SHZ 12/31/09 10-K, page 3 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>61</sup> SHZ 12/31/09 10-K, page 4, updated for recent acquisitions and ownership changes  
[http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

## Appendix B: People's Republic of China Allocation of Rare Earth Industry Quotas – SHZ cannot mine, process, refine, use or export rare earths

Total Chinese and Foreign-Owned Companies 1H11 Rare Earth Allocations of 14,508 tons<sup>62</sup>

Chinese-Owned Companies	Allocation (tons)	Foreign-Owned Companies	Allocation (tons)
Baotou Huamei Rare Earth Hi-Tech Company	954	Baotou Rhodia Rare Earth Company	867
Inner Mongolia Baogang Hefa Rare Earth Company	750	Zibo Jiahua Advanced Material Resources Company	805
Leshan Shenghe Rare Earth Technology Company	750	Jiangyin Jiahua Advanced Material Resources Company	481
China Minmetals Corporation	747	Yixing Xinwei Leeshing Rare Earth Company	440
Inner Mongolia Baotou Steel Rare Earth Hi-Tech Company	740	Liyang Rhodia Rare Earth New Materials Company	324
Shandong Pengyu Industrial Company	709	Huhhot Rongxin New Metal Smelting Company	296
Gansu Rare Earth New Materials Company	689	Baotou Tianjiao Seimi Rare Earth Polishing Powder Company	251
Yiyang Hongyuan Rare Earth Company	594	Baotou Santoku Battery Materials Company	127
Sinosteel Corporation	584	Baotou Huaxin Smelting Company	93
China Nonferrous Import-Export Company Jiangsu Branch	493	Pingyuan Sanxie Rare Earth Smelting Company	62
Jiangxi Golden Century Advanced Materials Company	432		
Guangdong Rising Nonferrous Metals Group Company	431		
Xuzhou Jinshi Pengyuan Rare Earth Materials Company	410		
Jiangxi South Rare Earths Hi-Tech Company	401		
Ganzhou Chenguang Rare Earth New Materials Company	374		
Grirem Advanced Materials Company	333		
Ganzhou Qiangdong Rare Earth Group Company	329		
Funing Rare Earth Industry Company	327		
Jiangsu Geo Quin Nano Rare Earth Company	251		
Changshu Shengchang Rare Earth Smelting Company	196		
Guangdong Zhujiang Rare Earth Company	166		
Ganxian Hongjin Rare Earth Company	102		
<b>Total Chinese-Owned Rare Earth Allocations:</b>	<b>10,762</b>	<b>Total Foreign-Owned Rare Earth Allocations:</b>	<b>3,746</b>

**SHZ DOES NOT benefit from any exposure to rare earths**

<sup>62</sup> Chinese Ministry of Commerce Press Release, dated 12/28/ 2010 <http://www.mofcom.gov.cn/aarticle/b/e/201012/20101207335316.html>



## Appendix C: SHZ FY11 Financial Guidance - *Not possible to reconcile with prior results and SHZ appears to be making promises it cannot meet*

Utilizing some simple arithmetic, it becomes crystal clear that SHZ's FY11 financial forecast cannot be relied upon, even if one makes the heroic assumption that SHZ is able to achieve its extremely aggressive production forecasts, despite the fatal mine flaws discussed in the prior sections. Based on SHZ's forecast production volumes and total revenue guidance, it is possible to back-solve for the implied fluorite price and compare it to third-party commodity pricing sources, like *Industrial Minerals*, to verify if SHZ Management assumptions are reasonable.

First, because SHZ produces Zinc Concentrate and Copper Concentrate, not refined metals, it is necessary to take into account the significant concentrate transport, treatment, and refining discount to spot metal prices to accurately calculate SHZ's actual revenue. For the prior three years, Absaroka compared SHZ's realized concentrate revenue to the spot metal price as quoted by the Shanghai Futures Exchange, which is the largest and most liquid metals commodity exchange in Asia. Over this time period, SHZ's realized concentrate revenue was approximately 40-49% of the spot metals pricing; this concentrate discount to spot metal pricing also seems reasonable if one assumes a ~15% Tcs/Rcs charge and adjusts for the significant transport cost of moving heavy and bulky concentrate from Inner Mongolia to the large Zn/Cu smelters located near the East China Sea.<sup>63</sup>

Assuming concentrate pricing is 45% of the average 2011 forward metals curve as of 11/30/10 per the Shanghai Futures Exchange, and then back-solving for the implied SHZ fluorite VWAP shows Management expects pricing to increase 135.6% over its FY06-FY09 average realized price and 124.0% versus 3Q10; *Industrial Minerals* data shows Chinese Metallurgical Fluorspar pricing in 2011 has only increased 16.3% since 09/30/10.<sup>64</sup> Also, even if one adjusts for the slightly higher current zinc and copper metal price curves versus 11/30/10, SHZ's drastic forecasted fluorite pricing percentage increase is still not credible. Finally, as discussed earlier, Absaroka has zero confidence in SHZ's FY11 operational forecast to more than double total fluorite production and nonferrous concentrate production from prior reported results.

SHZ FY11 Production Guidance As Per 12/03/10 Press Release														
SHZ FY11 Fluorite Production Guidance														
Items	Amount	Last 4-YR Average	% Increase	Note										
Flourite lumps, t	40,000	\$8,896	2.8%	<<-Mangement 12/03/10 Guidance										
Flourite concentrate, t	60,000	13,989	328.9%	<<-Mangement 12/03/10 Guidance										
Implied 2011 VWAP Fluorite Price, \$/ton	\$236	\$100.20	135.6%	<<-Calculated utilizing FY11 total revenue estimates										
Implied Total Fluorite Revenue	\$23,609													
					3Q10 VWAP Fluorite Price, \$/t									
					\$105 124.0% % increase									
SHZ FY11 Non-Ferrous Production Guidance - Zinc														
Item	Amount													
Zinc metal in concentrate sales (t)	7,000													
Average 2011 Zinc forward price as of 11/30/10 as per Shanghai Exchange, \$/lb	\$ 1.90													
Concentrate price as a % of spot metal price	45%													
Implied realized zinc concentrate price, \$/lb	\$ 0.86													
Implied Total Zinc Revenue	\$13,205													
Total Company Revenue as per 12/03/11 guidance		\$38,000												
SHZ FY11 Non-Ferrous Production Guidance - Copper														
Item	Amount													
Copper metal in concentrate sales (t)	280													
Average 2011 Copper forward price as of 11/30/10 as per Shanghai Exchange, \$/lb	\$ 4.27													
Concentrate price as a % of spot metal price	45%													
Implied realized copper concentrate price, \$/lb	\$ 1.92													
Implied Total Copper Revenue	\$1,186													
Historical Nonferrous Metal Sales as per SHZ SEC Financials														
Item, metric tons	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	FY08 Total	FY09 Total	FY10-YTD
Zinc concentrates, in equivalent metric tons of zinc metal	NA	NA	NA	NA	0	NA	NA	NA	0	607	2,536	1,850	178	3,143
Copper concentrates, in equivalent metric tons of copper metal	NA	NA	NA	NA	0	NA	NA	NA	0	34	143	145	10	177
Sulfur Concentrate	NA	NA	NA	NA	0	NA	NA	NA	0	0	0	18,147	0	0
Zinc-Copper Ore Oxide	NA	NA	NA	NA	0	NA	NA	NA	0	0	0	0	3,041	0
Total non-ferrous business segment revenue, \$000s	\$81	\$785	\$1,802	\$765	\$0	\$88	\$189	(\$4)	\$0	\$771	\$2,862	\$3,433	\$273	\$3,633
Revenue from Sulfur Concentrate & Zinc-Copper Ore Oxide sales												\$961	\$76	\$0
Total revenue from Zinc & Copper concentrate sales												\$2,472	\$197	\$3,633
Average Historical Spot Metal Prices as per Shanghai Futures Exchange, \$/ton												Volume Weighted Average Metal Price		
Zinc Metal	\$2,791	\$2,534	\$2,148	\$1,471	\$1,586	\$1,896	\$2,055	\$2,473	\$2,677	\$2,373	\$2,417	\$2,101	\$1,997	\$2,408
Copper Metal	\$9,141	\$9,018	\$8,724	\$4,990	\$4,287	\$5,846	\$6,725	\$7,589	\$8,356	\$8,163	\$8,335	\$7,969	\$6,429	\$8,298
Implied Commodity Pricing Revenue based on Shanghai Futures Exchange Spot Metal Pricing														
Zinc Metal - Calculated with Shanghai Spot Metal VWAP												\$3,886	\$356	\$7,567
Copper Metal - Calculated with Shanghai Spot Metal VWAP												\$1,155	\$64	\$1,469
Implied Zinc & Copper spot metal price revenue												\$5,042	\$420	\$9,036
Historical realized concentrate price as a % of the spot metal price (Implies total transport/treatment/refining costs)														
												49%	47%	40%

<sup>63</sup> "Zinc Treatment Fees May Decline 20% on Lower Spot Charges" Jae Hur *Bloomberg*, 12/20/10; "Tcs" refers to treatment costs & "Rcs" refers to refining costs

<sup>64</sup> *Industrial Minerals* MarketTracker fluorspar pricing quote, \$/ton midpoint for FOB China Metallurgical Fluorspar (CaF<sub>2</sub>>80%, wet-bulk) as of 02/28/11, available with a Euromoney Institutional Investor PLC subscription at: [www.indmin.com](http://www.indmin.com)

## Appendix D: SHZ's Xinyi Fluorite Company Ltd. Investment – *Not aligned with SHZ's public shareholders interests and includes dilutive put-option*<sup>65</sup>

As per SHZ 01/14/11 8-K (\$USD '000s, assuming ¥6.60-\$1 FX rate as per contract terms)						
Item	Entity		RMB 000s	Implied Shares	\$/Share	Total
SHZ Cash Portion of Acquisition	Xinyi Fluorite Company, Ltd.		¥ 15,000	--	--	\$2,273
SHZ Stock Portion of Acquisition	Xinyi Fluorite Company, Ltd.		¥ 50,000	TBD	TBD	\$7,576
SHZ Acquisition Consideration	Xinyi Fluorite Company, Ltd.		¥ 65,000			\$9,848
SHZ Cash Funding of Xinyi's Facilities Renovation			¥ 23,714			\$3,593
Total SHZ Acquisition Cost			¥ 88,714			\$13,442
SHZ Acquired ownership stake in Xinyi Fluorite Company, Ltd.			55%			55%
Implied Total Enterprise Value of Xinyi Fluorite Company, Ltd. based on SHZ cost basis			¥ 161,299			\$24,439
Management Earnings Guidance for Xinyi Fluorite Company, \$USD '000s						
	Low	High	Midpoint	Transaction Multiples		
2011 Fluorite powder, tons	35,000	35,000	35,000	\$286	<<--Implied fluorite powder price per metric ton	
2011 Revenue	\$10,000	\$10,000	\$10,000	2.4x	<<--Implied 2011 Revenue multiple	
2011 Net Income	\$5,000	\$6,000	\$5,500	4.4x	<<--Implied 2011 Net Income multiple	
Properties Acquired						
Short Name	Full Name		Town	Area	Permit Expiration	Permit Number
Qingzheng Mine	Qingzheng Fluorite Xinyi Mine No.1		Xinyi	0.151Km^2	Apr-11	C3418252009036120010379
Guangrong Mine	Xinglong County Guangrong Fluorite Mine		Xinyi	0.0695Km^2	Apr-11	C3418002009046120011698
Sanxi Flotation Plant	Sanxi Old Town mining rights and assets		Sanxi	NA		NA
Xinyi Fluorite Company Ltd - Ownership Prior to Transaction - "Transferor"						
Name	ID Number	Estimated Actual Ownership Stake			Ownership Stake as per 8-K	
Party A-1: Jia Xiangfu	330725195401155914	80%			80%	
Party A-2: Yu Wuqiang	340103196302024017	10%			20%	
Party A-3: Chen Qiaolin	330725195806295923	10%			10%	
Total		100%			110%	
Xinyi Fluorite Company Ltd Acquirors - "Transferee"						
Name	Representative or ID Number			Address		
Party B-1: Xinjiang Xingzhen Mining Co., Lt	Helin Cui (SHZ-COO) signed contract			Xinjiang Uygur Autonomous Region, China		
Party B-2: Min Yong	362321195909110012			Room 101, Building 14, No.8 Binjiang East Road, Shangrao City, China		
Party B-3: Wang Changman	342530195711100015			ICBC Dormitory 5, Shengli East Road, Jinyang Town, China		
Xinyi Fluorite Company Ltd Transfer Agreement						
Transferor	Transfer %	Remaining %	Transferee		New Ownership %	
Party A-1: Jia Xiangfu	60%	20%	Party B-1: Xinjiang Xingzhen Mining Co., Ltd.		55%	
Party A-2: Yu Wuqiang	10%	0%	Party B-2: Mr. Min Yong		10%	
Party A-3: Chen Qiaolin	0%	10%	Party B-3: Mr. Wang Changman		5%	
Total	70%	30%			70%	
Terms of Payment						
Item	Party			Consideration		RMB 000s
Execution of Contract Payment	Party B-1: Xinjiang Xingzhen Mining Co., Ltd.			RMB Cash	¥	5,000
7-Days After Execution of Contract Payment	Party B-1: Xinjiang Xingzhen Mining Co., Ltd.			RMB Cash	¥	10,000
7-Days After Execution of Contract Payment	Party B-2: Mr. Min Yong			RMB Cash	¥	3,000
7-Days After Execution of Contract Payment	Party B-3: Mr. Wang Changman			RMB Cash	¥	2,000
Before February 28, 2011 Payment	Party B-1: Xinjiang Xingzhen Mining Co., Ltd.			RMB Cash	¥	8,000
Renovation fund for the Guangrong Mine & Sanxi Plant	Party B-1: Xinjiang Xingzhen Mining Co., Ltd.			RMB Cash	¥	15,714
Renovation fund for the Guangrong Mine & Sanxi Plant	Party B-2: Mr. Min Yong			RMB Cash	¥	2,857
Renovation fund for the Guangrong Mine & Sanxi Plant	Party B-3: Mr. Wang Changman			RMB Cash	¥	1,429
Before June 30, 2011 Share Payment	Party B-1: Xinjiang Xingzhen Mining Co., Ltd.			SHZ Shares	¥	50,000
Total Payments to Xinyi Transferors					¥	98,000
Minority Interest Holders Discounted Buy-In, \$USD '000s						
Party	Ownership Stake	Cost Basis, \$	Implied Xinyi Valuation	Disc. to SHZ	FY11 Net Income Multiple	
Party B-2: Mr. Min Yong	10%	\$887.4	\$8,874	-64%	1.6x	
Party B-3: Mr. Wang Changman	5%	\$519.5	\$10,390	-57%	1.9x	

<sup>65</sup> SHZ 01/14/11 8-K <http://www.sec.gov/Archives/edgar/data/790024/000114420411002268/0001144204-11-002268-index.htm>

## Appendix E: Current SHZ Management Team and Board of Directors

Name	Position	Age	Background
Xiao-Jing Yu <sup>66</sup>	Director, CEO and Chairman of the Board	53	<ul style="list-style-type: none"> <li>Served as Director, Chief Executive Officer and Chairwoman of the Board of Directors of the Company since September 15, 2006 and has over 20 years' experience in the mining industry</li> <li>Currently also serves as Director and Chairwoman of Inner Mongolia Wulatehou Banner Qianzhen Mining and Processing Co., Ltd and Inner Mongolia Xiangzhen Mining Co., Ltd.; she has served in that capacity since May 2002</li> <li>Previously a general manager of Dalian Zhikun Metal Materials Co. Ltd. and finance manager of Gansu Baiyin Nonferrous Industrial Corporation.</li> <li>Attended an advanced Management Program run by Tsing Hua University</li> </ul>
Helin Cui <sup>67</sup>	Director, President and Chief Operating Officer	54	<ul style="list-style-type: none"> <li>More than 20 years experience in the mining industry</li> <li>Currently a director and deputy chairman of Inner Mongolia Wulatehou Banner Qianzhen Mining and Processing Co., Ltd. and of Inner Mongolia Xiangzhen Mining Co., Ltd.; he has served in that capacity since May 2002</li> <li>Previously with Gansu Province's No. 3 Geological Team as a technician, engineer and team leader and deputy general manager at Baiyin Trading Company in Gansu</li> <li>Graduated from the Xi'an Geology College</li> </ul>
Lifeng (Steven) Wang <sup>68</sup>	Chief Financial Officer	34	<ul style="list-style-type: none"> <li>From January 2008 to April 2009, he served as a senior auditor for Huaming Accounting Firm in Beijing</li> <li>From July 2007 to December 2007, he served as a project manager for Hong Kong GC Alliance CPA Firm in Beijing</li> <li>Mr. Wang has a Bachelor's Degree in History from Capital Normal University in China; he is a certified public accountant by China Institute of Certified Public Accountants</li> </ul>
Ligang Wang <sup>69</sup>	Vice President and President of Qianzhen Mining	48	<ul style="list-style-type: none"> <li>Since July 2002, served as President of Qianzhen Mining</li> <li>More than 20 years' experience in mine management</li> <li>From January 1986 to June 2002, plant manager in the Wulatehou Banner Baynnur Mining</li> </ul>
Gene Michael Bennett <sup>70</sup>	Independent Director - Chairman of Audit Committee	62	<ul style="list-style-type: none"> <li>25 years experience as CFO, Professor and Consultant</li> <li>His abundant work experience in China has assisted Chinese firms to develop "Good Corporate Governance" and transparent infrastructures</li> <li>Claims to have a "CPA (inactive)" and to have worked for "Grant Thornton"</li> <li>Graduated from Michigan State University</li> </ul>
Li Liancheng <sup>71</sup>	Independent Director - Chair of the Compensation Committee	NA	<ul style="list-style-type: none"> <li>Vice-Director of Information Center of Tianjin Chemical Research &amp; Design Institute of China National Offshore Oil Corp from 2005 to present</li> <li>Vice Director of China National Inorganic Salts Information Center from 1997 to present</li> <li>Chemical economic analyst of Tianjin Research Institute of Chemical Industry from 1989 to 1994</li> <li>Bachelor degree in chemical engineering from Zhengzhou Institute of Technology</li> </ul>
Konman (Jason) Wong <sup>72</sup>	Independent Director	46	<ul style="list-style-type: none"> <li>Currently Managing Director of Action Precision Ltd., a manufacturer for the telecommunications industry</li> <li>From April 2000 to July 2009, he served as the managing director of Fortune Capital Group Ltd. and provided venture capital and investment fund services to enterprises</li> <li>Claims to be a "CPA in both U.S. and Hong Kong," but Mr. Konman Wong's <u>Hawaii CPA license (#3024) expired in 2003 and has not been transferred to another state</u><sup>73</sup></li> <li>Graduated in December 1989 from the University of Hawaii at Manoa in the United States with a Bachelor's Degree in Accounting</li> </ul>
Xueming Xu <sup>74</sup>	Director	49	<ul style="list-style-type: none"> <li>20 years' experience in the mining industry and former Chief Operating Officer of the Company</li> <li>Currently director and President of Inner Mongolia Wulatehou Banner Qianzhen Mining and Processing Co., Ltd. and of Inner Mongolia Xiangzhen Mining Co., Ltd.; he has served in that capacity since May 2002</li> <li>Superintendent at Inner Mongolia's Huiyaokou Iron Ore Plant and deputy general manager of Inner Mongolia Dongshengmiao Mining Co., Ltd</li> <li>Graduated from Lianyungang College of Chemical Mining and attended an advanced Management Programme run by Tsing Hua University</li> </ul>
Jian Zhang <sup>75</sup>	Independent Director - Chairman of Corporate Governance & Nominating Committee	68	<ul style="list-style-type: none"> <li>Director of China Construction Materials Company Ltd. since August 2005</li> <li>General Manager of China Nonferrous Mining Construction Group from September 2003 to August 2005</li> <li>Graduated from the Environmental Engineering Department of Xi 'an Mining Architecture College in 1968</li> </ul>

**If Mr. Gene Michael Bennett resigns, it appears only an external candidate would be adequately qualified to be the critical Audit Committee Chairman**

<sup>66</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

<sup>67</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

<sup>68</sup> SHZ 08/05/10 8-K, page 1 [http://www.sec.gov/Archives/edgar/data/790024/000114420410041377/v192586\\_8k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410041377/v192586_8k.htm)

<sup>69</sup> SHZ 12/31/09 10K, page 39 [http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454\\_10k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410017376/v179454_10k.htm)

<sup>70</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

<sup>71</sup> SHZ 11/18/10 8-K, page 2 [http://www.sec.gov/Archives/edgar/data/790024/000114420410061939/v203258\\_8k.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410061939/v203258_8k.htm)

<sup>72</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

<sup>73</sup> If Mr. Konman Wong's valid CPA license is under another name or if he has a valid CPA license from another state in the United States, we would welcome the correction

<sup>74</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

<sup>75</sup> SHZ DEF-14A proxy statement dated 10/12/10 [http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692\\_defr14a.htm](http://www.sec.gov/Archives/edgar/data/790024/000114420410053232/v198692_defr14a.htm)

## Appendix F: SHZ's Fraudulent Accounting Review – SHZ's domestic subsidiary audit firm references the fraudster management of China Education Alliance<sup>76</sup>

### **E-FANG ACCOUNTANCY CORP., & CPA**

17800 CASTLETON ST., SUTIE 208, CITY OF INDUSTRY, CA 91748

**To the Board of Directors and Shareholders of  
American Federal Mining Group, Inc. and subsidiaries**

#### **Independent Accountant's Report**

We have reviewed the accompanying consolidated balance sheet of American Federal Mining Group, Inc. and Subsidiaries, as of June 30, 2006, and the related consolidated statement of operations, stockholders' equity, and cash flows for the period then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of China Education Alliance.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

**e-Fang Accountancy Corp., & CPA**  
Certified Public Accountants

*Eva G. Fang Tsui*

As a reminder, American Federal Mining Group is the 100% owned, United States domestic subsidiary of SHZ. E-Fang also provided audits for the alleged China Education Alliance (NYSE: CEU) fraud and there is no legitimate explanation for CEU management to provide representations on SHZ's financials.<sup>77</sup>

**If the auditor cannot even copy-paste successfully, how can investors have  
ANY CONFIDENCE in SHZ's reported financials?**

<sup>76</sup> SHZ 09/18/06 8-K, please note that because the reverse-merger was in the process of closing, the filing was under the old company name of "Earth Products & Technologies" and although this audit opinion is labeled "Page 1" it is actually located on page 135 of 187 for PDF versions of the filing <http://www.sec.gov/Archives/edgar/data/790024/000102317506000285/edgar8kstockexchangeagreemen.htm>

<sup>77</sup> China Education Drops As Conference Call Doesn't Ease Worries" Nathan Becker *The Wall Street Journal*, 12/07/10, available at: <http://online.wsj.com/article/BT-CO-20101207-709789.html?mod=crnews>