OVERVIEW

The Group comprises a mining business which is focused on exploring for, developing and operating industrial commodity projects in the Russian Far East and the north-eastern region of the PRC. The Group has successfully developed the Kuranakh Project from a greenfield site through to initial production of titanomagnetite and ilmenite concentrate. The Group is also implementing other projects in the Russian Far East for sale and distribution of its products into the Russian and adjacent PRC industrial markets. The Group's objective is to become a profitable Industrial Commodities Business. The Group's portfolio is diversified by project size, stage of development and location. The Group benefits from flexible infrastructure options (including the ability to transport its products by rail or by rail and sea), established relationships in Russia and the PRC, and the ability to deliver its products efficiently to the PRC (currently the world's largest importer of iron ore). The Directors believe these factors provide the Group with a platform for future growth.

The Group benefits from a combination of a resource base as described below, a skilled workforce, the proximity of its operations to the key growth markets of the PRC and Asia and well-developed local infrastructure. It has good access to the local road network, two major state owned railways and the national electricity grid. This infrastructure supports secondary processing activities and bulk product delivery and which the Directors believe provide significant advantages over many competing industrial commodity mining groups.

As at the date of the Competent Person's Report, the Group had, in aggregate, JORC-Compliant Mineral Resources of approximately 1.1 billion tonnes comprising, 195.7Mt *Measured,* 638.5Mt *Indicated* and 304.61Mt *Inferred* Resources. For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

The Group's present priority is the development of mines and the production and processing of iron ore and ilmenite at the sites within its diversified portfolio of projects, which includes:

- the Kuranakh Project (consisting of the Kuranakh and Saikta deposits), a titanomagnetite and ilmenite project, located in the Amur Region, which is currently the Group's only producing project. The crushing and screening plant operated briefly in 2008 and ceased operations in the same year due to the downturn in the market for iron ore. In May 2010, the Olekma processing plant was commissioned and production re-commenced in June 2010. In September 2010, the first sale of titanomagnetite concentrate was made pursuant to the Offtake Agreement;

- K&S, a magnetite project, which is at the development stage and is located in the EAO;

- Garinskoye, a magnetite project, which is at an advanced stage of exploration and is located in the Amur Region;

- Kostenginskoye, located in the EAO, and the Garinskoye Flanks which surround Garinskoye and (through the Group's 49 per cent. interest in LLC Uralmining)

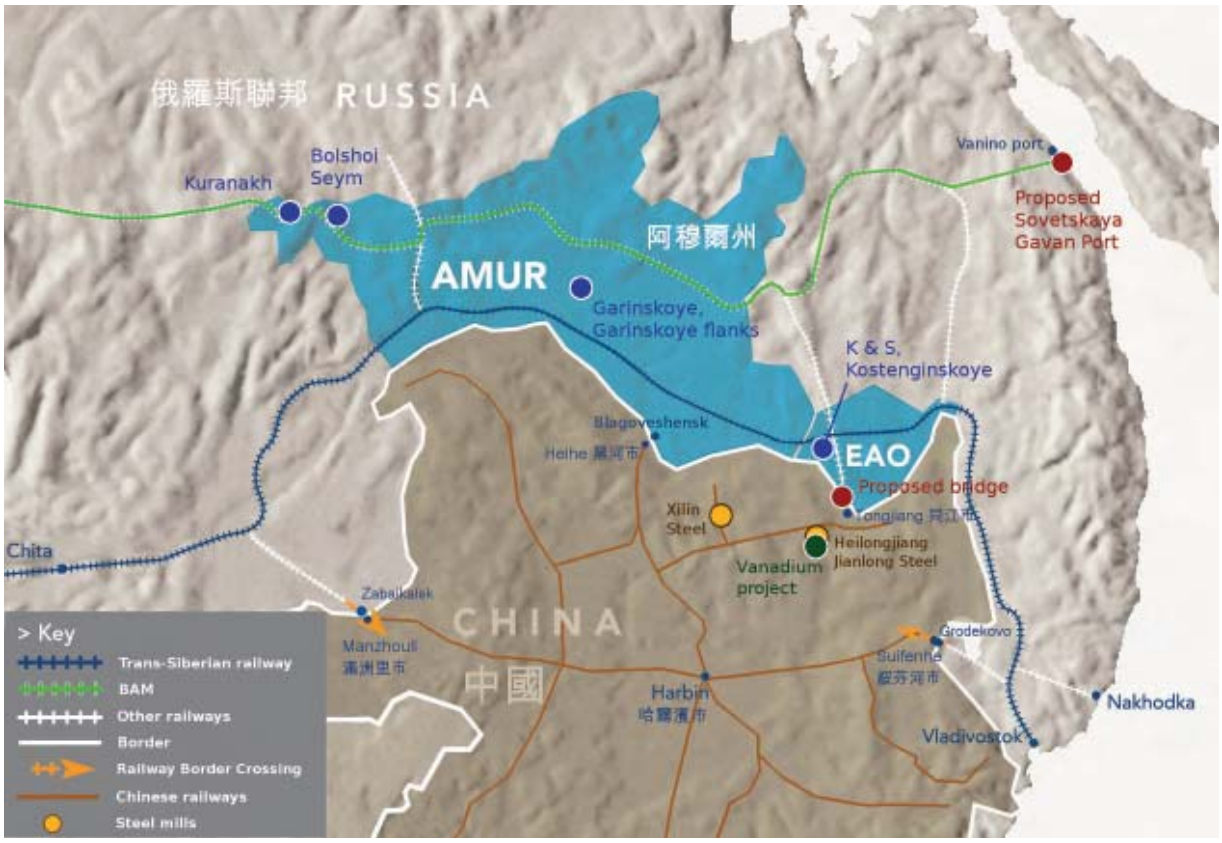
Bolshoi Seym (located in the Amur Region), all of which are iron ore exploration projects; and

- the Vanadium JV, a downstream development joint venture project, located in the PRC, relating to vanadium pentoxide.

The Group has considerable in-house technical expertise. The Group's management team has a track record of implementing iron ore and ilmenite projects, including the successful development of the Kuranakh Project. The Group's project implementation team also has extensive experience in both constructing and operating industrial commodity projects in Russia and the PRC. In addition, the Group has a 70.3 per cent. interest in Giproruda, a Russian mining engineering institute.

Principal mining interests

The following map shows the location of the Group's principal mining interests:



The following table summarises the Group's principal assets and their current status:

Asset	Product	Region	Current status	Group interest	Control
Kuranakh Project (Kuranakh and Saikta deposits)	Titanomagnetite and ilmenite	Amur, Russia	In production	100%	Yes
K&S (Kimkan and Sutara deposits)	Magnetite iron ore	EAO, Russia	Under development	100%	Yes
Garinskoye	Magnetite iron ore	Amur, Russia	In exploration	99.58%	Yes
Kostenginskoye	Magnetite iron ore	EAO, Russia	In exploration	100%	Yes
Garinskoye Flanks	Magnetite iron ore	Amur, Russia	In exploration	100%	Yes

The following table provides a summary of the Group's principal non-subsidiary owned assets and their current status:

Associate or joint venture	Product	Region	Current status	Group interest
Bolshoi Seym	Titanomagnetite	Amur, Russia	In exploration	49%
Vanadium JV	Vanadium pentoxide	Heilongjiang Province, PRC	Under development	46%

The following tables summarise the Mineral Resources and Ore Reserves in respect of the Group's principal assets as at the date of the CPR. The figures have been extracted without material adjustment from the sub-section headed "Executive Summary" of Appendix V — "Competent Person's Report" to this prospectus.

Summary of Principal IRC Mineral Resources by Project[1]
In accordance with the Guidelines of the JORC Code (2004)

Project	Deposit	Cut-off grade[2]	Mineral Resources (Mt)	Resource Category	Fe_{Total} (%)
Kuranakh	Saikta	17%	21.7 0.01	*Indicated* *Inferred*	30.8 22.2
Kimkan & Sutara	Kimkan Central	25%	99.7 15.0	*Indicated* *Inferred*	34.3 33.3
	Kimkan West	25%	51.1 43.0	*Indicated* *Inferred*	33.5 33.6
	Maisky	25%	15.1 20.7	*Indicated* *Inferred*	32.0 31.9
	Sovkhozniy	25%	4.4	*Inferred*	30.2
	Sutara	18%	195.7 231.0 65.5	*Measured* *Indicated* *Inferred*	32.4 32.2 31.0
Garinskoye	Garinskoye	20%	219.9 156.0	*Indicated* *Inferred*	32.0 29.3
Total			***834.2***	***Measured+Indicated***	***32.5***
Total			***304.6***	***Inferred[3]***	***30.6***

1 The above Mineral Resources are presented as of the date of the CPR in Appendix V — "Competent Person's Report" to this prospectus.

2 Cut-off grade ("C.O.G.") means the lowest grade of mineralised material considered economic, that is used in the calculation of Mineral Resources and Ore Reserves.

3 For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

Summary of Ore Reserves in accordance with the guidelines of the JORC Code (2004)[1]

Project	Deposit	Probable[2] Ore Reserves	Fe	TiO_2	Fe	TiO_2
		Mt	*%*	*%*	*Mt*	*Mt*
Garinskoye	Garinskoye	211.7	36.0	n/a	76.2	n/a
	Total	**211.7**	**36.0**		**76.2**	

1 Ore Reserves are presented as at the date of the CPR in Appendix V — "Competent Person's Report" to this prospectus.

2 For a description of the categories of JORC-Compliant Proven and Probable Ore Reserves, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

The Vanadium JV does not hold any mineral interests.

The Kuranakh Project is in production. The Group's current development programme for K&S and Garinskoye comprises three stages:

Stage 1

Stage 1 comprises the construction of a 10Mtpa mining operation at K&S with a processing plant with a capacity to produce 3.22Mtpa of 65 per cent. iron ore concentrate. The Group has estimated that this stage will cost approximately US$400 million and is in the process of negotiating project financing and an EPC contract for this work with ICBC and CNEEC respectively. A non-binding indicative term sheet has been entered into with ICBC in relation to the ICBC Facility and the Group has entered into a co-operation agreement with CNEEC and ICBC.

If definitive documentation for the ICBC Facility cannot be agreed and made available in a timely manner, the Group will be required to find alternative sources of financing for Stage 1 or modify the development programme for Stage 1. Alternative sources of financing may include: alternative debt financing, in respect of which other non-binding debt proposals have been received; reallocation of the Group's existing cash resources and/or the net proceeds of the Global Offering and/or raising of additional equity finance after Listing. If the ICBC Facility is completed, the Group intends to utilise that financing in connection with Stage 1, together with a portion of the net proceeds of the Global Offering as set out in further detail in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Stage 2

Stage 2 involves the construction of a mine and a crushing and screening plant at Garinskoye and the expansion of the K&S processing plant to process the pre-concentrate to be produced at Garinskoye and associated transport infrastructure.

Stage 3

Stage 3 contemplates the construction of a facility to upgrade part of the Group's concentrate production to a metallised product. This facility would be constructed adjacent to the

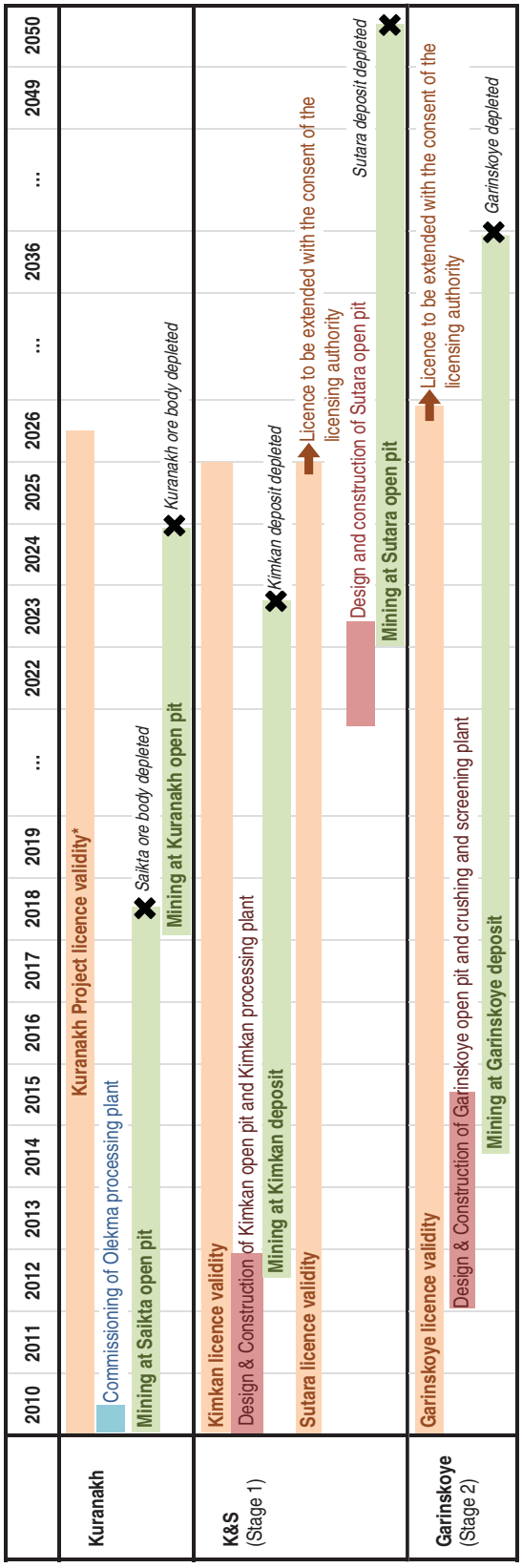
processing plant at K&S. There are a number of other development options for the construction of a mining and beneficiating facility at K&S which the Group could pursue which include altering the size of the facility and equipment options.

In addition to funding part of Stage 1 of the Group's development programme, the Group intends to use the net proceeds of the Global Offering in relation to Stage 2 of its development programme and other exploration and development projects, as set out in further detail in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Investors should be aware that without external financing, the net proceeds of the Global Offering will not be sufficient to finance in full the currently proposed development programme for Stage 1 or any later stages of the development programme and consequently the Group would review other sources of finance and/or a modified capital expenditure programme with an alternative production facility. Further details are set out in the sub-section headed "Financing of the Group's development programme" of the section headed "Business" in this prospectus. See also the sub-section headed "The Group may not be able to finance its future planned capital expenditure" of the section headed "Risk Factors" in this prospectus.

Further information in relation to the current status of the Kuranakh Project and the Group's plans for Bolshoi Seym and the Garinskoye Flanks is set out elsewhere in this section and in Appendix V — "Competent Person's Report" to this prospectus.

The table below sets out a timeline for the development of the projects stated below on the basis of current expectations and current financing plans (including reaching agreement on the ICBC Facility).



The table below sets out key dates in relation to the development of the projects on the basis of current expectations (including reaching agreement on the ICBC Facility).

Dates	Kuranakh Project		K&S		Garinskoye
	Saikta deposit	Kuranakh deposit	Kimkan	Sutara	
Licence valid until	01/06/2026		30/12/2025	30/12/2025	31/12/2026
Design, Construction to be completed by	completed		12/2012	2023	2015
Mining to start	started	2018	01/2012	2023	2014
Production of concentrate to start	started[1]		2013	2023	2015[2]
Mine depleted	2018	2024	2023	2050	2036

1 Ore from both Saikta and Kuranakh deposits is or will be processed at the Olekma processing plant
2 Pre-concentrate is to be produced at Garinskoye, and further beneficiated at the Kimkan processing plant

The current anticipated capital expenditure requirement for each of the Group's mining projects is set out in the sub-section headed "Capital and Operating Costs" of their respective sections of Appendix V — "Competent Person's Report" to this prospectus.

COMPETITIVE ADVANTAGES

The Directors believe that the key competitive advantages of the Group include:

Attractive diversified portfolio of production, development and exploration assets

As at the date of the Competent Person's Report, the Group had, in aggregate, JORC-Compliant Mineral Resources of approximately 1.1 billion tonnes comprising, 195.7Mt *Measured,* 638.5Mt *Indicated and* 304.61Mt *Inferred* Resources. For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus. The Group's portfolio consists of exploration, construction and early stage production iron ore assets, which the Directors believe comprise an attractive portfolio of iron ore projects. The Kuranakh Project is the Group's only asset currently in production and is already generating revenue for the Group. K&S, the Group's largest asset, is in construction with a number of milestones, including the accommodation block, having been completed. The Group expects that the total operating cash costs for K&S magnetite concentrate delivered to the PRC border will be approximately US$42 per tonne of concentrate sold when it becomes fully operational.

Favourable location and logistics

The Group's principal mining and exploration assets are located in Russia in the Amur Region and the EAO, close to the PRC border with Russia, giving proximity to the key growth markets of the PRC and Asia and the local market in the Russian Far East. The Directors believe that the proximity of the assets to local transportation infrastructure, including the Trans-Siberian and BAM Railways, as well as associated facilities supporting secondary processing activities and bulk product delivery, will enable cost-effective transportation of the Group's products to

its customers and joint ventures and will provide significant advantages over many competing industrial commodity mining groups.

As a result of the Group's location and its access to infrastructure, the Directors believe that the costs of delivery of its products to customers in Russia and the PRC should be materially lower than those of competitors located in some other major iron ore producing locations, including Australia, Brazil, India and South Africa. Transport costs for bulk commodities such as iron ore represent a significant proportion of costs. With regards to K&S, which is the Group's largest asset, the Group currently estimates that the average weighted total cost of delivery of its products from K&S to the PRC border would, were K&S currently in production, be US$12/t. This is considered to be the equivalent of transport from mine to port for producers in Australia and Brazil and is considered a cost of production. Transportation from the PRC border to customers in the north-eastern region of the PRC would, were K&S currently in production, be approximately US$9.47 per tonne of concentrate based on current rail tariffs. This is lower than typical current delivery costs of approximately US$28.36 per tonne from Australia, approximately US$41.26 per tonne from India, approximately US$32.77 per tonne from South Africa and of approximately US$43.30 per tonne from Brazil[1]. In combination with its expected competitive positioning in terms of the cash cost of mining, the Directors believe that the relatively lower cost of delivery to PRC customers should give the Group transport cost advantages over most other major iron ore suppliers to the PRC market.

Technical expertise and skilled workforce

Both organically and through its acquisition of its shareholding in Giproruda, a Russian engineering institute, the Group has built a team of experienced mineral project specialists (with experience ranging from early geological prospecting to production). This provides the Group with access to quality mining engineering and development expertise in the CIS which gives the Group the ability to develop and execute mine planning for its projects quickly, efficiently and to a high standard.

Giproruda's work includes the design, coordination, construction and commissioning of quarries and mines for mining clients, including those located in challenging geological and climatic conditions (such as those under which the Group's projects operate).

The Amur Region has a long-standing history of mining operations and a strong mining culture. As a result, the region benefits from an experienced pool of qualified workers from which the Group can recruit locally and the Group expects to be one of the larger employers in the Amur Region. The Directors believe that having access to, and being able to recruit from, this strong local expertise is a significant advantage over other miners located in close proximity to the PRC markets, which may be unable to access skilled labour so close to their operations and assets. The Group also has a long-term and comprehensive educational and training policy to encourage the continuing education of its workforce and to attract new employees.

Relationships in the PRC and Russia

The Group and its controlling shareholder, Petropavlovsk (which has been operating in Russia for over 15 years), together have considerable mining experience in the Amur Region

1 Source: CRU. Freight costs are 2010E rates per CRU for freight to ports in China from Australia, India, South Africa and Brazil and sail from port to North East China. Costs are based on CRU estimates in USc/dmtu adjusted to US$/t assuming 65.8% Fe content (being the concentrate grade for the Group)

and the EAO. Each has built up important relationships in those regions, including with the local workforce and authorities, which the Group intends to build on and develop.

Given the importance of the PRC to the global iron ore market and the geographic location of the Group's assets, the Company places great emphasis on its positioning and partnership structures in the PRC, where it has a representative office, and expects a substantial part of its customer base to be located. In addition to the term sheet and continuing negotiations with ICBC in relation to the funding for 85 per cent. of Stage 1 of its development programme for the K&S and Garinskoye projects, the Group also entered into a non-binding co-operation agreement with CNEEC, one of the PRC's leading engineering and energy contractors, and ICBC, pursuant to which it is proposed that CNEEC will act as EPC contractor and ICBC will provide financing for the development of the Group's development programme for the K&S and Garinskoye projects. The Group also has a joint venture with Jianlong and Kuranakii for the processing and production of vanadium slag. The involvement of Hong Kong investors in the pre-IPO financing and anticipated participation of Hong Kong investors in the Global Offering, together with the establishment of the Group's headquarters in Hong Kong and the presence of Greater China residents on the Board, also reflect the importance of the PRC to the Group. Further, members of the Board and management have considerable experience in the undertaking of business in the PRC, including holding positions in the senior management of major conglomerates and financial institutions in Hong Kong and the PRC.

Experienced management team

The Group has a very experienced management team. Most of the project managers including Gennady Timofeev, Victor Rybkin and Dr. Anatoliy Lyaschenko have extensive experience in the mining industry as described in the section headed "Directors, Senior Management and Employees" in this prospectus. Management's expertise includes a track record of bringing projects into production and operating producing assets, as well as extensive experience in relation to both the construction and the operation of infrastructure projects. The Directors believe that this combination of management's expertise and experience is a particularly strong advantage in the current competitive market for development expertise.

In addition, through their many years of conducting business in Russia, members of the Group's management have developed valuable expertise in dealing with social, environmental, community and cultural issues that arise from mining in the region.

STRATEGY

The Group intends to capitalise on its competitive advantages set out above by pursuing the following core strategies:

Develop a strong and balanced portfolio of high quality assets providing a base for success for the Group's long-term operations

The Group intends to develop its existing asset portfolio in order to maximise value. It also intends to continue its exploration and development work, both in terms of its existing assets

and locating new ones, in order to expand its long-term production base. This strategy involves bringing the Kuranakh Project to its full target production rate of 920Ktpa of titanomagnetite concentrate and 290Ktpa of ilmenite concentrate as soon as possible (expected to be achieved towards the end of 2010). The Group will also focus on bringing its two other key projects, K&S and Garinskoye, into production to schedule and budget. In the short term, this will involve employing additional contractors for the first stage of K&S's development, assessing the design for Garinskoye and the viability of the beneficiation of iron ore concentrate to metallised nuggets at K&S.

The Group intends to continue exploration and pre-feasibility work at its other projects such as Bolshoi Seym, Kostenginskoye and the Garinskoye Flanks, with the aim of bringing them on-stream in due course if the results of such work confirm the viability of those assets. In addition, the Group will continue to explore for new assets.

Maintaining a balanced asset portfolio can provide the platform for investment in other, long-term non-mine assets, such as transportation infrastructure and processing plants, as well as entry into long-term supply agreements with customers and joint ventures, which would provide a level of financial stability for the Group. This in turn should assist the Group in obtaining the additional finance required in the longer term to develop its projects.

Maximise returns on the Group's mining assets by focusing on downstream stages of production

Rather than simply mining ore, processing it into concentrate and then on-selling the concentrate to customers, the Group's strategy involves increasing its role in downstream stages of the production chain, including producing higher value products that can be on-sold to customers.

At the Kuranakh Project, the Group is producing ilmenite and titanomagnetite concentrates. It is intended that the ilmenite concentrate will be sold either on a spot contract basis or under longer term contracts, depending on market conditions and what is being offered by potential customers when the sales are made or contracted. The titanomagnetite concentrate is proposed to be sold pursuant to the terms of the Offtake Agreement with Jianlong for steel production with the resultant slag produced during titanomagnetite smelting to be processed by the Vanadium JV's proposed processing plant in order to produce vanadium pentoxide. Iron ore concentrate from K&S and Garinskoye is also being considered for processing using ITmk3 technology at the Kimkan site to produce higher value iron ore nuggets, which are expected to be sold to steel mills at a higher margin. These iron ore nuggets would be produced by processing iron ore concentrate with Fe content of approximately 60-65 per cent. to iron ore nuggets with very high iron content (approximately 96-97 per cent. Fe). These iron ore nuggets also have lower levels of impurities than iron ore concentrate, making this product a value added product more attractive to steel mills. These end products command a higher premium than magnetite or ilmenite concentrate, which would allow the Group to maximise value from the iron ore and ilmenite which it produces.

Capitalise upon the Group's geographical advantages by developing transport infrastructure projects

The benefits of the Group's advantageous location would be enhanced by the proposed construction of a bridge over the Amur/Heilongjiang River between Nizhneleninsk and

Tongjiang City. The Group is financing some design costs and is assisting in the financing of the construction of the bridge by having discussions with potential finance providers and state-owned entities such as Russian Railways. It is not currently intended that the Group will be providing any financing other than for the design work. The bridge could potentially provide significant savings in transport costs between Russia and the PRC and the port would provide further access to the Japan Sea and facilitate access to additional markets in South-East Asia.

Leverage in-house technical expertise to develop and improve projects and identify new assets

The Group's interest in Giproruda (further details of which are set out in the sub-section headed "Mining Engineering" of this section) gives the Group access to quality in-house mining engineering and development expertise. This expertise has been used in the past to undertake a feasibility study at Garinskoye. The Directors believe that the Group's ability to source, define and execute new projects in addition to the continued improvement and optimisation work that is being undertaken at the existing projects is a strong competitive advantage which the Group intends to leverage going forward.

Selectively augment its portfolio with value-enhancing acquisitions in the areas adjacent to the Group's operations or regions in which it operates

As part of its long-term strategy, the Group intends to continue to focus on potential acquisition opportunities in order to augment and replenish the significant organic development pipeline from which it currently benefits. The Directors believe that the Group is the largest iron ore mining company in the Russian Far East. The Group's management team has a track record of acquiring, developing and operating iron ore mines and deposits including the successful development of the Kuranakh Project. The Russian Far East and the north-eastern region of the PRC are rich in mineral resources and the Group intends to leverage its size, regional presence and operating experience to acquire attractive value enhancing opportunities in non-precious metals in these regions. The Group will focus on opportunities where it can apply its strong technical expertise and maximise synergies with existing operations.

DETAILS OF PRODUCING, DEVELOPMENT AND EXPLORATION ASSETS

The following table sets out a summary of the Group's principal producing, exploration and development assets and their respective licences, as at the Latest Practicable Date. Unless otherwise stated, the assets set out in the table are wholly owned by the Group.

The Group's surface land rights are set out in Appendix VIII — "Statutory and General Information" to this prospectus.

Asset, location	Product	Type of mining rights	Area, km^2	Licence expiration date	Licence holder	Licence type
Kuranakh Project, Amur, Russia . .	Titanomagnetite and ilmenite ore	Geological study, exploration and extraction	85	1 June 2026	LLC Olekminsky Rudnik	Combined licence/ exploration and production
Kimkan, EAO, Russia	Magnetite iron ore	Extraction	22.4	30 December 2025	LLC KS GOK	Production licence
Sutara, EAO, Russia	Magnetite iron ore	Exploration and extraction	27	30 December 2025	LLC KS GOK	Combined licence/ exploration and production
Garinskoye[1], Amur, Russia . .	Magnetite iron ore	Extraction	11.2	31 December 2026	LLC GMMC	Production licence
Garinskoye Flanks, Amur, Russia	Magnetite iron ore	Geological study, exploration and extraction	3,542	1 March 2033	LLC Orlovsko-Sokhatinskiy Rudnik	Combined licence/ exploration and production
Kostenginskoye, EAO, Russia . . .	Magnetite iron ore	Exploration and extraction	24	31 December 2027	LLC Kostenginskiy GOK	Combined licence/ exploration and production
Bolshoi Seym[1], Amur, Russia . .	Titanomagnetite ore	Exploration and extraction	26	1 December 2030	LLC Uralmining	Combined licence/ exploration and production

1 The Group has a 99.58 per cent. interest in Garinskoye and a 49 per cent. interest in Bolshoi Seym.

In addition to the licences listed above, the Group is party to a number of licence agreements with the relevant authorities which are deemed to form an integral part of the relevant licences and which contain substantially all the terms and conditions, including those concerning work programmes (which are essentially the licensee's developmental commitments and its applicable milestones or deadlines), levies or fees payable by the licensee, geological data ownership, safety, abandonment and confidentiality.

The basic principles and rules of the licensing and regulatory framework for the Russian mining industry are contained in the Subsoil Law and detailed rules relating to the licensing and control over the use of subsoil resources are set out in a number of regulations issued by the Ministry of Natural Resources and Ecology. Further details in relation to the licensing regime is set out in the section headed "Laws and regulations applicable to the industry" in this prospectus. Further information about the licences listed above, including general and specific material terms of the licences, is set out in the sub-section headed "(C) Further information about the business" of Appendix VIII — "Statutory and General Information" to this prospectus.

Financing of the Group's development programme

The Group's principal mining assets comprise producing assets, development assets and exploration projects, as well as interests in a joint venture.

The crushing and screening plant at the Group's sole producing asset, the Kuranakh Project, operated briefly in 2008 and ceased operations in the same year due to the downturn in the market for iron ore. The Kuranakh Project commenced production in June 2010 and is expected to ramp up to full production by the end of 2010. The principal focus of the Group's development programme is its development asset at K&S and its exploration project at Garinskoye.

In October 2008, the Group completed a combined feasibility study for K&S and Garinskoye (the "KSG Feasibility Study"). In 2009, in response to market conditions, the Group produced an optimised development programme in order to reduce the initial capital expenditure requirements set out in the KSG Feasibility Study.

The Group's current development programme involves a three-stage implementation plan, which comprises:

- **Stage 1:** The construction of a 10Mtpa mining operation at K&S with a processing plant with capacity to produce 3.22Mtpa of 65 per cent. iron ore concentrate. Stage 1 is expected to involve approximately US$400 million in capital expenditure;

- **Stage 2:** The construction of a mine and crushing and screening operation at Garinskoye with a capacity of 10Mtpa of ore. The K&S processing plant (where the pre-concentrate from Garinskoye will be further processed) will be expanded to process the pre-concentrate processed at Garinskoye, to a total combined processing capacity of 17Mtpa of ore to yield an estimated 8.3Mpta of iron ore concentrate;

- **Stage 3:** The construction of a facility adjacent to the processing plant at Kimkan to upgrade part of the Group's concentrate production to a metallised product.

The Group has sufficient resources to bring the Kuranakh Project into full production. Following completion of the Global Offering, the Group will have sufficient financing in place to fund a significant proportion of Stage 1. However, investors should be aware that without external financing, the net proceeds of the Global Offering will not be sufficient to finance in full the current development programme of Stage 1 or any later stages without revising the construction schedule or scope of production facilities. See further the Risk Factor headed "The Group may not be able to finance its future planned capital expenditure" in this prospectus.

On 23 March 2010, it was announced that a non-binding indicative term sheet with ICBC in relation to the funding of 85 per cent. of Stage 1 of the Group's development programme for K&S and Garinskoye had been entered into. The Group has entered into a co-operation agreement with CNEEC and ICBC which provides a framework for a further agreement under which it is intended that CNEEC will act as EPC contractors and ICBC will provide financing for the development of later stages of the Group's development programme. The amount

proposed to be lent under the ICBC Facility in respect of the Stage 1 project financing will constitute 85 per cent. of the total amount payable under the proposed EPC contract (the amount of the proposed EPC contract is estimated to be US$400 million). The term of the ICBC Facility is proposed to be 11 years and is expected to be supported by a guarantee from Petropavlovsk. Negotiations are ongoing with ICBC in respect of the terms of a legally-binding facility and guarantee documentation, and the availability of the ICBC Facility remains subject to such documentation being agreed, final confirmatory due diligence, final credit committee approval and PRC regulatory approval. SINOSURE, the China Export & Credit Insurance Corporation, an independent third party company, proposes to provide insurance cover of up to 95 per cent. of the ICBC Facility in relation to certain commercial and political risks (further details regarding the SINOSURE insurance cover can be found at the sub-section headed "Financial Independence" of the section headed "Relationship with Petropavlovsk" in this prospectus). In line with the prevailing industry practice, the SINOSURE insurance cover has been requested by ICBC as part of the terms of the financing. SINOSURE has carried out due diligence and has confirmed to the Group that it has completed its initial credit approval process. The Group has also received a letter of intent from SINOSURE indicating its intention to provide such insurance cover. While considerable progress has been made, there is no assurance that the financing for any part of the Group's development programme will be concluded with ICBC on terms which are acceptable to the Group.

The ICBC Facility will be entered into as and when the terms are agreed between the parties which the Company anticipates will occur before the year end. If the ICBC Facility is agreed and made available on a timely basis, the Group intends to utilise the proceeds of that financing for the purposes of Stage 1, and to apply some or all of the net proceeds of the Global Offering towards Stage 2 of its development programme. If the ICBC Facility is entered into between the Company and ICBC after the Listing with the support of a guarantee from Petropavlovsk, based on the current loan structure, the ICBC loan and the guarantee will constitute notifiable and connected transactions of the Company pursuant to Chapters 14 and 14A of the Listing Rules. The Company will comply with the applicable reporting, announcement and independent shareholders' approval requirements under the Listing Rules prior to the ICBC Facility being entered into and any guarantee from Petropavlovsk being provided.

The Company continues to consider available funding proposals. If the ICBC Facility is not agreed and made available on a timely basis, the Group intends to use substantially all of the net proceeds from the Global Offering towards the development of Stage 1. The Directors expect that the remainder of the capital expenditure requirement for Stage 1 would be financed from alternative sources of debt financing, which the Directors believe (based upon alternative proposals received by the Group) would be likely to be made available to the Group on commercially acceptable terms. If, and to the extent, that such alternative financing does not cover the full capital requirement of Stage 1, the Group would consider reducing expenditure on Stage 2 of its development programme by deferring its stages, and/or scaling back the capital expenditure on Stage 1.

The other exploration projects of the Group (namely Kostenginskoye and the Garinskoye Flanks), the Bolshoi Seym project (in which the Group holds a 49 per cent. interest) and the

joint venture projects (the Vanadium JV and, if continued, Jiatai Titanium) will require further financing, which is not in place, in order to bring such projects into production or operation.

Producing Assets — Kuranakh Project

The Kuranakh Project, in which the Group has a 100 per cent. interest, is a medium-sized titanomagnetite iron ore and ilmenite project. The Kuranakh Project licence area is 85km^2 and is located in the Tynda district in the north-west Amur Region. Mining commenced and a limited number of shipments of pre-concentrate were made in 2008. Following the successful commissioning of the main processing plant in May 2010, the plant's primary ball mill and spiral classifier have been working at full capacity on low grade ore and waste in order to test the equipment and provide a base lining for the tailings dam. The first ilmenite and titanomagnetite concentrates were produced in June 2010 and the first commercial shipment of titanomagnetite concentrate was dispatched from the plant in September 2010. The main processing plant, the Olekma processing plant, is expected to achieve its full production rate towards the end of 2010.

Geology and reserves

The Kuranakh and Saikta deposits are located at the intersection of structures within the Aldan shield and the Stanovoy fold-block system. The main structural element of the area is the Kalarskii gabbro-anarthosite block which covers approximately 1,500km^2. Eight separate iron-titanium ore fields (deposits) have been identified within this area. The largest deposits include those of the Bolshoi Seym project and the Kuranakh Project, located in the northern part of the Kalarskii block in the region of the Imangrakansky fault which is considered to be a branch of the Stanovoi deep fault.

The structure of the Kalarskii massive involves a wide range of rocks, from modern and ultra-basic to acid and sub-alkaline. Associated with them spatially, and presumably, genetically, are iron-titanium (with phosphorus) and rare-earth mineralisation. The iron-titanium mineralisation in the Kalarskii massive is polygenetic, associated with both early and late magmatic stages. The formation of the bulk of rocks of gabbroid and ultra-basic composition and also associated iron-titanium mineralisation is determined by the processes of re-concentration of components (magnesium, iron and titanium) in the course of granitisation and phosphorus supply.

The Kuranakh Project licence area contains two major areas of mineralisation, namely (from west to east):

- the Kuranakh deposit (comprising the South, Intermediate and North Zones); and
- the Saikta deposit (containing Ore Zones 1,2, 4 and 8 of which Ore Zone 1 is the largest).

The main ore minerals in the Kuranakh Project licence area are ilmenite and titanomagnetite. The main useful components include titanium and iron. Other components include vanadium, chromium, nickel and cobalt, but only vanadium is considered a useful by-product and is taken into account in the assessment of the Group's Mineral Resources at the Kuranakh Project.

The table below sets out details of the Group's JORC — Compliant Mineral Resources at the Kuranakh Project.

Saikta Deposit Mineral Resources[1]
In accordance with the JORC Code (2004) — 17% Fe C.O.G.

Resource classification[2]	Mineral Resources (Mt)	Fe_{Total} (%)	Fe_{Magn} (%)	TiO_2 (%)	Fe_{Total} (Mt)	Fe_{Magn} (Mt)	TiO_2 (Mt)
Indicated	21.663	30.82	20.26	9.58	6.677	4.389	2.075
Inferred	0.011	22.22	12.40	11.22	0.002	0.001	0.001

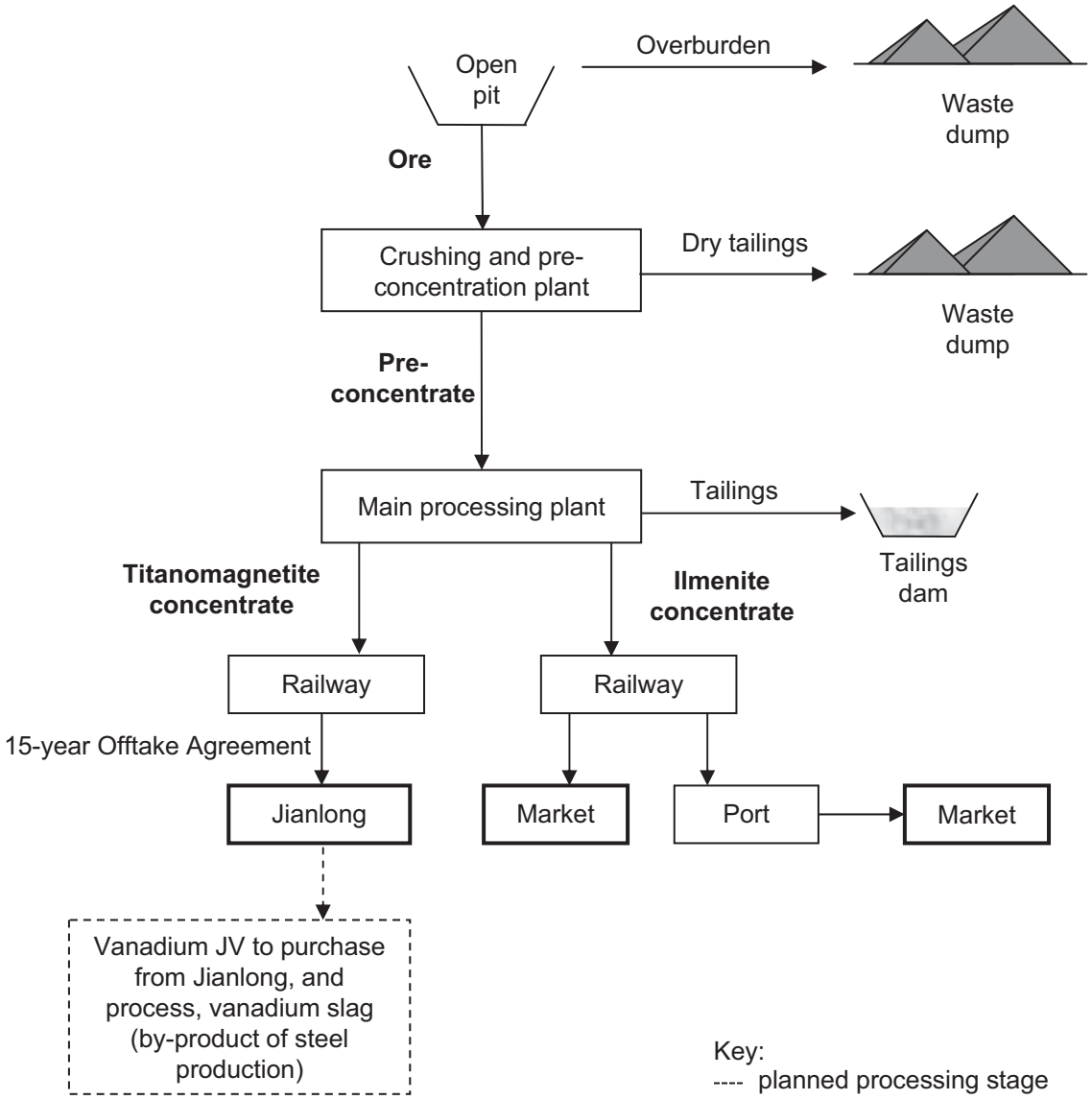
1 Mineral Resources are presented as of 1 September 2008. As only 0.15Mt of ore was extracted during 2008-2009, and stockpiled without further processing, the above statement remains valid as of the date of the CPR.

2 For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

Processing methods and production

The flowchart below shows the processing stages for operations at the Kuranakh Project and proposed routes to market:

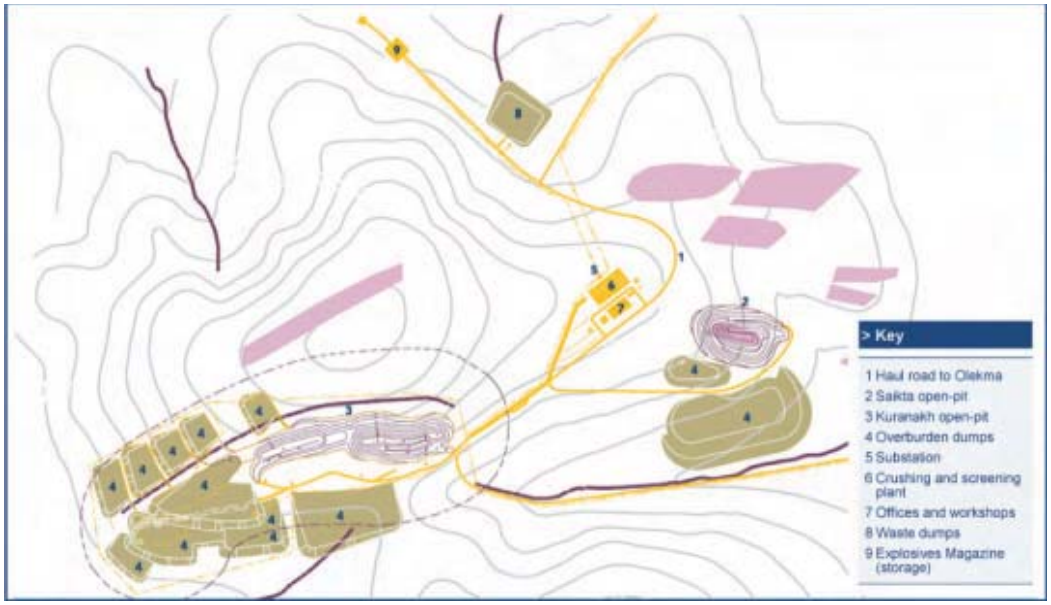
Kuranakh Project



The Kuranakh Project licence area contains magnetite, titanomagnetite and ilmenite as economic minerals and hornblende, garnet, feldspar, pyroxene and biotite as gangue mineralisation. The deposit comprises three distinctive ore types—massive ores, pocket and vein ores and finely disseminated ores.

Two deposits, Kuranakh and Saikta, have been selected for mining by the open pit method. Full-scale mining started at the Saikta open pit in May 2010 and is planned to commence at the Kuranakh open pit in 2018, when it is estimated that the Saikta pit will be close to depletion. The pits are expected to have a combined life of 15 years including ramp up and closure.

Saikta & Kuranakh Mine Site Plan



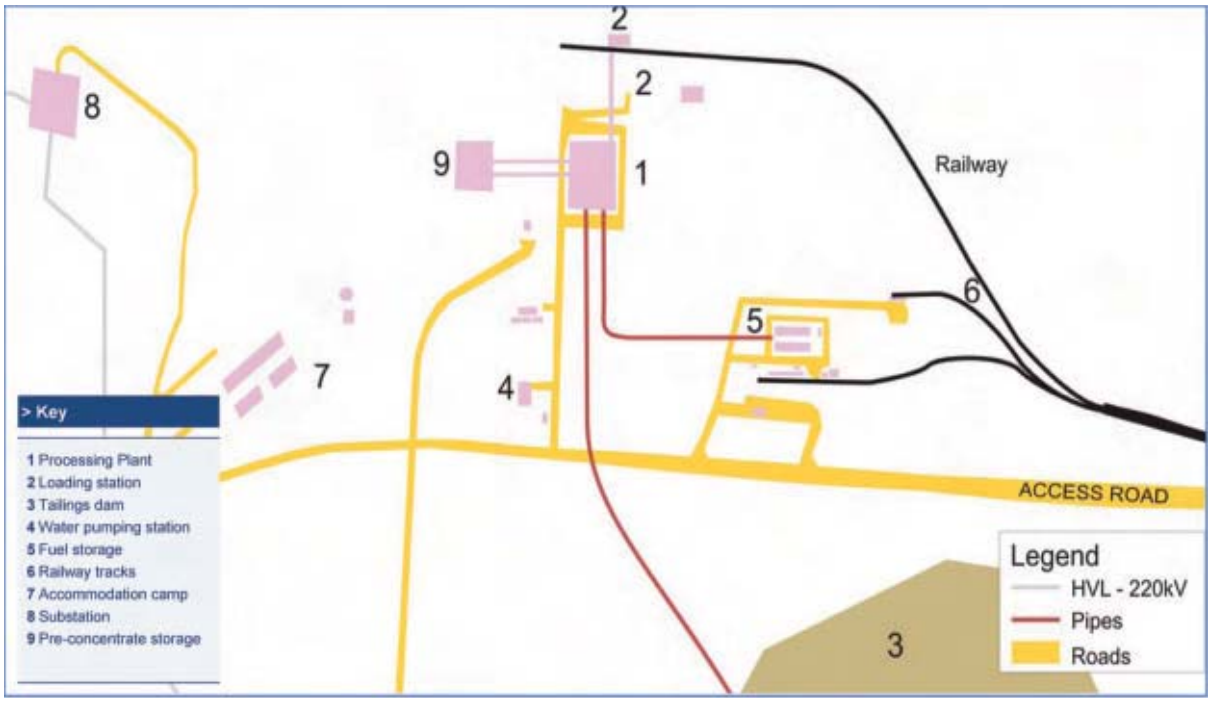
The processing of ore at the Kuranakh Project is a two-stage operation, consisting of crushing and magnetic pre-concentration initially at the Saikta mine site, followed by further beneficiation at the Olekma processing plant to produce concentrate. The crushing and pre-concentration plant is designed to treat 2.6Mtpa of ore and produce 1.8Mtpa of pre-concentrate.

Ore which has been extracted from the Saikta open pit is delivered to a stockpile area by trucks. The material is then fed to a jaw crusher where it is crushed and transported on a conveyor belt to a stockpile. Ore is recovered via underground feeders and is further crushed in two parallel processing lines consisting of secondary cone crushers. The secondary crushed product is screened and the screen undersize reports as the final product. The oversize fraction undergoes dry magnetic separation to produce a magnetic product and a non-magnetic tailings product. The magnetic concentrate is stockpiled before being conveyed to tertiary cone crushers where the material is further crushed. The crushed product is again screened and the oversize fraction is treated by a second stage of dry magnetic separation. The magnetic concentrate is re-circulated to the tertiary crusher and the non-magnetic product is conveyed to the pre-concentrate tailings stockpile.

The Group expects that the pre-concentration stage will result in an increase in Fe grade to an average grade of 39.4 per cent. Fe at an iron recovery of 96.4 per cent. (mass pull of 71 per cent.). Equivalent data for TiO_2 suggest that grades may be raised to an average grade of 13.4 per cent. TiO_2 at a recovery of 97.5 per cent.

The pre-concentrate is trucked from the crushing and pre-crushing plant at Saikta to the main processing plant at Olekma, a distance of approximately 40km. The processing plant is designed to produce two separate titanomagnetite and ilmenite concentrates.

The map below shows the overall layout of the Olekma site, which is situated approximately 40km from the Kuranakh Project crushing and pre-concentration plant.



At the Olekma processing plant, the pre-concentrated ore is crushed in ball mills in order to allow for complete disassembly of the ore. The crushed ore slurry is pumped to low intensity magnetic separators where the non-magnetic ilmenite is separated from magnetic titanomagnetite. The titanomagnetite is filtered to remove excess moisture and stored in silos ready for despatch by rail. The dry ilmenite is conveyed to electrostatic separators for final cleaning and then to separate storage silos located adjacent to the rail loadout for subsequent despatch by rail.

The crushing and pre-concentration plant was commissioned with a limited number of shipments in 2008, but, due to the downturn in the market for iron ore crushing and pre-concentration, the plant did not operate in 2009. In April 2010, the Kuranakh crushing and screening plant recommenced production of pre-concentrate and processed 139,000 tonnes of ore during the first half of 2010, producing 66,000 tonnes of pre-concentrate with a grade of 43.7 per cent. Fe. Construction of the main processing plant at Olekma was completed, the plant was commissioned in May 2010 and production commenced in June 2010. As at 31 July 2010, 11,400 tonnes of ore were stockpiled at the Kuranakh crushing and screening plant and 84,100 tonnes of pre-concentrate were stockpiled at the Olekma processing plant.

During July 2010, 15,567 tonnes of pre-concentrate with a grade of 41.1 per cent. were processed at the Olekma processing plant. As a result, 7,697 tonnes of titanomagnetite concentrate with an average grade of 64.5 per cent. Fe were produced and 22.4 tonnes of ilmenite, with a titanium dioxide content of 46.5 percent were produced.

The first sale of titanomagnetite concentrate was made in September 2010 pursuant to the Offtake Agreement. No ilmenite has been sold to date as volumes are not yet sufficient to sell on the spot market.

The Olekma plant is expected to achieve full capacity towards the end of 2010, when the Group expects that the plant will process at a rate of 2.6Mtpa of ore and produce 920Ktpa of titanomagnetite concentrate, with an iron ore content of 62.5 per cent. Fe, and 290Ktpa of ilmenite with a titanium dioxide content of 49 per cent. TiO_2.

Infrastructure

The Group's current infrastructure includes power lines, more than 50km of roads, railway connections, an administration building, a laboratory, residential accommodation blocks and a medical centre. Major items of project infrastructure constructed at the site include a fuel storage facility, a rail loading facility, and a bridge over the Kuranakh River between Olekma and the Saikta open pit. These infrastructure assets are owned by the Group.

Power — The Group has built an electrical sub-station at Olekma from which it draws power from the main 220kV power line which runs close to the BAM Railway. This provides sufficient power for the processing plant at Olekma and the mining and pre-concentration operations at the Kuranakh Project. Electricity is purchased from a regional supply company on spot contracts.

At the Kuranakh Project, coal is used for heating purposes only. Coal is supplied to the Kuranakh Project by OJSC SUEK pursuant to an annual contract and is transported by railroad to the Olekma station at the Kuranakh Project.

The following table sets out the estimated electricity, coal and fuel consumption for the Kuranakh Project when producing at full capacity:

Consumption		Kuranakh
Coal	Tonne/year	7,000
Electricity	Thousand Kwh	110,107.7
Fuel	Thousand litres	26,916.0

Water — The Group owns two boreholes at the Kuranakh Project, one at the Kuranakh deposit and one at Olekma. The boreholes are currently sealed, and will be used if and when such a need arises. It is expected that the Kuranakh deposit borehole will be able to supply up to 43.4 cubic meters of water per day, and the Olekma borehole up to 5,000 cubic meters per day. Currently, at the Saikta deposit, the water is supplied from Olekma by two Kamaz water tankers. At the Olekma processing plant, the technical water for production needs is sourced from the pool at the tailings management facility, and the drinking water is sourced from Olekma village via the temporary pipeline.

Transport — The mined ore is crushed and pre-concentrated at the crushing and pre-concentration plant at the mine site and is then transported by truck on an all weather 40km road, constructed by the Group, to the main processing plant at the town of Olekma which is on the BAM Railway. Olekma is situated approximately 430km north-west, by the BAM Railway, from the city of Tynda. Tynda is located approximately 890km (by rail) north of

Blagoveschensk, the regional centre of the Amur Region, which lies along the border with the PRC. The BAM Railway connects to the Trans-Siberian Railway and the rest of Russia and the PRC and to the various seaports on the east coast of Russia.

Employees

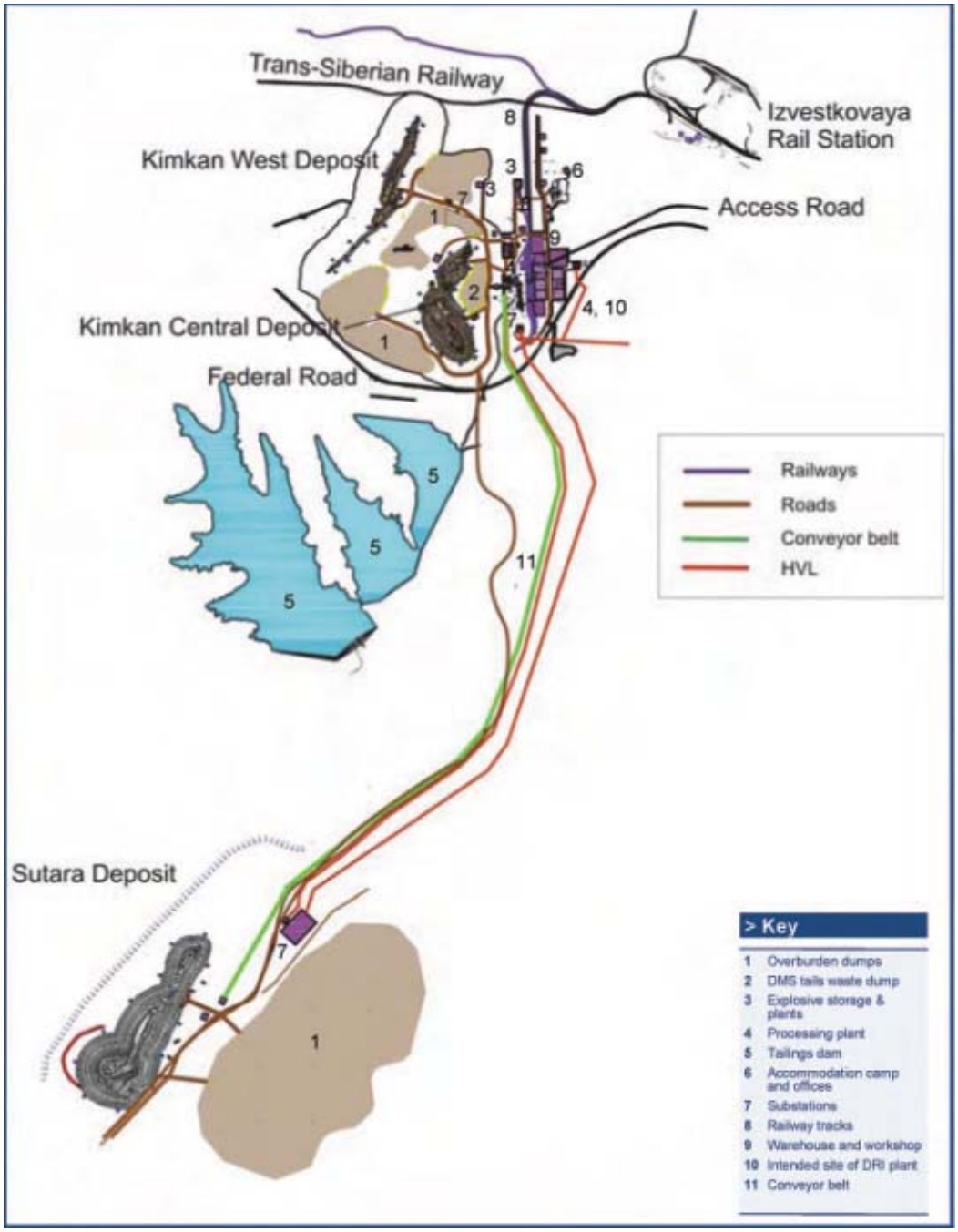
As at 31 July 2010, approximately 930 people were employed on the project. At full capacity, the Group expects to employ approximately 1,300 people on the Kuranakh Project, approximately half of whom are expected to be at the mine at any one time given the Group's one month on/one month off policy at all sites.

During the Track Record Period, the Kuranakh Project benefited from a stable source of coal, water, electricity and supply of labour. The Directors believe that the Group will be able to continue to secure the supply of coal, water, electricity and supply of labour for the Kuranakh Project.

Development Assets — K&S

The K&S project consists of two assets, Kimkan and Sutara, in each of which the Group holds a 100 per cent. interest, and which are large magnetite iron ore deposits at the construction stage, with trial mining and operations planned to commence in 2010. Operations at the Kimkan deposit are planned to commence in 2013, subject to the Group obtaining the necessary financing. The Kimkan and Sutara deposits are situated in the Obluchensky district of the EAO in the Russian Far East, approximately 40km from the Russian border with the PRC. The Kimkan deposit is located approximately 15km north-north-east of the Sutara deposit. The licence relating to the Kimkan deposit covers an area of 22.4km^2 and the licence relating to the Sutara deposit covers an area of 27km^2.

The map below shows the proposed overall layout of the K&S site:



Geology and reserves

The Kimkan and Sutara deposits are situated within the South Malo-Khinganskiy metallogenic belt of the EAO.

Kimkan: The deposit is divided into four distinct ore zones with the most important being the Tsentralniy Zone. The ore is approximately 63 per cent. magnetite, approximately 20 per cent. haematite-magnetite and approximately 17 per cent. oxidised martite and haematite-martite and has an average grade of 35.7 per cent. Fe within those parts that have been drilled. The ore also contains manganese (0.5-1.5 per cent.), germanium, vanadium, titanium and gold.

Sutara: The deposit is divided into three ore zones with the most important being Yuzhni, which lies on either side of the Sutara river. The ore is mainly magnetite with some silicate-magnetite and, as at the current level of exploration, has an average grade of 33 per cent. Fe. It is anticipated that production from the Sutara licence area will commence after the production at Kimkan.

The table below sets out details of the Group's JORC-Compliant resources at the K&S project:

Kimkan Mineral Resources[1]
In accordance with the Guidelines of the JORC Code (2004) — 25% Fe_{Total} C.O.G.

Orebody	Resource classification[2]	Ore Resources (Mt)	Fe_{Total} (%)	Fe_{Total} (Mt)
Central Zone	*Indicated*	99.665	34.31	34.195
	Inferred	14.977	33.25	4.980
Western Zone	*Indicated*	51.060	33.49	17.100
	Inferred	43.044	33.63	14.476
Maisky Zone	*Indicated*	15.101	32.01	4.834
	Inferred	20.692	31.86	6.592
Sovkhoznyi Zone	*Inferred*	4.408	30.17	1.330
Total	*Indicated*	165.826	33.85	56.129
	Inferred	83.121	32.94	27.378

1 Mineral Resources are presented as of 1 September 2008. As no ore extraction has taken place and no resource/reserve update has been performed since that date, the above statement remains valid as of the date of the Competent Person's Report. A C.O.G. of 25 per cent. Fe_{Total} has been applied.

2 For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

Sutara Mineral Resources[1]
In accordance with the Guidelines of the JORC Code (2004) — 18% Fe_{Total} C.O.G.

Zone Resource classification[2]	Ore Resources (Mt)	Fe_{Total} (%)	Fe_{Magn} (%)	Fe_{Total} (Mt)
Measured	195.66	32.43	20.84	63.46
Indicated	230.95	32.24	20.50	74.40
Inferred	65.53	30.97	19.24	20.39
Total	492.14	32.00	20.52	158.27

1 Mineral Resources are presented as of 1 November 2009. As no ore extraction has taken place and no resource/reserve update has been performed since that date, the above statement remains valid as of the date of the Competent Person's Report.

2 For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

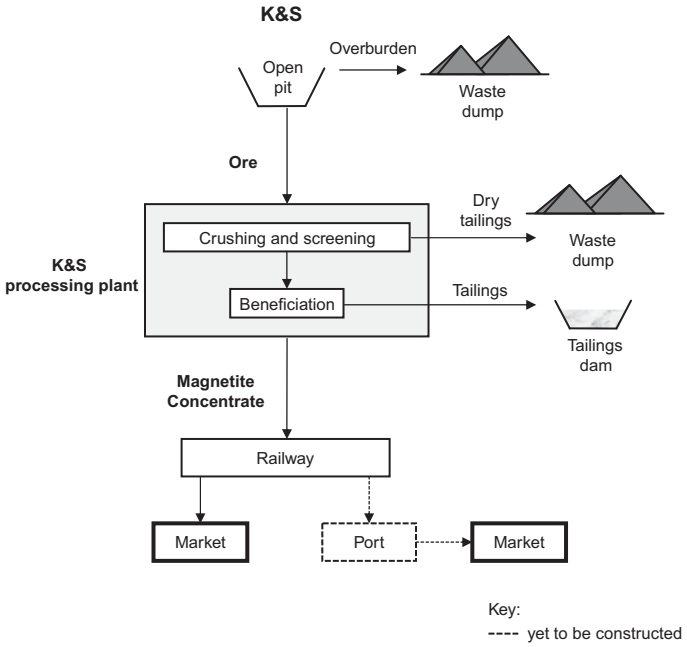
Processing methods and development plans

The Group plans to mine the Kimkan and Sutara deposits using conventional open-pit mining techniques. The principal mining equipment is expected to consist of electric powered rotary drills for blast-hole drilling; electric rope shovels for ore extraction; diesel-hydraulic excavators for waste excavation; and diesel dump trucks for hauling ore to the crushing plant and waste

to surface stockpiles. The treatment of the ores is expected to include crushing, dry magnetic separation on the crushed ore to produce a pre-concentrate, beneficiation of the pre-concentrate with grinding to obtain a magnetite concentrate and high gradient magnetic separation of magnetic and non-magnetic separation tails.

The Group's development programme involves, at Stage 1, the construction of a 10Mtpa mining operation at K&S with a processing plant with capacity to produce up to 3.22Mtpa of 65 per cent. iron ore concentrate. The Group has estimated that this Stage will cost approximately US$400 million and is currently negotiating project financing with ICBC. It has entered into a co-operation agreement with CNEEC and ICBC which provides a framework for a further agreement under which it is intended that CNEEC will act as EPC contractors and ICBC will provide financing for the development of Stages 2 and 3 of the Group's development programme described above. Stage 2 will involve the development of Garinskoye as well as the expansion of the processing plant at Kimkan in order to process the pre-concentrate produced at Garinskoye, giving the Kimkan plant a total combined processing capacity of 17Mtpa ore to yield an estimated 8.3Mpta of iron ore concentrate. Further details of Stage 2 are set out in the section below headed "Exploration project — Garinskoye".

The flowchart below shows the proposed processing stages for the operations at the K&S project and routes to market after completion of Stage 1 of the Group's development programme:



The Group continues to advance the preliminary works on the planning and development of these assets and has made progress on the initial infrastructure. The following milestones have been achieved for the K&S project as part of Stage 1 of the development programme:

- The transfer of the status of the forest lands to the status of construction lands has been completed;

- Water reserves have been confirmed and usage permissions have been obtained;

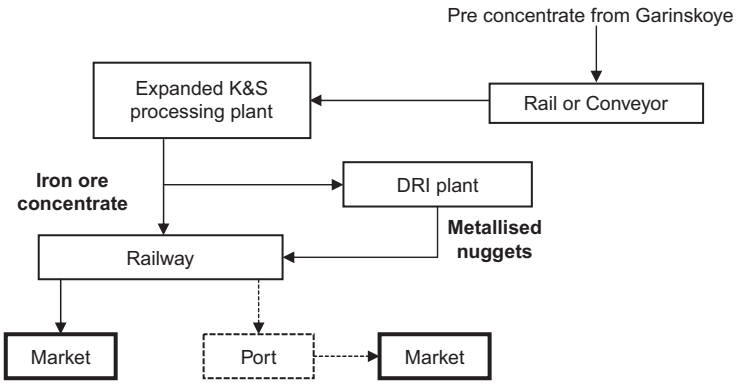
- Geotechnical research for all construction facilities has been completed;
- Environment and social public consultations and hearings on the project have been carried out;
- Technical specifications for connecting electric lines and rail connections have been received;
- The design of the processing plant has been completed;
- Clearing and preparation of the area for construction of the processing plant, accommodation camp, temporary base and roads for the processing plant have been completed;
- The first accommodation block for 200 people has been completed;
- The construction of a new office has been substantially completed at Birobidjan, the capital of the EAO; and
- All necessary permits and approvals for construction to commence have been received.

During the first half of 2010, clearance of the site for future construction was undertaken, focussing on clearance of the Kimkan central pit area and the site of the processing plant. Exploration works also continued during the period, focussing on the Kimkan area and the northern and southern sections of the Sutara area.

Stage 3 of the development programme contemplates the construction of a facility to further upgrade part of the Group's concentrate production to a metallised product. The facility would be constructed adjacent to the processing plant at Kimkan. In December 2009, the Group entered into a non-binding Memorandum of Understanding with Kobe Steel to utilise their ITmk3 proprietary technology for creating metallised nuggets. Although the Memorandum of Understanding expired in June 2010, the parties have continued with discussions in relation to the implementation of the project, including project timing, and intend to restate and amend the Memorandum of Understanding accordingly. This technology is still in development and has not yet been utilised on a commercial basis, however, if successful, it does have considerable potential due to its efficiency and low requirements as to feedstock. This technology employs a pellet of finely ground iron ore compounded with coal dust and a binder, to metallise the iron oxide into iron, melt and express slag, and then a means to separate a hot iron nugget from the slag. The metallised nugget is a high value product used as raw material for steel production and is expected to trade at a similar price to pig iron. If Kobe Steel and the Group do not agree binding terms with regard to the ITmk3 technology, the Group would explore other options for creating higher value-in-use products, whilst continuing to produce and sell the iron ore concentrate processed at Kimkan.

The flowchart below shows the proposed processing stages for the K&S and Garinskoye projects after completion of Stage 3 of the Group's development programme.

K&S



Stage 3 of the K&S project is optional and would provide potential upside for the Group in the event that prices of DRI are high. Should the Company decide not to implement Stage 3, the Company intends to sell all iron concentrate which it produces in the market.

Infrastructure

In addition to the items referred to in "Power" and "Transport" below, other major items of infrastructure to be built at the K&S project include an accommodation camp for 1,100 people, administrative buildings, water intakes and water cleaning facilities. A significant amount of construction work took place at the K&S project site during the first half of 2010, including completion of the administrative building and the first dormitory block and progress with the main haul road from the process plant to the Kimkan central pit.

Power: It is proposed that heating plants and a 220/35/6 kV substation will be built at the K&S project site. There are two power lines passing near the K&S project site (220 and 500 kV) and pursuant to an agreement with the Federal Grid System, the Group will connect to a 220 kV line with allocated capacity of 88 mWt (only 60.9 mWt is required for the start of Stage 1). The distance from the federal power line to the central substation at the project site is approximately 10km. Electricity is currently being purchased from a regional supply company.

In addition, as part of its development plan, in 2009 the Group acquired the Ushumun coal deposit, situated in the EAO approximately 40km to the south of Birobidjan. The Group intends to utilise the coal from this deposit in the K&S heating plant and, after blending with higher grade coal, in the metallisation plant proposed to be built at the K&S project site. It is expected that the K&S project will require approximately 1Mtpa of coal and there are a sufficient number of coal producers in the region to adequately meet such need. Part of the coal required for the K&S Project will be satisfied by coal mined from the Ushumun coal deposit, owned by the Group, with the remainder to be acquired from third party suppliers. Coal will be transported by railroad to the planned station at the project site.

The following table sets out the estimated electricity, coal and fuel consumption for the K&S project when producing at full capacity:

Consumption		K&S
Coal	Tonne/year	30,000
Electricity	Thousand Kwh	308,763.5
Fuel	Thousand litres	14,054.8

Water — Water will be sourced from on-site facilities (boreholes) owned by the Group. At Kimkan, there are nine water boreholes – three at Snarsky, four at Izvestkovy and two at Sutara. The Snarsky and Izvestkovy boreholes are now operational. The joint capacity of the Snarski and Izvestkovy boreholes is 21,300 cubic metres per day (Snarsky providing up to 7,300 cubic metres per day and Izvestkovy providing up to 14,000 cubic metres per day) which is sufficient to meet the Group's requirements. Water is transported to the processing plant and accommodation camp by water pipes. The approximate distance from the Snarsky borehole to the Kimkan site is 2.6 km while the approximate distance from Izvestkovy is 4 km.

Transport: Kimkan is located approximately 4km west of the nearest railroad station, Izvestkovaya, on the Trans-Siberian Railway; Sutara is located 17km south of the Izvestkovaya station. The distance between the Sutara field and the Kimkan field is approximately 10km. The proximity to the Trans-Siberian Railway provides significant logistical advantages which enhance the commercial attractiveness of the site. The federal highway from Chita to Khabarovsk also passes within one kilometre to the south of Kimkan. The KSG Feasibility Study proposed that the Group would construct a short new section of railway connecting the existing station at Izvestkovaya to the processing plant and loading/unloading facilities and that the mined ore from Sutara will be transferred to the combined processing plant at Kimkan by an approximately 15km conveyor belt.

Employees

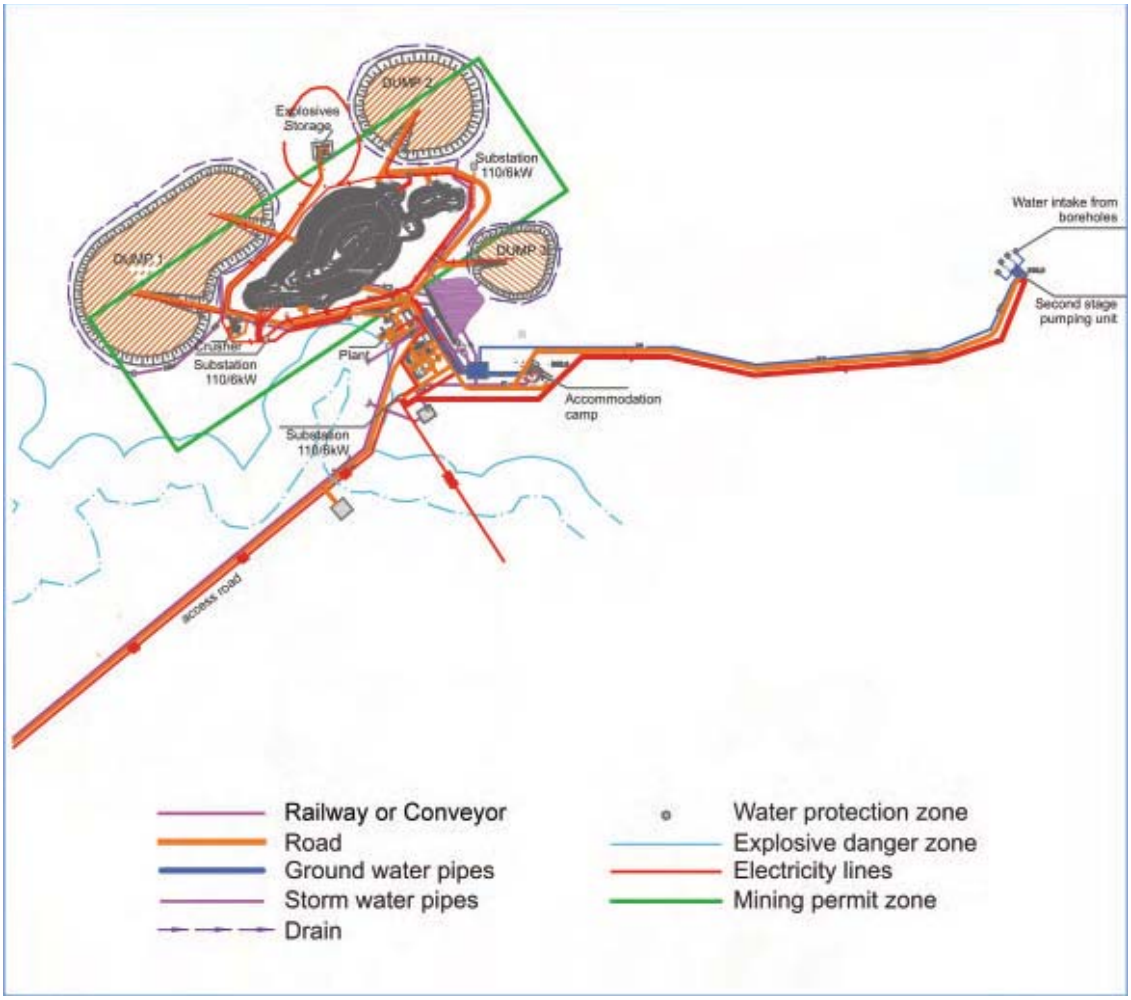
As at 31 July 2010, 380 people were employed on the project. At full capacity, the Group expects to employ approximately 2,500 people on the K&S project, half of whom are expected to be at the mine at any one time given the Group's one month on/one month off policy at all sites.

Exploration Projects — Garinskoye

Garinskoye, in which the Group has a 99.58 per cent. interest, is a magnetite iron ore deposit at the exploration stage. The Garinskoye deposit is located in the Mazanovsky district in Central Amur. The licence area is 11.2km^2 and there is currently only one ore zone present.

The map below shows the proposed overall layout of the Garinskoye site:

Proposed Garinskoye Site Plan



Geology and reserves

The original exploration carried out on Garinskoye in the 1950s identified 54 ore bodies with thicknesses ranging between 1.6 – 49m and strike lengths ranging between 60 – 1,500m. Mineralisation was determined to reach to a depth of 500m and it was identified that all of the ore bodies dipped steeply at 70 – 80° with a north-easterly strike. Although three types of ore were identified (magnetite, magnetite-haematite, and magnetic pyrrhotite), only the magnetite one was considered to have any industrial significance. Within the main magnetite group the secondary minerals were identified to be mainly haematite, martite and muscovite.

The table below sets out details of the Group's JORC-Compliant Mineral Resources at the Garinskoye deposit:

Garinskoye Mineral Resources[1]
In accordance with the Guidelines of the JORC Code (2004) — 20% Fe_{Total} C.O.G.

Resource classification[2]	Ore Resource (Mt)	Fe_{Total} (%)	Fe_{Total} (Mt)
Indicated	219.9	32.03	70.4
Inferred	156.0	29.29	45.7

1 Mineral Resources are presented as of 1 November 2008. As no ore extraction has taken place and no resource/reserve update has been performed since that date, the above statement remains valid as of the date of the CPR.

2 For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

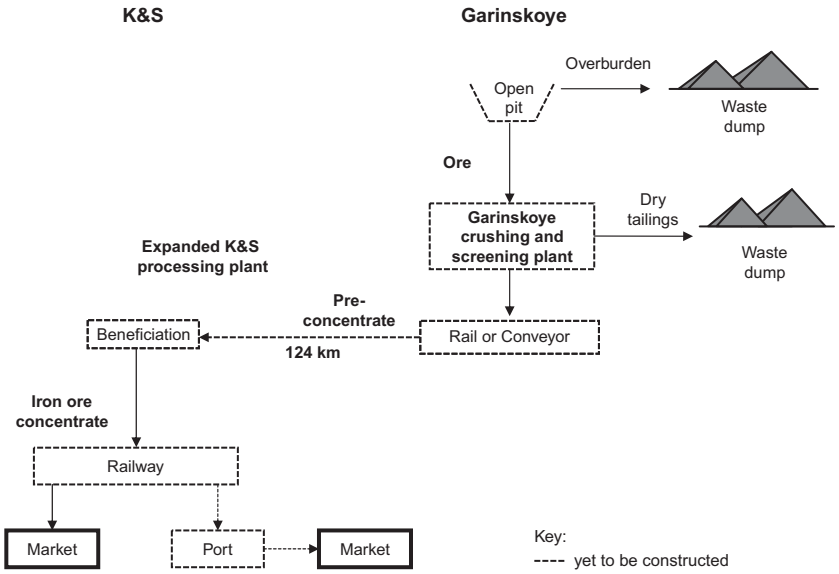
Processing methods and production plans

It is planned to mine the Garinskoye deposit using conventional open-pit truck and shovel mining methods. The mined ore from the open pit would then be trucked to a crushing and dry magnetic separation plant located close to the pit.

As magnetite is the predominant source of iron at Garinskoye, it could be concentrated using the same magnetic separation process as at the K&S project. This should result in an initial production of standard iron ore fines averaging approximately 65 per cent. iron which could then be developed into a number of premium products including standard pellets, direct reduced iron or pig iron.

Stage 2 of the Group's development programme contemplates the construction of a mining, crushing and screening operation at Garinskoye with a capacity of 10Mtpa of ore. The pre-concentrate from Garinskoye would then be taken to the K&S processing plant for further beneficiation. The K&S processing plant is expected to be expanded to process this additional ore.

The flowchart below shows the proposed processing stages for the K&S project and Garinskoye Stage 2 operations:



Stage 3 of the K&S project's development programme contemplates the construction of a facility to upgrade part of the Group's concentrate production to a metallised product. The facility is expected to be constructed adjacent to the processing plant at Kimkan.

In January 2010, the State Geological Committee approved the plan for additional geological exploration work at Garinskoye. This work will investigate additional magnetic anomalies close to the main pit, thought to represent further magnetite mineralisation, which would allow an increase in the size of the pit.

Infrastructure

Although the site is served by some existing infrastructure, a number of major items will need to be built, including an accommodation camp, administrative buildings and a heating plant.

Power: At Garinskoye, there is a Federal power line passing approximately 50km north of the deposit in the area of the Novkievskaya settlement. The offsite power supply is expected to be provided by a new line from the existing 220kV Federal power line. A new 220/110/6 kV substation is expected to be built at the site. The total required power capacity at the project (open pit and K&S plant) is 21.4 mWt which may increase to 33.6 mWt if the Group uses a conveyor for pre-concentrate transportation. At Garinskoye (Stage 2), coal will be used for heating purposes only and there are a sufficient number of coal producers in the region to adequately meet such need. Garinskoye will be supplied with coal by the Ushumun coal deposit and other third party suppliers.

The following table sets out the estimated electricity, coal and fuel consumption for the Garinskoye project when producing at full capacity:

Consumption		Garinskoye
Coal	Tonne/year	19,000
Electricity	Thousand Kwh	151,174.0
Fuel	Thousand litres	17,931.4

Water — Water will be sourced from on-site facilities (boreholes) owned by the Group. The water well location at Garinskoye is currently being determined. The demand for domestic and services needs is 101 cubic metres per day. As the pre-processing at Garinskoye will be carried out by the means of dry magnetic separation, no water will be required.

Transport: Garinskoye is situated in the Mazanovsky Administrative District and lies 300km from Blagoveschensk. The nearest highway is Fevralsk-Svobodny which passes 60km to the east of the deposit. The pre-concentrate from the crushing and magnetic separation plant at Garinskoye is expected to be transported approximately 120km to Shimanovskaya station by train, if the railway line is built, or by conveyor belt, if the railway line is not built. The construction of the railway line would be undertaken and funded by the state rail company. The conveyor belt would be constructed and funded by the Group. Either would require an 807m long bridge to be built over the River Zeya. Storage areas and loading facilities for Garinskoye pre concentrate and administrative buildings will need to be constructed at Shimanovskaya. From Shimanovskaya station the pre-concentrate is expected to be transported via the Trans-Siberian Railway for a further 511km to Izvestkovaya Station, located 4 km away from the K&S processing plant.

Employees

As at 31 July 2010, approximately 25 people were employed on the project. At full capacity, the Group expects to employ approximately 1,460 people on the Garinskoye project, half of whom will normally be at the mine at any one time given the Group's one month on/one month off policy at all sites.

OVERVIEW AND BACKGROUND IN RESPECT OF OTHER EXPLORATION PROJECTS

In September 2008, the Group exercised previously-acquired options and as a result acquired the licences for Kostenginskoye and the Garinskoye Flanks, which are located close to the existing K&S and Garinskoye projects respectively. Subject to the exploration and development work being successful, ore which is extracted from these deposits could be processed at the processing plant which will be used for the Kimkan, Sutara and Garinskoye pits and which would have to be expanded to cover this additional ore. Alternatively, the recovery of this ore could be deferred so that it is mined and processed as these other pits become depleted.

Exploration Project — Kostenginskoye

The Kostenginskoye licence covers an area of 24km^2 located on the south-eastern branch of the Bureinsky ridge. The area is located in the Obluchensky district of the EAO, approximately 35km south of Izvestkovaya station on the Trans-Siberian Railway and 24km south of the Kimkan deposit.

The deposit consists of eight orebodies. Orebody No.1 is located in the thickest area of the ore-bearing horizon, at the southern part of the eastern wing of Eastern syncline. Orebody No.1 has been explored to a preliminary standard whilst the remaining ore bodies, which have low thickness and low grade, have only been studied via individual trenches and boreholes.

There are two types of ore that present economic interest: magnetite and magnetite-haematite.

Preliminary site surveying and aerial magnetometer surveys have taken place at Kostenginskoye. A further exploration programme has been designed by the Group.

Exploration Project — Garinskoye Flanks

The Garinskoye Flanks licence area, Orlovo-Sokhatinskaya, covers 3,530km^2 and is located in the Mazanovsky, Zeisky and Shimanovsky districts of the Amur Region of Russia in the basins of the Orlovka and Garinskoye rivers. The nearest settlement, Maiskiy, is located 60km south-east from the licence area.

The Group is preparing and reviewing the exploration programme at the Garinskoye Flanks.

Exploration Project — Bolshoi Seym

The Bolshoi Seym deposit, which is currently in the exploration stage, is located in the Tyndinski district, 27km from the Mostovaya station on the BAM Railway and approximately 40km south of the Kuranakh Project at Olekma. The Group holds a 49 per cent. interest in this project through its associate company Uralmining. The remaining 51 per cent. interest in the project is held by a company belonging to the Onexim Group, a Russian private investment group.

The exploration and extraction licence covers an area of 26km^2.

Potentially economic mineralisation at Bolshoi Seym comprises stringer-veinlet and massive ilmenite and magnetite. Disseminated mineralisation has also been identified; however it is believed that this has no economic potential. Massive mineralisation comprises 90-99 per cent. (by volume) of ilmenomagnetite, magnetite and ilmenite. The remainder is made up of spinel, hornblende and rare garnet, biotite and pyroxene. The stringer-veinlet mineralisation contains 15-30 per cent. (by volume) of magnetite and ilmenite. The remainder is made up of plagioclase (60 per cent.), pyroxene (approximately 20 per cent.), hornblend and biotite. Occasional garnet, spinel quartz and some other minerals have also been identified.

Joint ventures

The Group has arrangements with third parties in relation to assets at the downstream processing stage. The Group is involved in a joint venture with Chinese partners in relation to the processing of vanadium pentoxide. The Group is also currently involved in a joint venture with Chinalco, however Chinalco has recently indicated to the Company that it wishes to dispose of its interest in Jiatai Titanium. For further information on the status of this project please refer below to the sub-section headed “Jiatai Titanium” of this section.

Jiatai Titanium

In 2008, the Group established Jiatai Titanium (黑龍江佳泰鈦業有限公司), a joint venture with Chinalco, for the construction and operation of a titanium sponge production plant in Jiamusi City, Heilongjiang Province, PRC. The Group currently holds a 65 per cent. equity interest in Jiatai Titanium and Chinalco currently holds a 35 per cent. equity interest (the "Chinalco Interest"), with neither party having voting control of the joint venture.

The Group has invested approximately US$21 million in the project, and a further US$15.3 million in the titanium sponge processing technology, which was expected to be recharged to the joint venture. Aricom and Chinalco have paid approximately 30 per cent. of their respective contribution to Jiatai Titanium's registered capital. The joint venture parties have not paid up the outstanding registered capital of Jiatai Titanium within the time period stated in Jiatai Titanium's approval documents, nor in the extended deadline previously granted upon application. As a result, the relevant regulatory authority, the Jiamusi Administration of Industry and Commerce, has previously issued Jiatai Titanium with two capital contribution demand notices. Upon the request of Jiatai Titanium, Heilongjiang Bureau of Commerce extended the deadline for the outstanding registered capital to be paid up to 31 December 2009 and has, on 1 September 2010, extended that deadline further to 3 September 2011. If the capital contribution remains outstanding at the expiry of the latest extension period granted, the business licence of Jiatai Titanium may be revoked by the local governmental authorities and Jiatai Titanium may be ordered to be wound-up.

Earlier this year, Chinalco indicated to the Company that it had decided to withdraw from some of its non-core ventures and consequently it wished to dispose of the Chinalco Interest. As this interest is owned by the PRC State, the disposal has to be implemented through a public listing and bidding process in accordance with the applicable provisions of PRC law. Following discussions with Chinalco, the Group has recently entered into an agreement with Chinalco pursuant to which (*inter alia*) the Chinalco Interest will be independently appraised and, subject to certain conditions including the receipt of the necessary approvals for the implementation of the transfer and for an extension for the period in which the outstanding capital has to be paid up (which has now been granted, see above), the Group will bid for the Chinalco Interest at the appraised value if the appraised value is at or below RMB76,000,000 or such higher number as the Group may agree. There is no certainty that the Group would be a successful bidder, but it is considering how it would proceed if it does acquire the Chinalco Interest. One route might be to continue with the project alone and another to proceed with a different joint venture partner.

As a consequence of Chinalco's decision to withdraw from this project, the building of the titanium sponge production plant has been deferred and thus there is uncertainty as to the eventual outcome of the project's activities and the recoverability of the amounts invested to date. An impairment provision of US$33.1 million has been made against the Group's investment in the joint venture.

In the event that the Company is successful in acquiring Chinalco's interest and proceeds with the project alone or with a different joint venture partner, it may be possible to reverse some or all of the impairment charge. In the event that the Company acquires the Chinalco stake but ultimately does not proceed with the project, a further impairment charge may be required. Whether the Company is or is not successful in acquiring the Chinalco Interest, the

Company will make such announcements as are required in order to comply with the continuous disclosure requirements under the Listing Rules.

Vanadium JV

In November 2009, the Group established a joint venture with Jianlong and Kuranakii in the PRC, Jianlong Vanadium (黑龍江建龍釩業有限公司), to process vanadium slag for the production of vanadium pentoxides and other vanadium products derived from vanadium slag. The Vanadium JV is planned to have a production capacity of 5,000t of vanadium pentoxide per annum. The Group holds a 46 per cent. equity interest in the Vanadium JV. Neither the Group, Jianlong nor Kuranakii has paid up the outstanding registered capital of Vanadium JV within the time period stated in Vanadium JV's approval documents however, the outstanding amount was fully paid by 19 September 2010, using part of the proceeds from the Pre-IPO Investment. The preliminary design for the construction and development of the vanadium processing plant was approved in May 2009. The Vanadium JV intends to commence construction in 2010 and the Company currently expects that this will be completed in 2011 with production beginning by the end of 2011.

Vanadium slag is a byproduct from the operations of Jianlong, a subsidiary of Jianlong Iron and Steel Group. The Jianlong steel mill is expected to source part of its iron ore requirements from the Group's Kuranakh Project. Due to environmental restrictions, vanadium slag cannot be dumped as a result of its high vanadium content which becomes a contaminant when damp. Consequently the processing of the slag by the Vanadium JV will be an important part of the production cycle for Jianlong.

MINING ENGINEERING

The Group holds a 70.3 per cent. interest in Giproruda, a Russian mining engineering institute. An initial interest of 68.49 per cent. in Giproruda was acquired on 8 June 2007 for a cash consideration of US$8.1 million which was paid to the previous major shareholder of Giproruda. This consideration was determined as a result of arm's length negotiations between the then shareholders of Giproruda and the Group, taking into consideration, among other things, Giproruda's assets, value, income generating ability, and other financial analysis. On 13 July 2007, the Group obtained the full voting rights in respect of its 68.49 per cent. interest in Giproruda after a mandatory offer to minority Shareholders was made in accordance with Russian legislation which regulates the compulsory share purchase buy-out procedure following a change of the main shareholder. The mandatory offer to Shareholders lapsed on 21 September 2007. A total of 2,073 shares were tendered under the offer, at a total cost of US$232,000. The majority of the shares tendered were purchased by 1 October 2007, increasing the Group's interest in Giproruda to 70.28 per cent.. The remaining shares are held by OJSC PhosAgro and other stakeholders including Giproruda's management. OJSC PhosAgro is Russia's largest producer of phosphate-based fertilisers. OJSC PhosAgro holds a controlling interest in OJSC Apatit, which is a party to a connected transaction with the Group as described in the section headed "Connected Transactions" in this prospectus.

Giproruda's work includes the design, coordination, construction and commissioning of quarries and mines, including those located in challenging geological and climatic conditions. Giproruda is an experienced organisation in Russia involved in the design of mining and

processing plants for the extraction of iron ore. Giproruda was founded in 1931 as the head research institute of the Soviet Ministry for Ferrous Metallurgy. The institute has designed and/or modernised more than 200 enterprises throughout Russia, CIS and other countries, including the PRC, Vietnam, India, Egypt, Bulgaria. In June 2010, Giproruda registered a representative office in the city of Rudny, Kazakhstan.

In December 2008, Giproruda opened a hydrometallurgical laboratory in St. Petersburg. This state of the art laboratory is equipped with the latest hydrometallurgical test equipment. The focal point of this facility is the installation of three autoclaves for heat and pressure testing of ores. There are two specialised ecological systems in the laboratory which purify the autoclave emissions and thereby allow the laboratory to be sited close to the centre of St Petersburg. The laboratory is also available for third-party test work and services to third parties are carried out. In 2009, Giproruda made a number of significant steps to improve its design capabilities and technology. The institute has updated its software, making the move to 3D modelling for the conceptual design of quarries and their expansion, production, planning and optimisation.

Giproruda uses advanced modern mining design software, including Micromine, Surpac, Whittle, NPV Scheduler. As of 1 July 2010, Giproruda employed approximately 170 specialists, including 6 holders of Candidate of Science degrees (equivalent to a PhD). Giproruda is certified according to the ISO 9001:2008 standard.

In 2007, Giproruda completed the Garinskoye Pre-Feasibility Study for the Group. This is the only project completed by Giproruda for the Group to date.

During the Track Record Period, Giproruda completed 8 projects for third party customers and an additional 5 projects for Apatit, a subsidiary of OJSC PhosAgro.

During 2009, approximately US$8 million of the Group's trading revenue was derived from third party customers of Giproruda. Following Listing it is intended that in addition to providing services to the Group, Giproruda will continue to provide services to third parties.

Petropavlovsk owns a number of technical services companies from which the Group intends to procure the following technical services on an arm's length basis: engineering and design; construction; laboratory; exploration and geological services. The Group also intends to use the services of third parties, for example, the design for the Vanadium JV processing plant is being prepared by Sichuan Runbang Urban Architecture Design Limited Company (China).

RESEARCH AND DEVELOPMENT IN THE GROUP

The Group's research and development function is coordinated by five full time employees, all of whom are based in Moscow. The details of these individuals are set out in the table below:

	Name and function	Knowledge and experience
(1)	G. Korotaev Head of R&D team, Research and Development Design Coordinator	Education: qualified mining and processing engineer, economist. Professional course in 'Advanced design and Construction of Buildings' (2005). Work experience: 2009 – present — Deputy Technical Director, LLC Petropavlovsk-Iron Ore. 2007 – 2009 — Chief Engineer, LLC KS GOK. 2004 – 2007 — Head of the Capital Construction Department of OJSC Mikhailovskiy GOK—design, construction, operational management of the capital construction department. 2001 – 2003 — First Deputy of the Mayor of the town of Kostomuksha for municipal services and capital construction. 1981 – 2001 — Head of Crushing and Processing Plant, Operational Director, First Deputy General Director of Kostomukshskiy GOK.— managed operations, construction, site supervisor of 8000 people and 20 contractors. Awarded the Order of the Red Banner of Labour and the Mining Glory Award for pre-scheduled commissioning of the Complex and organisation of operations. 1966 – 1981 — Sokolovsko-Sarbaiskiy GOK. Site Supervisor of 500 people. Awarded the Order of Labour Glory (3rd degree).
(2)	Dr. Vladmimir Vasilevsky Research and Development Mining Coordinator	Education: 2004 – 2007 — Moscow State University of Mining, Ph.D, geotechnology. 1998 – 2004 — Moscow State University of Mining, Master of Science, open pit mining. Work Experience: June 2010 – present — Deputy Chief Engineer, LLC Olekminsky Rudnik. 2008 – present — Head of mining and coal projects, development directorate, LLC Petropavlovsk Iron Ore, Moscow, Russia. 2007 – 2008 — Senior specialist at project design department, CJSC Mnogovershinnoye. 2004 – 2007 — Engineer, Krilak.
(3)	Sergey Makarov Research and Development Geological Coordinator	Education: Perm State University, qualified geologist. Work Experience: 2007 – present — Geologist, LLC Petropavlovsk-Iron Ore. 1982 – 2007 — Geologist and chief geologist at the various entities of the Norilsk Nickel group. 1977 – 1982 — Geologist at The Aerial-geological Expedition of Association Permneft. 1975 – 1977 — Geologist at The non-metallic Geological-prospecting Team in Perm City.

	Name and function	Knowledge and experience
(4)	Efim Titievskiy Research and Development Mechanical Electrical Co-ordinator	Education: Qualified electromechanic mining engineer Work experience: 2007 to present — Chief Mechanic, LLC Petropavlovsk-Iron Ore. 1997 – 2007 — General Director, LLC Intermetmach. 1992 – 1997 — Deputy Chairman of the Russian company Metallurgmach after it split off from the Ministry of Iron. 1966 – 1992 — Various managerial roles within the Ministry of Iron Industry of the USSR and its successors. 1963 – 1966 — Deputy Head of Procurement Department at Pridneprovskiy Council of National Economy (Dnepropetrovsk, Ukraine). Author of more than 60 publications and 10 inventions.
(5)	Natalia Gavrilina Research and Development Advanced Technologies	Education: 1979 – 1984 — Voronezh Polytechnic Institute, Department of Automation and Telemechanics. Work Experience: June 2010 – present — LLC Petropavlovsk — Iron Ore, Leading Specialist, Production and Technical Technologies 1984 – 2009 — various roles at JSC Mikhailovsky GOK (Zheleznogorsk, Russia), a mining processing complex where she had the role of mathematic and programming engineer. At the time of her departure from the Company, she was the leading programming engineer of the Department of Development and Implementation of Information Management Systems.

These employees coordinate research and development work which, for the most part, is carried out in conjunction with manufacturers, or contracted out to specialist institutes. They research the latest developments in mining and processing technology in order to assess its applicability to the Group's projects. These employees make frequent visits to manufacturers and overseas sites to review the use of the latest technology. Having considered the most cost effective methods to design the various processing plants and mining operations, or optimise plant and operational layout, they then outsource detailed investigation and cost preparation to specialist institutes, prior to making a final decision. They also work on the application of advanced technologies in the process.

These employees are currently working in conjunction with METSO of Canada, in relation to a cable belt conveyor at Garinskoye. Belt conveyors have been used under similar conditions in Canada. They are also working on coal gasification of Usumun coal using Siemens technology and on site power generation plants. They are also undertaking further investigation of the industrial scale use of ITmk3 in conjunction with KOBE steel.

INFRASTRUCTURE

Transport by rail

Due to its geographic proximity and strong market demand, the Group considers the PRC to be the main market for its products. The Group expects to transport its products to the PRC mainly by rail.

The map below illustrates the main transportation routes from the Group's project locations:

The table below shows the distance and applicable tariffs for transporting the Group's products to various transportation points:

		Zabaikalsk	Grodekovo	Amur bridge	Sovetskaya Gavan
Olekma (Kuranakh Project)	Distance (km)	1,958	2,612	1,809	2,393
	Tariff (US$/t)	14.52	17.30	24.35	25.27
Izvestkovaya (K&S)	Distance (km)	2,308	1,040	237	1,066
	Tariff (US$/t)	15.92	11.25	7.16	15.45

Source: Company
Note: Tariffs as at 11 January 2010. Assumes US$1:RUR30

Each mining project (Kuranakh, K&S, Garinskoye) has, or is planned (upon meeting appropriate milestones) to have, its own transportation infrastructure as set out in the sub-section headed "Details of producing, development and exploration assets" of this section. That infrastructure includes or is planned to include a loading platform (adjoining the processing plants at Kuranakh and K&S), access to railway tracks (or alternatively a conveyor belt in the case of Garinskoye in the event that an access railway is not built) and a connecting station adjoining the rail mainline. The connecting station at the Kuranakh Project is the Olekma railway station, at K&S it is the Izvestkovaya railway station, and at Garinskoye it is the Shimanovskaya railway station.

The Group has notified Russian Railways of its expected iron concentrate volumes and understands that these volumes have been included by Russian Railways in their long-term development plan. The Group has also planned alternative cargo routes which are subject to completion of the bridge over the Amur River (Nizhneleninskoye — Tongjiang, PRC) and the sea port in Sovetskaya Gavan (both of which are described below).

If the bridge and/or the port are not completed, the Group will continue to use the existing railway crossings at Grodekovo-Suifenhe or Zabaikalsk-Manzhouli.

The iron ore concentrate is loaded onto railway wagons at the processing plants by loading pipes directly into the open-top wagons. When the wagons are fully loaded, they are grouped into trains and pulled to the connecting station via the access tracks, ready for shipment to customers using Russian Railways' network.

Transport by sea

The Group is also currently able to deliver its products to customers in Asia by sea via the ports of Vanino (near Sovetskaya Gavan), Nakhodka or Vladivostok. However, the amount of product which can be shipped via these ports is limited by capacity constraints at the ports.

Prospective infrastructure projects: bridge and port

The Group is currently supporting a Russian and PRC initiative regarding the construction of a railway cross-border bridge over the Amur River between Nizhneleninsk and Tongjiang and is also considering participating in the development of a sea port in Sovetskaya Gavan.

Rubicon Bridge Project

The Rubicon Bridge Project is governed by the Sino-Russian intergovernmental agreement on joint construction, operation and maintenance of a new railway bridge over the Amur River (Heilongjiang River) in the region of Nizhneleninskoye — Tongjiang, which was signed in October 2008. No Russian state funding has currently been allocated for the Rubicon Bridge Project, although this is understood by the Company to be under consideration. The Group is financing some design costs and is assisting in the financing of the construction of the bridge by having discussions with potential finance providers and state-owned entities such as Russian Railways. It is not currently intended that the Group will be providing any financing other than for the design work. Discussions have also been held with the representatives of the Chinese State Committee of Development and Reforms on co-operation in attracting further investment and in the joint implementation of the design of the bridge. The bridge, when constructed, would be under single or joint state ownership, and not owned or funded by the Group.

In 2009, negotiations with general contractors for the construction of the Russian part of the bridge were carried out. The engineering design of the bridge is currently being prepared by Russian and PRC design institutes and is expected to be completed in 2010.

Potential forms of financial co-operation between Russia and the PRC are being discussed with leading PRC and Russian banks.

It is not currently intended that participation by the Group in the Rubicon Bridge Project would require it to make any material capital expenditure. The bridge could potentially provide significant savings in transport costs between Russia and the PRC for the Group and significant benefits to the wider Russian and Chinese communities.

Seaport project

On 31 December 2009, the Russian Prime Minister approved the creation of a Special Economic Port-type Zone (the "SEPZ") at Sovetskaya Gavan. This status is expected to give the residents of the zone a number of benefits including state investment and lower taxes. The Group is currently preparing a bankable business plan and looking for strategic investors to build a port in the Sovetskaya Gavan SEPZ. A number of options are being studied, including a bulk-only terminal or a bulk and container terminal.

The port, in addition to addressing capacity issues at existing ports of Vladivostok and Nakhodka, would, if constructed, provide further access to the Japan Sea and hence would facilitate access for the Group to additional markets in North-East and South-East Asia.

It is not currently intended that participation by the Group in the port project would require it to make any material capital expenditure.

SALES AND MARKETING

The Group's current marketing focus is on steel producers in the north-eastern region of the PRC, who have a combined annual steel production capacity of over 50Mt in total.

The Group is also targeting major regional producers, who are currently supplied with iron ore from Chinese domestic and seaborne producers of iron ore.

The Group's strategy is to develop its market share in these regions and put in place additional long-term off-take contracts. The Group also intends to capitalise on the advantageous location of its assets (due, in part to well developed regional transport infrastructure) and shorter distances between it and its customers (predominantly PRC based), as compared to the distances between customers and suppliers from Brazil, Australia and India.

The Group also aims to create competitive tension between buyers due to its access to seaborne markets. Access could be further increased if the new bulk terminal at the Sovetskaya Gavan port is constructed, which would ease pressure on Nakhodka port. This would create the possibility to redirect products to customers other than steel producers in the PRC (e.g. Japan and South Korea), which could assist in maximising competitive tension between buyers.

Principal products

The Group's current production at the Kuranakh Project is mined at Saikta, a medium-sized titanomagnetite deposit. The main ore minerals, titanomagnetite and ilmenite, account for 46.15 per cent. of ore mass, with the ratio of titanomagnetite to ilmenite being 2.93. The second beneficiation stage at the Olekma processing plant is designed to produce separate titanomagnetite and ilmenite concentrates which are the products currently sold or stockpiled by the Group. It is intended that the ilmenite will be sold either on a spot contract basis or under medium- to long-term contracts. The titanomagnetite will be sold to Jianlong for steel production and the Directors intend that, assuming the construction of the Vanadium JV's proposed processing plant proceeds, the resultant slag will be sold to and processed by the Vanadium JV's proposed processing plant in order to produce vanadium pentoxide.

The main product of the Group, subject to financing, is intended to be magnetite concentrate (a different product to titanomagnetite concentrate) produced at K&S from the proposed mines at K&S and Garinskoye.

It is also intended that in due course, and subject to arranging financing, the major part of the iron ore concentrate that is intended to be produced from the predominantly magnetite ores at the K&S and Garinskoye projects will (once production commences, and if the proposed new processing facility is constructed at the Kimkan site) be processed at the Kimkan site to produce higher value iron ore nuggets using ITmk3 technology that will be produced and sold to steel mills. These end products have higher value-in-use than magnetite or ilmenite concentrates, which would allow the Group to maximise value from the iron ore concentrates it intends to produce at these projects.

Iron ore concentrate is feedstock for the production of steel. Ilmenite is an iron titanium oxide and the primary ore of titanium. It is used in the manufacture of titanium dioxide for paint pigments and can be further processed to titanium sponge or titanium ingots. Titanium is used to manufacture a wide variety of metal parts where light weight and very high strength are needed. Examples include: aircraft parts, artificial joints for humans and sporting equipment. Titanium is also used in a number of high-performance alloys.

Sales arrangements

On 10 February 2009, the Group entered into a 15-year iron ore concentrate offtake agreement with Jianlong (the "Offtake Agreement"), a Chinese steel producer located in Heilongjiang, the area across the China-Russian border from the Amur Region and EAO. Under the terms of the Offtake Agreement, Jianlong agrees to purchase all of the titanomagnetite concentrate produced at the Kuranakh Project on a monthly basis, with quantities agreed in advance. Accordingly, Jianlong is the exclusive buyer of titanomagnetite concentrate produced at the Kuranakh Project. There were no sales of titanomagnetite concentrate during the Track Record Period because the Kuranakh Project was still in development. However the first concentrates were produced in June 2010 and the first sale of titanomagnetite concentrate from the Kuranakh Project was made in September 2010. Sales of titanomagnetite concentrate from the Kuranakh Project on a "delivery at frontier" basis will be made based on an annual "free on board" iron ore benchmark price by BHP Billiton and Rio Tinto plus a premium reflecting the Group's transportation costs. The concepts of "delivery at frontier" and "free on board" refer to the place of destination that the buyer nominates, and that the price includes the goods plus the services of loading these on to the transport level. The agreement can be terminated by either party in certain circumstances, including failure to deliver goods or make payment within 30 calendar days of the due date or force majeure. Jianlong can then process the titanomagnetite into steel; however this concentrate also contains a significant quantity of vanadium pentoxide which is a valuable commodity used in the hardening of steel. In order to capture these benefits and generate significant value by producing vanadium pentoxide, one of the Group's subsidiaries and Jianlong have established the Vanadium JV which envisages the construction of a plant, adjacent to Jianlong's current operations, to source the vanadium slag from Jianlong, and process the slag to produce vanadium.

The ilmenite is currently being stockpiled and is intended to be sold on a spot contract basis or an appropriate contract basis based upon prevailing market opportunities.

The Group is in discussions with potential PRC purchasers for products from K&S and Garinskoye.

COMPETITION

The Directors believe that there are only a few iron ore producing companies in the Russian Far East. Therefore, the Directors expect only limited competition for exploration and development opportunities from local companies. More broadly, the Group considers Vale, BHP Billiton and Rio Tinto as key international competitors supplying the PRC iron ore market. However, the Group's iron ore assets are considerably closer geographically to the key PRC markets than those of its international competitors.

The table below presents a comparison between the resources of the Group's K&S project and deposits owned by other international iron ore mining companies, that are at a similar stage of development and that will serve a similar market. Vertically integrated iron ore mines owned by steel companies have been excluded as these operations will not compete with those of the Group. The data is taken from publicly available information and was collated in July 2010.

RESOURCES COMPARISON

Project	Resources *(Measured + Indicated + Inferred)*	Product Iron Grade	Owner
K&S	741.1 mt[1]	65.80%	The Company
CIS			
Belanovskoye	1,664 mt	>65%	Ferrexpo
Yeristovskoye	861 mt	>65%	Ferrexpo
GPL Mine	3,704 mt	>65%	Ferrexpo
Sokolov-Sarbai	4,256 mt	>65%	SSGPO (ENRC)
Australia			
Cape Lambert	1,915 mt	65.00%	MCC
Sino Iron	4,504 mt	Unknown	Citic
Karara	1,854 mt	68.30%	Gindalbie /Ansteel
Southdown	654 mt	67.70%	Grange
Ridley	2,010 mt	68.30%	Atlas Iron
Brazil			
Pedra de ferro	~2,400 mt[2]	67.00%	Bamin
Minas Rio	4,996 mt	69.00%	Anglo/MMX
Jucurutu	3,800 mt (not JORC)	>65%	MHAG
Viga	4,500 mt	>67%	Ferrous
Africa			
Simandou	2,225 mt	65.97%	Rio Tinto

Data: company reports, collated by CRU

1 Comprising 195.7Mt *Measured*, 396.9Mt *Indicated* and 148.6Mt *Inferred* Resources. For a description of the categories of JORC-Compliant *Measured*, *Indicated* and *Inferred* Mineral Resources, and the level of confidence attributable to each category, please refer to the sub-section headed "Cautionary Note to Investors Concerning Measured, Indicated and Inferred Resources" of the section headed "Classification of Geological Resources and Reserves" in this prospectus.

2 *Inferred* only

CORPORATE SOCIAL RESPONSIBILITY

The Group recognises that operating in a safe and responsible manner is essential to ensuring that its business is respected at a local level, federal level and by the investment community worldwide. The Group takes compliance with Russian health and safety and environmental legislation seriously and is seeking to go beyond local requirements by bringing its projects in line with international best practice.

As a result, the Group commissioned WAI to undertake a review of environmental, social and health and safety issues (the "WAI EHS Review") relating to the development of the Kuranakh Project and K&S, which formed part of their wider technical audit of the assets held by Petropavlovsk conducted in March 2010. The purpose of the review was to evaluate existing practices and measures taken at these projects. WAI concluded that the Group has the necessary permitting in place in relation to environmental and health and safety matters. It also praised the Group for its efforts in striving to bring the operations in line with international best practice.

The Directors take corporate social responsibility ("CSR") seriously, and consider that the Group's CSR practices are in line with general industry practice. The Sponsor has conducted due diligence inquiries, including as to the Group's compliance with laws (including CSR related laws and regulations), and diligence of the Accountants' Report (which includes assessment of contingent liabilities such as any CSR exposures) and the Competent Person's Report (in relation to environmental and social issues). These inquires have not revealed any material fact or circumstance which would cause the Sponsor to disagree with the Directors' conclusion relating to the adequacy of its CSR provisions.

The Company has formed a health, safety and environmental committee at board level, details of which are set out on the sub-section headed "Health, safety and environmental committee" in the section headed "Directors, senior management and employee" in this prospectus.

Environmental matters

All of the Group's projects are subject to rigorous permitting requirements by the Russian authorities. Emissions from the Group's operations are managed in material compliance with Russian regulatory requirements relating to the protection of the environment, including those governing the discharge of substances into the air, water and soil, waste management, decommissioning and cleanup operations in respect of contaminated sites, and flora and fauna protection. These matters are primarily regulated by the Russian Environmental Law, as well as by a number of other federal and local legal acts. Under this regime, mining operations are also subject to rigorous ongoing environmental monitoring. Further details on the Russian Environmental Law and related matters are set out in the section headed "Laws and regulations applicable to the Industry" in this prospectus.

In relation to waste, in accordance with the Federal Law of the Russian Federation (No. 89-FZ), all waste produced or discharged as a result of the Group's operations is divided into the following five hazard classes depending on the degree of negative impact on the environment:

1st class	extremely hazardous waste
2nd class	highly hazardous waste
3rd class	moderately hazardous waste
4th class	low-hazard waste
5th class	virtually non-hazardous waste

The Group does not use, nor does it intend to use, chemical agents during the ore beneficiation process. Accordingly, the only industrial waste produced during the Group's production and ore beneficiation processes is overburden rock, dry magnetic separation tails and wet magnetic separation tails. At the Kuranakh Project and K&S and at the Ushumunsky coal project, quantitative chemical analysis of formed industrial waste has been conducted and waste water extracts biotested with the aim of determining the hazard class. As a result of such analysis, it was determined that all industrial waste from the Group's operations was in the fifth class of danger (described above) and so virtually non-hazardous waste. Such waste does not contain hazardous and toxic impurities and does not have a critical toxic effect on the biological test-objects (green protococcus plant cultures). This type of waste can be stored in bulk and does not require special storage facilities. In addition, no waste handling licence for treatment of such waste is required.

The Group's projects are regularly visited by agents of Rosprirodnadzor. During the Track Record Period, no major environmental violations were recorded. A number of minor violations were recorded and the majority of these related to records and environmental monitoring data not being kept up to date.

As well as adhering to Russian regulatory requirements, the Group is seeking to undertake its operations in accordance with international best practice. The Group's efforts towards ensuring compliance with Russian state legislation and parity with international good practices at the Kuranakh Project was noted by WAI in their Competent Person's Report. For more details on a project-by-project basis, please see the Competent Person's Report at "Appendix V — Competent Person's Report" to this prospectus.

Russian regulation requires a report assessing the impact that a mine will have on the environment (an "OVOS" report) to be drawn up for each mining project. As part of the alignment of the Group's activities to reflect international best practice, current and planned OVOS assessments will be combined with an Environmental and Social Impact Assessment ("ESIA") to integrate risk-based approaches to environmental management. This will enable the Group to minimise risks by going beyond compliance where necessary. Both reports are currently being prepared in relation to K&S. The Group also prepares an Environmental Action Plan on an annual basis which outlines the responsibilities of the management and the workers including aspects pertaining to protection of air, soil, surface waters, forestry and vegetation, flora and fauna. Measures aimed at minimisation of risks and pollution control are also outlined and supplemented by management procedures. An Environmental Protection

Action Plan has been prepared for 2010 and will be developed further as the project advances towards full production.

At the Kuranakh Project, an ESIA was undertaken in 2006 to assess the potential impact of the construction, operation and eventual closure of the mine. The ESIA documents baseline environmental and social data collected by local consultants and audited independently, receiving positive comments. They also provide a description of the Kuranakh Project, a description of international environmental requirements and a description of Russian regulatory requirements. As part of the preparation, a programme of public consultation was initiated. The resulting report contains an Environmental, Health and Safety Management Plan, Environmental Impact Assessment in addition to a Closure and Rehabilitation Plan. The environmental aspects of the mine are currently managed according to these plans. In addition, an Environmental Protection Action Plan is prepared on an annual basis.

The Group commissioned DEB Environmental Consultants to prepare a Public Consultation and Disclosure Strategy document which was completed in May 2007. The Group appoints independent third parties to undertake annual reviews of the Group's HSL compliance.

Ms. Svetlana Obydenkova, a member of the operating committee of the Group, oversees and manages environmental compliance. The Group has been receiving regular visits from the representatives of the International Finance Corporation, the investment arm of the World Bank, in order to ensure compliance with the CSR laws and regulations. The Group is endeavouring to comply with Equator Principles.

The Group's total cost for environmental compliance during the Track Record Period was approximately US$0.2 million, and the average annualised cost was approximately US$61,400. The following table sets out a project-by-project breakdown of the historical compliance costs according to each project.

	Track period total, US$'000[1]	Track period annual average, US$'000[1]
Kuranakh	25.6	7.3
K&S Stage 1	189.4	54.1
Garinskoye	—	—
TOTAL	215.0	61.4

1 Costs were incurred in Roubles and converted to USD at the exchange rate of 1 USD = 28.87 RUR

The following tables set out a break-down of the historical compliance costs during the Track Record Period.

Kuranakh Project

	US$'000[1]
Geological and ecological monitoring	21.2
Assessment of Fauna Impact during construction period	3.5
Assessment of Fauna Impact	0.9
TOTAL	25.6

1 Costs were incurred in Roubles and converted to USD at the exchange rate of 1 USD = 28.87 RUR

K&S

	US$'000[1]
Fauna monitoring	7.6
Estimation of concentration of chemical elements	10.5
Historical and cultural expertise	9.8
Flora survey: endemic and protected species	10.2
Engineering and ecological survey	14.7
Compensation of the harm to forest plots during the preparation of the project site for construction	15.4
Monitoring of water resources	5.5
Assessment of impact on water resources during construction of the access railway at K&S	17.3
WAI report	25.4
WAI report	26.8
Ecological monitoring	39.4
Fish, water, ecological and hydro-meteorological monitoring at Sutara	7.0
TOTAL	189.6

1 Costs were incurred in Roubles and converted to USD at the exchange rate of 1 USD = 28.87 RUR

The Group's future expected costs of compliance consist of three categories. First, one-off start-up fees for the completion of certain works and documents in compliance with the environmental rules and regulations when bringing assets to production, for example, certification, training of personnel, setting up laboratories (where appropriate). Second, the annual compliance costs paid during the life of the assets, from the start of production to the closure of the mine, for example, environmental monitoring and periodical surveys. Third, one-off mine closure/rehabilitation costs payable after an asset has been depleted, for example, earthworks at the open-pits and dismantling of equipment.

The average annualised compliance costs when each of the three main assets (the Kuranakh Project, K&S and Garinskoye) are in production, is estimated to be approximately US$1.8 million.

The following table sets out a break-down of the expected compliance costs, in US$ millions.

Project	Estimated one-off start-up fees	Estimated average regular annual costs during the life of the project	Estimated closure/ rehabilitation costs
Kuranakh	—	0.4	2.9
K&S Stage1	1.6	0.6	8.7
Garinskoye	7.6	0.6	10.7
TOTAL	9.2	1.8	22.2

The expected increase in average annualised compliance costs from US$61,400 during the Track Record Period to approximately US$1.8 million when the Kuranakh Project, K&S and Garinskoye are each in full production, is principally driven by the costs associated with the assets moving from an exploration and development stage to production. In addition, some of the costs which are classified as future estimated environmental compliance costs for assets in production were classified elsewhere during the Track Record Period as these assets were at the exploration and development stage.

Health and safety

The Group is responsible for maintaining a safe working environment that meets applicable industrial safety requirements. Health and safety is managed at an operational level, with support provided by the Group to ensure consistent compliance with Russian regulations. All projects are required to have health and safety management systems in place and these have been, or are currently being revised to reflect good international practice. The principal law regulating industrial safety is the Russian Health and Safety Law, as further described in the section headed "Laws and regulations applicable to the industry" in this prospectus. The Health and Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where the processing of minerals is conducted and certain hazardous substances are used. The Health and Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Health and Safety Law further address safety rules for mining and production operations conducted by the Group.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision or other relevant regulatory authority.

Legal entities that operate such regulated industrial facilities and sites have a wide range of obligations under Russian law, in particular under the Health and Safety Law and the Labour Code, as further described in the section headed "Laws and regulations applicable to the industry" in this prospectus.

The Group recognises that in addition to its statutory obligations to protect the health of all its workers, its staff have a right to operate in a safe working environment. All staff receive health and safety training as part of the initial induction process. Job-specific training is then provided within each department/workplace. The Group arranges annual conferences to bring key staff together, allowing them to share experiences and discuss good practice. In addition, all staff receive annual health and safety "refresher" training courses to update them on the latest health and safety techniques and procedures being implemented by the Group. Health and safety monitoring and internal inspections of working environments are undertaken to ensure compliance with Russian regulatory requirements. The Group is now seeking to integrate Russian compliance-based systems with international best practice.

All of the Group's operating companies are required to have in place health and safety management systems, as reflected in detailed health and safety manuals, to meet Russian regulatory requirements and the Group's policies. The Group has extensive training programmes and specialist health and safety personnel.

The Federal authorities visit each of the Group's operations three times a year to inspect explosives storage, industrial facilities and to check health and safety procedures and documentation.

To date, none of the Group's direct employees have suffered fatal accidents, and, accordingly, no compensation has been paid by the Group in this regard.

In 2008, two persons, employed by the construction contractor engaged in the construction of the Kuranakh Project, died after their accommodation quarters (operated by the contractor) caught fire. Whilst the Group was not responsible for the accident in any way (and consequently does not have any present or potential liability), following its occurrence the Group decided to conduct a review of its own safety procedures to seek to prevent the same or similar accidents occurring on the Group's own premises.

The Group investigates every accident in accordance with established procedures and prepares accident reports. The Group also pays special attention to safety induction for new employees and organises bi-monthly health and safety training for all employees. Personnel are provided with appropriate safety equipment.

Community and stakeholder engagement

The Group is committed to developing long-term and positive relationships with the communities within which it operates. All operations undertake an ongoing and active dialogue with local communities and regulatory authorities. This dialogue goes beyond Russian regulatory requirements and encompasses international good practice for community engagement.

In keeping with international good practice, a Community Engagement Plan for the Kuranakh Project has been prepared in order to comply with IFC Performance Standards. The Community Engagement Plan provides a framework for working with communities affected by the mine, namely the village of Olekma (approximately 45 km north-west of the mine) and Ust-Nyukzha (approximately 70km from the mine), a settlement populated by the Evenks, indigenous people in the Amur Region.

The Directors believe that the Group has good relations with the Evenks people and the Group purchases a wide range of traditional goods and foods from them as a way of supporting the traditional Evenks way of life.

The Group holds regular public consultations at settlements near its projects in order to give members of the public a chance to hear the latest developments at the projects and to raise any questions or voice any concerns.

The Group undertakes an active programme of community sponsorship. Requests for financial support or other assistance are regularly received from local residents and organisations. At present, these requests are dealt with on a case-by-case basis but the Group is currently evaluating the introduction of a Group-wide community investment fund.

Education

The Group has a long-term programme of investing in various educational projects. This includes:

- Providing financial support, books and equipment for nurseries, primary schools and secondary schools;
- Providing financial support to promising high-school students who are entering higher education;
- Offering internships and work placements to local students;
- Hosting regular internal technical conferences to exchange experience and spread best practice.

INSURANCE

The Group carries insurance cover in line with that carried by other international mining companies. All insurance is currently placed through a reputable international insurance broker and insured with reputable international and Russian insurance companies. The main areas of cover include insurance against property damage, general liability, personal injury/ travel, directors and officers liability and owned aviation liability.

PROPERTIES

The Group has property interests in the Russian Federation, Hong Kong and the PRC. The Group coordinates its operations from its headquarters in Hong Kong. The Group also has an office in Moscow and regional offices located in the Amur Region and the EAO, and site offices at the Kuranakh Project and at the K&S project. The Group's industrial facilities, used primarily for iron ore and ilmenite mining and processing purposes, are located in the Russian Federation and in the PRC.

American Appraisal China Limited (the "Valuer"), an independent property valuation firm, has valued the Group's property interests as at 31 July 2010 (the "Valuation Date"). The text of the Valuer's letter and summary of values, together with valuation certificates, are set out in Appendix IV — "Property Valuation" to this prospectus.

Property interests of the Group in the Russian Federation

Land parcels, buildings, construction sites and other real estate objects (including residential and industrial buildings) owned and leased by LLC Olekminsky Rudnik

LLC Olekminsky Rudnik owns and leases properties in Amur Region, comprising land plots, buildings, structures and residential properties, which are located in Settlement Olekma, Tynda Town and Blagoveshchensk.

The properties are occupied by the Group mainly as a crushing and grading complex, ore-dressing plant, tailings dam, workshops, power substations, pumping houses and other auxiliary facilities, offices and residential facilities, and comprise:

- an owned land parcel with a site area of approximately 0.0677 hectares, situated at 1 Sovetskaya Street, Tynda Town;
- an owned office building of about 907.6 sq.m., situated at 1 Sovetskaya Street, Tynda Town;
- a production building, with a total site area of 108.5 sq.m., and a power supply line, both situated in Settlement Olekma, Tyndinsky district;
- 27 residential apartments, with a total gross floor area of approximately 1,603.5 sq.m., located at various addresses in Settlement Olekma, Blagoveschensk and Tynda Town in Amur Region, owned by the Group;
- 16 land parcels, located primarily in Tyndinsky District, the Amur Region, with a total site area of approximately 1,344.6 hectares, which are leased from the municipality for industrial use, with the lease terms ranging from 1 to 19 years with the earliest expiry date in November 2010, at a total annual rent of US$577,369;
- a locomotive parking facility, leased from Russian Railways until 1 March 2011, with a total gross floor area of 150 sq.m., and 2 leased properties used for employee habituation, with a total gross area of 89.9 sq.m., with lease expiry dates in January 2011 and December 2010; all of which leased properties are located in Settlement Olekma, Tyndinsky District; and
- a number of buildings, structures and auxiliary facilities with a total gross floor area of approximately 35,765.9 sq.m., located primarily in Tyndinsky District, the Amur Region, which were under construction as at the Valuation Date and are scheduled to be completed by the end of 2010.

Land parcels, buildings, construction sites and other real estate objects (including residential and industrial buildings) owned and leased by LLC KS GOK

LLC KS GOK owns and leases land plots, buildings and structures, located in the EAO and the Amur Region, which are occupied by the Group mainly as a crushing and grading complex, ore-dressing plant, workshops, offices, residential facilities and other auxiliary facilities, and comprise:

- an office building with a total floor area of 3,490.1 sq.m., situated at 22b, Prospekt 60-letiya USSR, Birobidjan, the EAO, owned by the Group, and erected on a land plot with a site area of approximately 0.471 hectares, owned by the Group;
- a garage, with a floor area of approximately 20 sq.m., and 14 residential properties, with a total gross floor area of approximately 1,015.4 sq.m., located at various addresses in Birobidjan, the Amur Region and Obluchensky District or Blagoveschensk, the EAO, owned by the Group;

- a workshop facility building with a total gross floor area of approximately 12,456.3 sq.m. and an administrative building with a total gross floor area of approximately 411.9 sq.m., which were under construction as at the Valuation Date, and scheduled to be completed by the end of 2011; the properties are situated at Transformatornaya Street 1, Birobidjian, the EAO, and erected on a land parcel with a site area of approximately 6.2387 hectares; of which a portion, comprising site area of 1.559 hectares, is owned by the Group;

- 32 lease agreements in respect of land parcels, buildings and structures, located primarily in Obluchensky District, the EAO, with a total site area of approximately 575.8686 hectares, between the Group and various municipalities; these properties are held primarily for industrial use, with the remaining lease term ranging from 1 to 30 years, with the earliest expiry date in September 2010, at a total annual rent of US$236,498.58;

- buildings, structures and auxiliary facilities of the ore-dressing plant with a gross floor area of approximately 10,227.6 sq.m., located in the EAO, which were under construction as at the Valuation Date, and are scheduled to be completed within 2010-2013.

Properties owned and leased by Giproruda

Giproruda owns 46/100 of a non-residential building with a gross floor area of approximately 20,430.4 sq.m. completed in 1984, and located at 151, Leninsky Prospect, Saint Petersburg, Russia. The portion of this building owned by the Group comprises a total gross floor area of 9,397.98 sq.m.. Approximately 5,407.20 sq.m. of the total gross floor area of the property is occupied by the Group as office facilities and approximately 3,962.40 sq.m. of the total gross floor area of the property has been leased to third parties for office use under 41 lease agreements, with the lease term ranging from 8 months to 3.7 years, at a total rental income of US$81,292.8 per month.

The property is situated on two land parcels with an aggregate site area of approximately 0.1773 hectares and 0.0351 hectares, respectively, which were leased from the municipality under lease agreements no.12/3D-00716 and 12/3D-00626, dated 19 February 1998 and 20 January 1998, respectively; for erecting the institute building, at an annual rent of US$17,557.34. The lease expires in June 2046.

Property owned by LLC Rubicon

LLC Rubicon owns an apartment with a gross floor area of approximately 98.10 sq.m., located at 7a Kagykina Street in Village Leninskoye of the EAO, which was acquired in March 2008.

Properties leased by LLC GMMC

LLC GMMC leases:

- 5 land parcels with a total site area of approximately 76.12 hectares, located in Mazanovsky District and Shimanovsky District, Amur Region, from the

municipality for industrial use (geological study). The lease terms range from 8 months to 3 years (with the earliest expiry date in December 2010) at a total annual rent of US$3,780; and

- non-residential premises located at 19 Ignatievskoye Shosse, Blagoveshchensk, the Amur Region, with a total lettable area of approximately 1,663.7 sq.m., from the State Scientific Institute of Soy, for a term of 11 months commencing from 31 December 2009 until 29 November 2010, at a monthly rent of RUR144,018. Part of these non-residential premises, with a lettable area of 325.1 sq.m., is sub-leased to LLC Olekminsky Rudnik under a sub-lease until 29 November 2010, while a part of this premises, with a lettable area of 16.00 sq.m., is sub-leased to LLC Orlovsko-Sokhatinsky Rudnik under a sub-lease until 29 November 2010.

Forest plot leased by LLC Uralmining

LLC Uralmining leases a forest plot with a site area of approximately 229 hectares, located in Tyndinsky District, the Amur Region, from a municipality, mainly for industrial use (geological study). The lease term is from 23 September 2008 for a period of 2 years, at a total annual rent of US$34,701. This lease expired on 21 September 2010 and a new lease was not executed.

Forest plot leased by LLC Orlovsko-Sokhatinsky Rudnik

LLC Orlovsko-Sokhatinsky Rudnik leases a forest plot with a site area of approximately 4.985 hectares, located in Mazanovsky District, the Amur Region, from a municipality, mainly for industrial use (geological study). The lease term is from 14 August 2009 for a period of 2 years, at a total annual rent of US$818.50.

Land and forest plots, buildings and other real estate objects owned and leased by LLC Karier Ushumunsky

LLC Karier Ushumunsky is party to 4 lease agreements with various municipalities in respect of land and forest plots, situated in Birobidzhan Region, the EAO, with an aggregate site area of approximately 245.21 hectares. These properties are leased by the Group for industrial use. The lease terms vary from 10 years in respect of three of such lease agreements, to one year in respect of one of them, with the earliest expiry date in September 2010, at a total annual rent of US$154,796.83.

LLC Karier Ushumunsky owns the following objects and properties in Birobidzhan Region, the EAO:

- a railway line with a length of approximately 2,454.5 m., completed in 2010, owned by the Group; and

- an airplane shed with a gross floor area at approximately 359.8 sq.m. and structures with a total length of approximately 16,350.6 m. in Birobidzhanskiy district; and a train shed with a total gross floor area of 207.3 sq.m. in Birofeld village, Birobidzhan region, which were under construction as at the Valuation Date, and scheduled to be completed by the end of 2010, owned by the Group.

The above properties are occupied by the Group as railway line, airplane and other auxiliary facilities in respect of coal production.

Property owned by LLC Petropavlovsk-Iron Ore (formerly LLC Aricom) as at the Valuation Date

LLC Petropavlovsk-Iron Ore owned an apartment, which it had acquired on 11 August 2006, with a gross floor area of approximately 78.80 sq.m., and situated at 4 Paveletskaya Nab., Moscow, Russia.

The Group transferred this property under a gift deed dated 31 March 2010, and registered on 20 August 2010.

Property leased by LLC Petropavlovsk-Iron Ore (formerly LLC Aricom)

LLC Petropavlovsk-Iron Ore leases the following properties:

- an office unit located at 21 Stanislavskogo Street, Moscow, Russia with a total lettable area of about 1,417.14 sq.m., at an annual rent of RUR51,370,000, excluding VAT; which is occupied by the Group as its main office in Russia, and is leased by the Group for a term expiring on 28 February 2015;
- an office space, located at 98 Khokhriakova Street, Yekaterinburg, with a total lettable area of approximately 36.2 sq.m., leased by the Group for a term of 11 months, commencing from 20 December 2009 until 20 November 2010, at a monthly rent of RUR1,330 per sq.m.;
- an office unit 313, located at 43 Lesnaya Street, Moscow, with a total lettable area of approximately 6.45 sq.m., leased by the Group for a term of 11 months, commencing from 1 November 2009 until 30 September 2010, at a monthly rent rate of RUR2,500 per sq.m.; and
- 7 apartments, located at various addresses in Moscow, with a total area of approximately 298.17 sq.m., leased by the Group from various individuals on short term basis at a monthly rent rate of RUR9,174 per sq.m..

Office units leased by CJSC SGMTP

CJSC SGMTP leases two office units Nos. 408 and 412, with a total lettable area of approximately 67.3 sq.m., situated at 14 Pionerskaya Street, Soviet Harbor City, Khabarovsk Territory, Russia. The lease commenced on 1 January 2010, for a term of 11 months until 30 November 2010, with a pre-emption right to extend the term, at a monthly rent of RUR53,840.

Property interests of the Group in the PRC

Jiatai Titanium and Russia Aricom Limited Beijing Representative Office (俄羅斯阿裏廊穆有限公司北京代表處) ("Beijing RO") (the Group's PRC representative office), own, lease and/or develop real estate in the PRC, as described below.

Property owned by Jiatai Titanium

Jiatai Titanium is the owner of 10 residential units located within Yiyuan Community, Jiamusi City, Heilongjiang Province, the PRC, with a total gross floor area of approximately 1,032.56 sq.m. which were all registered on 23 March 2009. The properties are provided by Jiatai Titanium to its expatriate employees, experts and senior officers for residential purposes.

Jiatai Titanium acquired the use right to a land parcel for industrial purposes with a total gross floor area of approximately 826,026 sq.m. at No.668 Songxing Road, Dongfeng District, Jiamusi City, Heilongjiang Province, the PRC (the "Jiamusi Property") on 31 July 2009 for a term of 50 years. The construction of the building has not yet been started pending completion of designs and planning of the project.

After the issuance of the land use right certificate in respect of the Jiamusi Property, the local government required that part of the boundary of the Jiamusi Property be re-delineated because a certain existing boundary of the Jiamusi Property land was too close to the local railway. As at the Latest Practicable Date, Jiatai Titanium was still in discussion with the local government authorities with regard to the adjustment of the boundary of the land, which may result in the land use area of the Jiamusi Property being decreased by approximately 10,012 sq.m.. Once this adjustment is agreed with the local governmental authorities, Jiatai Titanium intends to apply to the relevant governmental authorities to amend the land use right grant contract and the variation of the land use right certificate. PRC Counsel is of the view that once the boundary adjustment is agreed with the local governmental authorities, the application is only procedural in nature and they do not expect any legal obstacles in obtaining the new land use right certificate or contract. PRC Counsel also confirmed that, save for the completion of the amendment of the land use right grant contract and the variation of the land use right certificate for the land as aforesaid, the land use right certificate and the land use right grant contract were legally valid and binding as at the Latest Practicable Date. As no production facilities or premises have been built or exist on the Jiamusi Property, any land or title issues are not expected to have any impact on the operations of the Group.

The proposed development plan of the property is an industrial complex with a total gross floor area of approximately 373,224 sq.m.. The proposed development has been divided into 2 phases, where phase I construction works were scheduled to commence in late June 2010 and to be completed at the end of 2012. Jiatai Titanium has obtained the project approval and the construction land planning permit (which may need to be restated due to the prospective variation of the land use right certificate, as referred to above) for the development of the Jiamusi Property. Further permits, licences including the construction engineering planning permit and construction works commencement permit for the development, have yet to be applied for and obtained.

Notwithstanding the aforesaid, in light of the current development and construction progress of the Jiamusi Property, the PRC Counsel is of the view that Jiatai Titanium has obtained the relevant approvals, permits and certificates for the construction and planning of the Jiamusi Property corresponding to the development or construction status of the Jiamusi Property.

Property leased by Jiatai Titanium

Jiatai Titanium leases office units with a total gross floor area of approximately 2,000 sq.m. at No.522 in the Middle-Section of Baowei Road, Xiangyang District, Jiamusi City, Heilongjiang Province, the PRC from Heilongjiang Oriental Municipal Construction and Development Group Company (黑龍江省東方市政建設開發集團公司), for office use. The lease (the "Jiatai Lease Contract") is dated 18 December 2008 for a one-year term (as renewed and varied by a supplemental agreement dated 30 December 2009 for another one-year term) at a rent of

RMB600,000 per year (exclusive of utilities, telecommunication and internet use), payable on a quarterly basis.

The lease has not been registered with the local house registration administration authority. However, according to the Supreme Court Interpretation Concerning the PRC Contract Law, the non-registration of the lease contract will not affect the validity and enforceability of the lease contract and the rights of the tenant under the lease contract, although the local house registration administration authority may require the parties to complete the registration. In such circumstances, even though the Jiatai Lease Contract is not registered, its validity and enforceability and the rights of Jiatai Titanium thereunder will not be affected.

Property leased by Beijing RO

Beijing RO leases an office unit with a total gross floor area of approximately 113.54 sq.m., at Unit I, Level 25, in Building of Metro Classic Mansion (Oriental Kenzo) located at No. 48 Dongzhimenwai Street, Dongcheng District, Beijing, the PRC, from Oriental Kenzo Plaza Co., Ltd. (東方銀座廣場有限公司) for office usage. The lease is dated 31 December 2009 for a term commencing on 1 January 2010 until 31 December 2010, at a rent of RMB18,961.18 per month, exclusive of management fees, utilities, TV and internet charges.

The lease has not been registered with the local house registration administration authority. However, for the same reasons as set out above in respect of the Jiatai Lease Contract, the non-registration of the lease contract will not affect the validity and enforceability of the lease contract and the rights of the tenant under the lease contract.

Property interests of the Group in Hong Kong

The Company rents and occupies an office unit, Unit H on the 6th Floor, 9 Queen's Road Central, Hong Kong, with a total gross floor area of approximately 160.26 sq.m.. The lease of the property, for a term of 2 years commencing on 1 June 2010 and expiring on 31 May 2012 at a monthly rent of HK$74,468.25 (exclusive of rates and management and air-conditioning charges), was assigned to the Company under an Assignment and Undertaking, entered into between Petropavlovsk, the former tenant, the Company, as the assignee, and Flexwood Limited, as the landlord, dated 13 August 2010, with effect from 15 August 2010, for office use.

The property is subject to a mortgage in favour of Shanghai Commercial Bank Limited vide Memorial No. 09111901800296 dated 11 November 2009.

The Group leases certain parts or shares of and in R.P. of s.A of Marine Lot No. 102, s.C of Marine Lot No. 103, s.A, s.B, R.P. of s.C & R.P. of Marine Lot No. 101 and R.P. of Marine Lot No. 514 (the "Lot"). The Lot is held under Government Lease for a term of 999 years from 16 November 1855 or 21 January 1857. The property was leased by the Group from Flexwood Limited, for a term of 2 years commencing on 1 June 2010 and expiring on 31 May 2012 at a monthly rent of HK$74,468.25, exclusive of rates and management and air-conditioning charges for office use.

MANAGEMENT STRUCTURE

The Board has established an Executive Committee which is vested with authority over strategic decisions of the Group and an Operating Committee which is vested with control of the day-to-day operations of the Group. Details of the members of these committees are set out in the section headed "Directors, Senior Management and Employees" in this prospectus.

EMPLOYEES

Over the Track Record Period, the Group had approximately 434, approximately 985, approximately 1240 and approximately 1,640 individuals directly employed as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. As at the Latest Practicable Date, the Group had a total of 1,469 employees based in the UK, Russia, PRC and Hong Kong. The majority of the Group's direct employees are full time. Part of the Group's direct employees, mainly those employed by LLC Olekminsky Rudnik, work two-week shifts. Under Russian Law, the Group is required to make contributions to various Russian State budget funds for the employees, including, for example, the social insurance fund and the mandatory medical insurance fund.

The Group has been able to meet its workforce requirements by recruiting local people and attracting employees from other regions. By way of example, the Group participated in the federal resettlement programme (State Programme of Support for the Resettlement in the Russian Federation of Compatriots Residing Abroad adopted by the Order of the President of the RF on 22 June 2006), which resulted in the successful recruitment to the Group of qualified specialists from the former Soviet republics. The Group also has a long-term recruitment strategy which involves the Group funding the training of young people in various relevant educational institutions, with subsequent employment at the Group's projects.

Information regarding the breakdown of employees of the Group by function and geographical location is set out in the section headed "Directors, Senior Management and Employees" in this prospectus.

REGULATORY AND COMPLIANCE

Details of the Company's compliance with laws and regulations are set out in the section headed "Laws and regulations applicable to the industry" in this prospectus.

Details of the material conditions to the terms of the licences granted to the Group and a summary of the permits and approvals material to the Group's operations are set out in Appendix VIII — "Statutory and General Information" to this prospectus.

LEGAL PROCEEDINGS

Save as set out below, as at the Latest Practicable Date, no member of the Group was a party to any material legal or administrative proceedings nor has any member of the Group received notice of any threatened or pending proceedings by government authorities or third parties, which, if adversely determined, would have a material and adverse effect on the Group, nor influence its rights to explore or mine.

The Group is involved in legal proceedings with two minority shareholders in Lapwing Limited ("Lapwing"), Gatnom Capital & Finance Limited ("Gatnom") and O.M. Investments & Finance Ltd ("OMIF").

Their petition for the winding-up of Lapwing was firstly filed in September 2008 in the District Court of Nicosia in Cyprus and the respondents were Lapwing and Aricom UK Limited ("Aricom UK"). Gatnom and OMIF, companies controlled by an individual unconnected with the Group, were initial shareholders in Lapwing, the parent company of LLC GMMC, the company which holds the Garinskoye licence.

The petitioners alleged that, contrary to an agreement between them and PBO Handelsges m.b.H. ("PBO") on one part and/or the remaining shareholders and/or Aricom Plc and/or Aricom UK Limited and/or their representatives on the other part not to dilute the petitioners' shareholdings in Lapwing, these were improperly diluted as a result of the issuance of additional shares following a shareholders meeting that took place in September 2007.

Prior to the meeting, the existing shareholders in Lapwing were Olis Constructions Limited ("Olis"), Gatnom, OMIF and PBO, who held 85 per cent., 7 per cent., 5 per cent. and 3 per cent. respectively. The meeting approved the transfer of the majority of Olis' shares to Aricom UK and a substantial increase in the issued share capital of Lapwing. The new Lapwing shares were to be issued to the existing shareholders pro-rata to their holdings subject in each case to full payment of EUR 1 per share in advance in respect of the new shares. In the event, Gatnom, OMIF and PBO did not participate in the new share issue, with the result that their shareholdings in Lapwing were diluted to 0.24 per cent., 0.17 per cent. and 0.1 per cent. respectively, whilst the transfer of shares in Lapwing to Aricom UK and the subscription for their entitlement of new shares by each of Aricom UK and Olis resulted in Aricom UK holding 70.22 per cent. and Olis 29.26 per cent. of the enlarged issued share capital of Lapwing. The payment by Aricom UK for the new shares was made by way of release of certain liabilities which were owed by Lapwing to Aricom UK under a previous loan agreement between Lapwing and Aricom UK and which were equivalent to the value of the subscription shares.

The petitioners, Gatnom and OMIF, allege defects in the September 2007 extraordinary general meeting of Lapwing and that under a separate agreement the other parties had agreed to avoid their percentage holdings being decreased.

The petitioners have asked the court to dissolve Lapwing or, alternatively, to order that their shares be purchased at a price to be determined by an expert appointed by the court.

On 20 January 2010, the petitioners withdrew their composite claim and re-filed individual petitions in substantially similar form. Thus, the proceedings are still in early procedural stages with a discovery process underway. As at the Latest Practicable Date no subsequent filings have been made by the petitioners. The Group has received from them an offer on a without prejudice basis of the terms upon which they would be prepared to settle their claims.

The Company has been advised that in the view of Cypriot counsel, the resolutions at the September 2007 shareholders meeting were duly passed and that Lapwing had the authority to issue the shares on the basis that it did, that is, by issuing shares to those who applied for and provided the consideration in the required time for such shares and declining to issue shares to the petitioners and PBO who failed to do so. The respondents deny the existence of any agreement which would have avoided the dilution of the petitioners.

The maximum potential liability arising from the claim cannot currently be accurately assessed. However, In the worst case scenario, if the claims by Gatnom and OMIF are

successful and the court determined this to be a suitable remedy, the court could order Aricom UK Limited to buy the petitioners' shares in Lapwing at a price determined by an independent expert or it could pass a winding-up order in respect of Lapwing, in which event the liquidator would (*inter alia*) have the right to dispose of Lapwing's shares in the Russian subsidiary LLC GMMC. In the former case it is not possible to determine what price might be established for the petitioner's shares in Lapwing, but in such circumstances LLC GMMC would become a wholly-owned subsidiary of Aricom UK Limited and the Group would be able to develop the Garinskoye deposit as planned. In the second case, in exercising its right to dispose of Lapwing's Shares in LLC GMMC, the Liquidator would have to act in the best interests of the creditors and shareholders of Lapwing and would be expected to achieve the highest offer possible for the Lapwing's assets. The Group would be entitled to its share of the net proceeds of any sale and would not be precluded from being a purchaser. If the purchaser of LLC GMMC was not a member of the Group, the Group would no longer have the right to develop the Garinskoye deposit. Russian regulatory consents might be required for the transfer of the shares in LLC GMMC.

The Group is not currently involved in any other claim or proceedings that may have a material influence on its rights to explore or mine.