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As at the Latest Practicable Date, Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, holds 88.0 per cent. of the issued ordinary share capital of the Company. Immediately after completion of the Global Offering, Cayiron Limited will hold approximately 57.5 per cent. (assuming that the Over-allotment Option is not exercised) or 54.3 per cent. (assuming that the Over-allotment Option is exercised in full) of the total issued share capital of the Company, assuming in each case that the purchase of Shares held by the Pre-IPO Investors pursuant to the Pre-IPO Investment Supplemental Agreement has taken place. On this basis, Petropavlovsk will continue to be the Controlling Shareholder of the Company immediately after completion of the Global Offering. The shares in Petropavlovsk have been widely held by a diverse base of public shareholders. However, as at 30 June 2010, the three largest shareholders of Petropavlovsk were Blackrock Inc., Dr. Pavel Maslovskiy and his associates, and Peter Hambro and his associates (holding approximately 12.41 per cent., 8.92 per cent., and 5.65 per cent. respectively of the issued share capital of Petropavlovsk).

The proposed Listing is not subject to any shareholders' approval pursuant to the UK Listing Rules to which Petropavlovsk is subject, and is not subject to any regulatory approval from authorities in the UK. However, as a subsidiary of a holding company which is listed in the UK, the Company will be affected by certain provisions of the UK Listing Rules.

PETROPAVLOVSK'S BUSINESS

The Petropavlovsk Group is principally engaged in the exploration, development and production of precious metal deposits in Russia. Its principal operations are located in the Amur Region in the Russian Far East, where it has operated since 1994. Its gold operations are focused on its Pokrovskiy and Pioneer mines, which are currently in production, Malomir, which commenced production on 25 August 2010, and Albyn, which is expected to commence production in 2011. In addition to these projects, the Petropavlovsk Group also has a number of other projects at various stages of exploration and development both in the Amur Region and in a number of other regions across Russia. In 2009, the Petropavlovsk Group's total attributable gold production amounted to 486,800oz. The Petropavlovsk Group (including the Group) recorded total revenue of approximately US\$472 million for the year ended 31 December 2009 and approximately US\$196 million for the six months ended 30 June 2010 and had total assets of approximately US\$1.975 billion as at 30 June 2010.

Petropavlovsk was incorporated under the laws of England and Wales on 20 December 2001. In April 2002, Petropavlovsk's (then known as Peter Hambro Mining plc) shares were admitted to trading on AIM. In December 2003, Petropavlovsk divested certain industrial metals and mining interests (principally ilmenite) to Aricom, and Aricom's shares were separately admitted to trading on AIM. These transactions resulted in all existing shareholders of Petropavlovsk being offered the right to receive Aricom shares on a pro-rata basis. Petropavlovsk itself did not hold shares in Aricom following Aricom's admission to trading on AIM.

In October 2007, the shares of, and warrants to subscribe for shares in, Aricom were admitted to listing on the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange. During 2008, following the global credit crisis, the general market conditions for commodities grew less favourable as demand declined globally. As at

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31 December 2008, the shares in Aricom were trading at a price well below their net cash per share value. Consequently, recognising the lack of value reflected in the Aricom share price, the Aricom board decided to invite third parties to make proposals for a possible corporate transaction.

On 9 January 2009, Petropavlovsk and Aricom announced separately that they were in preliminary discussions regarding a possible offer by Petropavlovsk for the entire issued share capital of Aricom. On 6 February 2009, Petropavlovsk and Aricom jointly announced the terms of the proposed offer for Aricom by Petropavlovsk to be implemented by way of scheme of arrangement. Under the terms of the scheme of arrangement, Aricom shareholders received one Petropavlovsk share in exchange for 16 Aricom shares, which represented a premium of 19 per cent. over Aricom's market value at the time of the offer. Taking into account its familiarity with Aricom's assets and its historical relationship with Aricom, notwithstanding the market dislocation and uncertainty created by the onset of the credit crisis, the board of Petropavlovsk considered that the price at which Aricom had been trading significantly undervalued its business. The board of Petropavlovsk was further of the view that the merger on the agreed terms represented an attractive investment opportunity for Petropavlovsk to capitalise on the expected rebound of the iron ore market which took place in 2009 and the first half of 2010. The Aricom board considered that the offer from Petropavlovsk was in the best interests of its shareholders as a whole. In April 2009, the scheme of arrangement was completed and Petropavlovsk acquired the entire issued share capital of Aricom and the shares of, and warrants to subscribe for shares in, the combined entity were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange. In September 2009, the combined entity was renamed "Petropavlovsk PLC".

As part of its ongoing evaluation of the creation of shareholder value, the board of Petropavlovsk assessed the funding plans for its Industrial Commodities Business and examined a number of proposals, including raising equity finance in the equity markets through an initial public offering of shares in a company owning the non-precious metals assets of Petropavlovsk. The Listing would enable potential investors who wish to gain exposure specifically to bulk and industrial commodities to invest directly in a company which is focused solely on these assets.

Following the Listing, the Group will concentrate on the exploration for, and development and production of bulk and industrial commodities, while the Petropavlovsk Group will focus on the exploration for, development and production of precious metals. The Group and Petropavlovsk have entered into a deed of non-competition which is described in further detail below.

INTERESTS OF DIRECTORS IN COMPETING BUSINESSES

Other than their interests in Petropavlovsk as described above, the Directors do not hold any interest in any other mining business which competes or is likely to compete with the Group's business.

NON-COMPETITION UNDERTAKING

The Company and Petropavlovsk have entered into a Deed of Non-Competition (the "Deed"), dated 22 September 2010, which commences from the date of Listing and continues for the

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time during which the Shares are listed on the Stock Exchange and until such time as Petropavlovsk controls less than 50 per cent. of the issued share capital of the Company.

Under the terms of the Deed, Petropavlovsk agrees that: (a) it will not engage, and will procure its subsidiaries (excluding the Group) not to engage, on its own account or with each other or in conjunction with or on behalf of any other person or entity, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of the Group or its associated companies), partner, agent or otherwise, in a business concerned with the acquisition, exploration, development and production of industrial commodity projects in the Russian Far East (being the area of Russia in which all of the Group's Russian industrial commodities projects are based) and/or the PRC (the "Restricted Activity of Petropavlovsk"); and (b) in the event that any opportunity is made available to Petropavlovsk to invest in any independent third party business which is engaged in a Restricted Activity of Petropavlovsk (the "Investment Opportunity of Petropavlovsk"), Petropavlovsk will use its best efforts to procure that the Investment Opportunity of Petropavlovsk is offered to the Company, and the Company shall have a right of first refusal in respect of the Investment Opportunity of Petropavlovsk (the "Offer to the Company"). Petropavlovsk shall provide the Independent Non-Executive Directors of the Company with sufficient information to enable them to make an informed decision in respect of the Investment Opportunity of Petropavlovsk. Only the Independent Non-Executive Directors of the Company are entitled to consider and vote on a decision in respect of any Investment Opportunity of Petropavlovsk.

If the Company's Independent Non-Executive Directors resolve not to acquire the Investment Opportunity of Petropavlovsk, having regard to the overall interests of the Company, or the Company does not proceed with the acquisition of the Investment Opportunity of Petropavlovsk within one month from the date of the Offer to the Company or such further period as may be reasonably requested by the Company's Independent Non-Executive Directors, Petropavlovsk shall be entitled to make its own independent decisions in respect of that investment opportunity.

Conversely, under the terms of the Deed, the Company agrees that: (a) it will not engage, and will procure its subsidiaries not to engage, on its own account or with each other or in conjunction with or on behalf of any other person or entity, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director of Petropavlovsk or its associated companies), partner, agent or otherwise, in a business concerned with the acquisition, exploration, development and production of precious metal deposits in the Russian Far East and/or the PRC (the "Restricted Activity of the Company"); and (b) in the event that any opportunity is made available to the Company to invest in any independent third party business which is engaged in a Restricted Activity of the Company (the "Investment Opportunity of the Company"), the Company will use its best efforts to procure that the Investment Opportunity of the Company is offered to Petropavlovsk, and Petropavlovsk shall have a right of first refusal in respect of the Investment Opportunity of the Company (the "Offer to Petropavlovsk"). The Company shall provide the independent non-executive Directors of Petropavlovsk with sufficient information to enable them to make an informed decision in respect of the Investment Opportunity of the Company.

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If Petropavlovsk's independent non-executive directors resolve not to acquire the Investment Opportunity of the Company having regard to the overall interests of Petropavlovsk, or Petropavlovsk does not proceed with the acquisition of the Investment Opportunity of the Company within one month from the date of the Offer to Petropavlovsk or such further period as may be reasonably requested by Petropavlovsk's independent non-executive Directors, the Company shall be entitled to make its own independent decisions in respect of that investment opportunity.

The Independent Non-Executive Directors of the Company may obtain professional advice, at the Company's cost, for the purpose of considering the Investment Opportunity of Petropavlovsk. Similarly, the independent non-executive directors of Petropavlovsk may obtain professional advice, at Petropavlovsk's cost, for the purpose of considering the Investment Opportunity of the Company.

Each of the Company and Petropavlovsk agree to confirm their compliance with the Deed in their respective annual reports. The Company will disclose in its annual report the basis on which the independent non-executive Directors took any decision to pursue an Investment Opportunity, or to decline an Investment Opportunity which is subsequently the subject of an announced transaction entered into by the Petropavlovsk Group.

It is the Sponsor's view that that the geographical limitation of the Deed to the Russian Far East does not limit the growth or expansion potential of the Company. The Deed only applies to the Russian Far East, however, a relevant consideration is that this is the location of the Company's main assets that will be producing past 2020, providing the Company with a long term production base that it can expand upon. The Russian Far East is also a large region covering an area of approximately 6.2 million square kilometres, giving the Company a large area in which to explore for new projects whilst operating under the non-competition undertaking.

Furthermore, the Deed only prevents the Company from considering precious metals opportunities in the Russian Far East and China and does not preclude it from considering industrial commodity opportunities (the Company's key focus) outside this region. As a result, the Sponsor is comfortable that limiting the scope of the Deed to the Russian Far East does not present a likely constraint on the growth and expansion opportunities available to the Company.

The Deed also evidences the proposed operational and management independence of the Company, as further discussed below.

TAX INDEMNITY

Petropavlovsk has provided the Group with a tax indemnity for any tax liability incurred by the Group: (i) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before Listing, and (ii) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before Listing.

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INDEPENDENCE FROM THE PETROPAVLOVSK GROUP

The Board of Directors is satisfied that the Group can carry on its business independently of Petropavlovsk after the Company is listed on the Stock Exchange. In coming to this view, the Board of Directors has taken account of the following factors:

Management independence

While Petropavlovsk will remain a controlling shareholder of the Company after completion of the Global Offering and the Listing, the management of the Group will be independent of the management of the Petropavlovsk Group. In addition, the Company intends to implement good corporate governance procedures, put in place strong measures to manage any potential conflicts of interest (as further detailed below) and safeguard the interests of its Shareholders as a whole.

Board of directors and senior management of Petropavlovsk

After the Listing, the board of directors of Petropavlovsk will remain unchanged and will comprise the following members:

Directors of Petropavlovsk

<u>Name</u>	<u>Position</u>
Peter Hambro	Chairman
Dr. Pavel Maslovskiy	Chief Executive
Brian Egan	Chief Financial Officer
Peter Hill-Wood	Senior Non-Executive Director
Graham Birch	Non-Executive Director
Sir Malcolm Field	Non-Executive Director
General the Lord Guthrie of Craigiebank	Non-Executive Director
Charles McVeigh	Non-Executive Director
Sir Roderic Lyne	Non-Executive Director

Following the Listing of the Company, the executive and key operational management team of Petropavlovsk will comprise:

Senior Management of Petropavlovsk

<u>Name</u>	<u>Position and roles</u>
Alexei Maslovskiy	Group Head, Business Development
Andrey Maruta	Group Financial Controller
Dr. Alya Samokhvalova	Group Head, External Communications
Anna-Karolina Subcynska-Samberger	Group Head, Legal Services
Dmitry Chekashkin	Group Head, Precious Metals Operations
Martin Smith	Group Head, Technical Services
Andrey Tarasov	Head of Corporate Affairs
Sergei Ermolenko	General Director, Russia
Valery Alekseev	Group Head of Construction and Engineering
Nikolay Vlasov	Group Head of Exploration

There will be no changes to the executive and operational management team of Petropavlovsk upon the Listing of the Company, except that Jay Hambro (who was previously

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the Chief Investment Officer of Petropavlovsk) and Yury Makarov (who was previously the Group Head, Non-precious Metals Operations of Petropavlovsk) will no longer fulfil those roles within Petropavlovsk and will no longer be employed by Petropavlovsk or form part of Petropavlovsk's executive management team.

Jay Hambro will continue to provide consultancy services, via Mount F Consulting Limited, to Petropavlovsk and will spend one day per week engaged in such capacity. His duties will include strategic review and board consultation, merger and acquisition support, precious metal development and operational assets coordination assistance and providing accretive acquisition opportunities for Petropavlovsk investment projects. He will also provide such assistance and advice to Petropavlovsk or any company in the Petropavlovsk Group which is ancillary to and commensurate with the above as is requested by Petropavlovsk. In consideration of services provided, Petropavlovsk will pay Mount F Consulting Limited fees of £5,833 per month. Jay Hambro has resigned from full time employment within the Petropavlovsk Group. The services will not include any involvement on behalf of Petropavlovsk in any arrangements involving the Company.

Board of Directors of the Company and their positions in Petropavlovsk

Petropavlovsk and the Company have boards of directors that function independently of each other. The following table sets out details of the directors of the Company and their positions with Petropavlovsk upon completion of the Listing:

<u>Name</u>	<u>Position in the Company upon Listing</u>	<u>Position in Petropavlovsk or its subsidiaries upon Listing</u>
Jay Hambro	Executive Chairman	Part-time consultant (one day a week) but not a director
Yury Makarov	Executive Director — Chief Executive Officer	—
Raymond Woo	Executive Director — Chief Financial Officer	—
Dr Pavel Maslovskiy	Non-Executive Director	Executive Director — Chief Executive
Daniel Bradshaw	Independent Non-Executive Director	—
Jonathan Martin Smith	Independent Non-Executive Director	—
Chuang-fei Li	Independent Non-Executive Director	—

The composition of the Board has been designed to ensure that there is a balance of skills and experience appropriate for the requirements of the Group's business, whilst ensuring that the requisite degree of independence from the management team of Petropavlovsk is maintained. The Directors believe that the members of the Board have the necessary qualifications and expertise to undertake their role. Dr. Pavel Maslovskiy will be the only one of the seven Directors to hold a directorship within the Petropavlovsk Group as he will remain a director and the chief executive of Petropavlovsk. Due to Dr. Pavel Maslovskiy's significant experience in the mining industry and his strong reputation in the Russian mining industry and North East PRC, the Board considers it important for Dr. Pavel Maslovskiy to be a member of the Board.

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None of the other Directors, Executive or Non-Executive, will have any directorships in Petropavlovsk. Jay Hambro and Yury Makarov have resigned as employees of the Petropavlovsk Group.

The amount of remuneration received by Jay Hambro from Petropavlovsk in the years ended 31 December 2007, 31 December 2008 and 31 December 2009 were US\$29,997, US\$112,112 and US\$122,000, respectively. The amount of remuneration received by Dr. Pavel Maslovskiy from Petropavlovsk in the years ended 31 December 2007, 31 December 2008 and 31 December 2009 were US\$1,778,655, US\$1,057,663 and US\$1,598,000, respectively. For further details of Directors' service contracts and appointment letters of Independent Non-Executive Directors, please refer to Appendix VIII — "Statutory and General Information" to this prospectus.

After the Listing, Dr. Pavel Maslovskiy will continue to be employed by Petropavlovsk as a director and the chief executive of Petropavlovsk. Jay Hambro will be engaged as a consultant as described above. Save as aforesaid, no other members of the Board or its senior management team will be employed or engaged as a consultant by Petropavlovsk or receive any remuneration from Petropavlovsk after the Listing. Since he will remain chief executive of Petropavlovsk, Dr. Pavel Maslovskiy will refrain from taking part in any decision of the Group which concerns Petropavlovsk or in respect of which Dr. Pavel Maslovskiy may have a conflict of interest. Jay Hambro's role as a consultant of Petropavlovsk will expressly exclude from its scope matters relating to the Group. Accordingly, the continuing roles of Dr. Pavel Maslovskiy and Jay Hambro within Petropavlovsk are not expected to give rise to any concerns with regard to their respective duties to the Group. There is also a strong independent element to the Board, as a majority of the Non-Executive Directors are independent. None of the Independent Non-Executive Directors have or have had any directorship or other position in Petropavlovsk.

Pursuant to the Articles, any Director who holds a position in the Petropavlovsk Group will not be counted in the quorum and must abstain from voting on matters relating to the entering into of any transaction between the Company or any of its subsidiaries, on the one part, and Petropavlovsk and/or any of its associates (excluding the Group), on the other part, when such matters are being considered at a Board meeting. Such Directors shall also excuse themselves from Board meetings at which such matters are discussed, unless expressly requested to attend by a majority of the Independent Non-Executive Directors. A Director will also not be counted in the quorum and must abstain from voting on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested except in certain prescribed circumstances.

The Company may, from time to time, decide to enter into transactions with members of the Petropavlovsk Group, including in respect of the exercise of any option or right of first refusal granted by the Petropavlovsk Group under the Deed. Pursuant to the Articles, such proposals must be considered and voted on only by the Independent Non-Executive Directors together with any other Director who does not hold any position in the Petropavlovsk Group and decided by majority vote. Such Directors shall appoint from among themselves a chairman of the meeting, who shall have a second or casting vote in case of equality of votes at the meeting.

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These provisions in the Articles ensure that matters involving a conflict of interest which may arise from time to time will be managed in line with accepted corporate governance practice so as to ensure that the best interests of the Company and the Shareholders taken as a whole are preserved. Further details on restrictions on Directors from participating at Board meetings due to conflicts of interest are set out at Appendix VI — “Summary of the Articles of the Company” to this prospectus.

In addition, the Listing Rules provide protection for the Company and its Shareholders in relation to any non-exempt connected transactions. The Listing Rules require the Company to provide the Shareholders with the recommendation of the independent Directors and the independent financial adviser, and to seek the approval of independent Shareholders in a general meeting.

Executive management

Jay Hambro joined the board of Aricom in July 2006 as Aricom’s Chief Executive. Since the merger with Petropavlovsk in April 2009, Mr. Hambro has continued to be involved in the management of the Industrial Commodities Business of the Petropavlovsk Group as well as expanding his role to fulfil certain other functions within the Petropavlovsk Group including that of Chief Investment Officer. Mr. Hambro has resigned from full time employment within the Petropavlovsk Group although he has been retained as a part-time consultant (as described above).

The Board has established an Executive Committee comprising: Jay Hambro (Chair of Executive Committee); Yury Makarov (Chief Executive Officer); Raymond Woo (Chief Financial Controller); and Danila Kotlyarov (Group Financial Controller). The Executive Committee is vested with authority over strategic decisions of the Group. Save for Jay Hambro, no member of the Executive Committee will have any role with Petropavlovsk after the Listing.

The Board has appointed an Operations Committee which is vested with control of the day-to-day operations of the Group. The 18 members of the Operations Committee are set out in the section headed “Directors, Senior Management and Employees” in this prospectus. Save for Jay Hambro, no member of the Operations Committee will have any role in the Petropavlovsk Group after the Listing. Furthermore, the majority of the members of the Operations Committee have been engaged in the management of the Industrial Commodities Business throughout the Track Record Period.

No other member of the Petropavlovsk management team is expected to fulfil any management role within the Company. It is expected that a small number of the executive and operational management teams of Petropavlovsk may from time to time provide management services to the Group, pursuant to the Shared Services Agreement which is set out in the section headed “Connected Transactions” in this prospectus. This will include Martin Smith, Group Head, Technical Services of Petropavlovsk, who is expected to provide technical advice to the Company.

Administrative independence

The Group will procure certain administrative services from Petropavlovsk. Given the existing relationships between the Group and Petropavlovsk, it is more efficient economically and

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administratively for the Group to procure such services from Petropavlovsk rather than to approach new service providers or to source the services from within the Group. The Board will, from Listing and thereafter from time to time, review the procurement of these services to examine whether such procurement from Petropavlovsk remains the best option for the Group.

The Group will procure from Petropavlovsk administrative services relating to information technology, human resources, legal and certain other back-office functions. Certain administrative staff will be seconded to the Group from time to time.

The Group has entered into the Shared Services Agreement with Petropavlovsk which sets out the terms and conditions under which Petropavlovsk provides the administrative services to the Group. This agreement is described further in the section headed “Connected Transactions” in this prospectus. Save for those particular administrative services described above, all essential administrative functions will be carried out by the Group without requiring the support of Petropavlovsk. In particular, the Group will have its own capability in performing essential administrative functions such as finance and accounting, internal audit, treasury, procurement, logistics, sales and marketing, and compliance in the same way the Group procured these services prior to the merger of Aricom and Petropavlovsk in April 2009.

Operational independence and separate lines of business

Product nature

The business of the Group is delineated from that of the Petropavlovsk Group by reference to the type of metals which each business is focused on. The Group will focus on exploration, development and production of industrial commodities, predominantly iron ore, as well as other industries and commodities that are non-precious metal related, while the Petropavlovsk Group will focus on exploration, development and production of precious metals such as gold and related processing.

The Group does not share control of its mineral assets with Petropavlovsk. The Group holds all relevant licences and assets necessary to operate its Industrial Commodities Business.

The Group and the Petropavlovsk Group use different production methods for their respective products. For example, the technology and machinery used by Petropavlovsk in the production of gold cannot be used by the Group in the production of industrial commodities such as titanomagnetite concentrate, ilmenite concentrate and vanadium pentoxide.

Geographical location of operations

Although Petropavlovsk and the Group conduct exploration activity in the Russian Far East, their exploration activity is guided by existing geological information about the likely areas where precious metal deposits (in the case of Petropavlovsk) or iron ore deposits (in the case of the Group) may be found and it is unlikely that there would be an overlap of these deposits. Further, there are significant distances between the location of the precious metal deposits of Petropavlovsk and the iron ore deposits of the Group. The Group’s operations are therefore geographically separate from the Petropavlovsk Group’s operations due to the significant distance between their respective deposits.

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Senior management and employees

The management teams in Petropavlovsk and the Group are also distinct at the operational level. The board of directors and executive management teams are also comprised of different individuals except only in the limited respect as mentioned in the sub-section headed “Executive management” in this section. Each of the Group and Petropavlovsk employ their own employees and have separate management teams which are wholly distinct at the operation level.

Suppliers

Other than as disclosed in the section headed “Connected Transactions” in this prospectus, the Group does not rely upon the Petropavlovsk Group for equipment supplies. The Group has procured, and will continue to procure equipment from third party suppliers. Some of the Group’s third party suppliers during the Track Record Period were common to the Petropavlovsk Group.

During the Track Record Period, both the Group and the Petropavlovsk Group have used a number of local and international contractors for the purpose of procurement of different types of equipment and services. Most material of those are: Amur Machinery and Services (local distributor of CAT equipment), Volvo Vostok and Tech center Volvo (local dealer of Volvo vehicles and equipment), Mining Solutions (local dealer of Atlas Copco, drill equipment producer), DEK Amurenergosnab (electricity supplier in Amur Region), Gornopromyshlennaya Finance Company (machinery and equipment supplier in the Russian Far east) and others. All of the above vendors are independent third parties of the Group and the Petropavlovsk Group.

The Group will procure certain of its technical services from companies within the Petropavlovsk Group. The services of these subsidiaries are not typically offered to third parties. Further details in relation to the technical services provided by Petropavlovsk Group is set out in the section headed “Connected Transactions” in this prospectus.

Petropavlovsk owns a number of technical services companies from which the Group intends to procure the following technical services: engineering and design; construction; and exploration and geological services. Many mining companies do not hold these technical services in-house and procure such services from third party providers; the Group is therefore not unique in this regard. The Group procures these services from Petropavlovsk at cost plus a 10 per cent. margin. The Group reasonably believes that this reflects a competitive and commercial arm’s length arrangement. However the Group is not wholly reliant upon the Petropavlovsk Group for technical services. The Group can also procure some services from its subsidiary Giproruda. Giproruda is a mine design institute. Its work includes the design, coordination, construction and commissioning of quarries and mines for mining clients, including in challenging geological and climatic conditions. It does not provide process-design, laboratory or civil engineering services. Accordingly, the Group cannot source all of its technical services requirements from Giproruda. The Group has previously used Giproruda to prepare the Garinskoye Pre-feasibility Study 2007, but where the Group has required engineering services, it has procured such services from CJSC Peter Hambro Mining Engineering; a subsidiary of Petropavlovsk, and as disclosed in the section headed “Connected Transactions” in this prospectus. For further details on Giproruda and the

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services it provides see the section headed “Business” in this prospectus. The Group could also procure engineering and design services from third parties, including recognised foreign operators in Russia, and although it may be less cost effective than procuring those services from the Petropavlovsk Group, it would not be cost prohibitive. In addition, the Group is developing its own in-house engineering team in Moscow to provide it with an internal source of engineering expertise. The Group will assess whether this internal capability is cost effective, and if so, it will explore further expansion of its in-house engineering team.

During the Track Record Period, the Group relied upon a subsidiary of the Petropavlovsk Group, Kapstroj, for construction services in respect of the development of the Kuranakh Project. However, the Group has taken steps to procure construction services from third parties. In particular, the Group has entered into a co-operation agreement with CNEEC in respect of the development of Stages 1, 2 and 3 of the K&S and Garinskoye projects, as described in the sub-section headed “Strong and supportive relationships in the PRC and Russia” of the section headed “Business” in this prospectus. For exploration and geological services, the Group has previously procured services from Dalgeophysica, a Russian geological consultancy company, however the Board is not aware of any other alternative and viable third party suppliers to Petropavlovsk operating within the area where the Group’s assets are located. If the Group did not procure exploration and geological services from Petropavlovsk, it has the capability to develop its own exploration function within the Group; however this would increase the cost and extend the timeframe of the Group’s scheduled exploration activity. Although development of an exploration function within the Group would not be cost prohibitive, the Directors believe that it is in the best interests of the Group to procure exploration and geological services from Petropavlovsk for the short term. Since exploration activity has concluded at a number of its core projects, the Group is not reliant on procuring additional exploration services in order to bring such projects into production.

The Group has entered into the Technical Services Agreement with Petropavlovsk which sets out the terms and conditions under which Petropavlovsk provides technical services to the Group. This overarching agreement is set out in the section headed “Connected Transactions” in this prospectus.

Customers

There is a clear delineation between the customers of a precious metals business such as Petropavlovsk and the customers of an Industrial Commodities Business such as the Group’s. For example, Petropavlovsk sells a substantial portion of its product to financial institutions and commodities traders. By contrast, iron ore producers like the Group typically sell their product to steel mills which purchase iron ore under long term contracts. In 2009, the Group entered into two agreements with Jianlong. First, an off-take agreement to provide Jianlong with titanomagnetite concentrate mined at the Kuranakh Project, and second, a joint venture for the production of vanadium pentoxide. These arrangements are also set out in the sub-section headed “Sales Arrangements” of the section headed “Business” in this prospectus. The precious metals business conducted by Petropavlovsk does not sell products to either Chinalco or Jianlong and has not sold products to Chinalco or Jianlong during the Track Record Period. There were, therefore, no common customers between the Group and the Petropavlovsk Group (in this case, defined as not including the Group) during the Track

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Record Period. The Group has established its own sales and marketing team which will operate independently from Petropavlovsk.

The Group is headquartered in Hong Kong. It also has offices in Moscow, Blagoveschensk and Birobidjan in the EAO. It will share office space with Petropavlovsk in London.

Subsequent UK Listing Rule implications

The effect of the Company's position as a subsidiary of a holding company, Petropavlovsk, which is admitted to listing on the Official List, is that certain transactions of members of the Group will have implications for Petropavlovsk under the UK Listing Rules. The transactions will be those of a nature that mean they are considered to be outside the ordinary course of business for Petropavlovsk and its subsidiaries, judged as against the size and incidence of transactions previously entered into by Petropavlovsk and its subsidiaries. For example, if the Company enters into transactions above certain thresholds, assessed on the basis of the size of the transaction relative to the size of the listed company, Petropavlovsk, Petropavlovsk will be required under the UK Listing Rules to comply with announcement obligations or, in some instances, to obtain approval from its shareholders in respect of the members of the Group entering into the relevant transactions. Examples of such transactions include acquisitions of other entities or businesses, disposals of group entities or businesses, and entering into joint venture agreements.

Financial independence

The Company is financially independent from the Petropavlovsk Group.

During the Track Record Period, the Petropavlovsk Group provided loans to the Group and guarantees in respect of bank borrowings of the Group. All of these loans have been repaid and the guarantees have been released as part of the Reorganisation.

Subsequent to 30 June 2010 the Petropavlovsk Group provided the Company two loans totalling US\$4.6 million as at 31 July 2010 as an interim funding measure. These loans were fully repaid in September 2010.

As a separate company listed on the London Stock Exchange before the Merger and, prior to October 2007, a company whose shares were admitted to trading on AIM, Aricom (as the predecessor of the Company) had a record of fund raising on a stand-alone basis without any credit support from Petropavlovsk and it had a strong financial position as a separate and distinct listed entity with its business operations very different from Petropavlovsk. Aricom's stand-alone fund raising record includes a GBP9.6 million share placing in March 2005, a US\$152 million share placing in April 2006 and a share and warrant placing raising approximately US\$554 million, which was completed in June 2007. Aricom also received commitment letters of US\$65 million in May 2007, without guarantee from Petropavlovsk or any other third parties, in respect of a US\$65 million project finance facility to complete the financing of the Kuranakh Project, which facility was not utilised due to the availability of alternative funding sources.

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On 23 March 2010, it was announced that a non-binding indicative term sheet for the funding of Stage 1 of the Group's K&S project with ICBC (the "ICBC Facility") had been entered into. If the ICBC Facility is entered into, the amount to be lent will constitute 85 per cent. of the total amount of the proposed EPC contract (such amount is currently estimated to be approximately US\$400 million). The loan term will be for 11 years. The availability of the loan is subject to the completion of definitive transaction documentation, PRC regulatory approval and final credit committee approval.

It is expected that, assuming the ICBC Facility is agreed, Petropavlovsk will provide a guarantee in favour of ICBC in respect of the performance of the Company's payment obligations under the ICBC Facility. The Company will not be liable to pay any fee or other consideration to Petropavlovsk or any other person for the provision of this guarantee. No security over the assets of the Company is expected to be granted in respect of the guarantee to be provided by Petropavlovsk.

The ICBC Facility, as proposed, would be for a specific development project – the K&S project – and is not for general working capital purposes. The Company has and will have for the twelve months from the date of this prospectus sufficient working capital without the ICBC Facility as set out in the sub-section headed "Working Capital" in the section headed "Financial Information" in this prospectus. The ICBC Facility, if entered into, would account for 100 per cent. of the Company's total indebtedness. The ICBC Facility, including the provision of the guarantee, would be on arm's length normal commercial terms.

SINOSURE, the China Export & Credit Insurance Corporation, proposes to provide insurance cover of up to 95 per cent. of the ICBC Facility in relation to certain commercial and political risks (including non-payment by the borrower of the ICBC Facility or insolvency of the borrower). In the event that such commercial or political risks occur, and ICBC is not able to recover amounts owing to it under the ICBC Facility from either the borrower of the ICBC Facility, or Petropavlovsk as the intended guarantor of the ICBC Facility, ICBC shall be entitled to make a claim to SINOSURE up to the insured amount. In line with the prevailing market practice, the SINOSURE insurance cover and the guarantee from Petropavlovsk have been requested by ICBC as part of the terms of the financing. If the ICBC Facility is entered into and the SINOSURE insurance cover taken out, the Group will be required to pay a fee for the SINOSURE insurance cover which is expected to be 4.61 per cent. of the total amount of the ICBC Facility. 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. The Group is continuing with negotiations on the definitive loan documentation for the ICBC Facility.

Support by Petropavlovsk in the form of a guarantee, if required, would help the Company to obtain financing for the K&S project at a lower cost (by at least 2.5 per cent.) and on other more favourable terms. Furthermore, the ICBC Facility would allow the Company to establish a long-term relationship with ICBC, a PRC lender and one of the world's largest banks, which the Directors believe would benefit the Company's business development especially in the PRC. Being able to utilise Petropavlovsk's reputation and financial strength at this time would facilitate the Company's development of its own standing as a separately listed issuer and the holding company of a group engaged in a distinct and separate line of business and having its own rights and obligations and assets and liabilities. The Directors believe that the guarantee

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would enhance rather than undermine the Company's status as an entity of substance and in good financial health.

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 Group is able to agree definitive documentation with ICBC and decides to pursue that financing option, it will fully comply with the Listing Rules at the time of entry into such documentation. The Directors will be required to consider whether the entry into the ICBC Facility, coupled with the guarantee from Petropavlovsk, is in the best interests of the Company and in doing so, consider its relative merits against any other financing alternatives available at the time. 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 Facility 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.

The provision by Petropavlovsk of the proposed guarantee in respect of the ICBC Facility would not give rise to any benefit to Petropavlovsk that would not be shared by minority shareholders of the Company; on that basis, there would be no prejudice to the future minority shareholders in the Company after Listing.

The Group will be, at and after Listing, financially independent from its controlling shareholder based on the following analysis. The Company is a development stage Mineral Company (as defined in the Listing Rules) and this has a number of implications for how its financial independence should be assessed.

First, the Company will be financially independent after Listing. The Group has no material outstanding debt obligations and, more specifically, will after the Listing have no outstanding loans, guarantees or other financial assistance from any other member of the Petropavlovsk Group. The previous holding company of the Group, Aricom, had a track record of stand-alone fundraising as described above when its shares were traded on AIM and subsequently the London Stock Exchange before it was merged into the Petropavlovsk Group. On achieving listing in Hong Kong, the Group expects to have at least an equal ability to raise funds on a stand-alone basis. As a Mineral Company with assets in development, the Company is looking to diversify its means of funding such development. The Directors believe that the Company's Hong Kong listing will enhance its ability to raise funds through more conventional project financing, as well as through the debt and equity capital markets. The Directors are able to make the working capital statement set out in the section headed "Financial Information" in this prospectus (and the Group can finance a significant portion of its development projects) without reliance on any actual or proposed debt financing or parent guarantee or other form of financial support.

Second, although the Group proposes to enter into a project finance facility with ICBC, which would be guaranteed by its parent company, Petropavlovsk, the Group's business is viable without the ICBC financing. As the ICBC facility will, at the Listing Date, remain the subject of negotiations with ICBC, the entry into the facility agreement, and the timing of this, is not certain, although the Company anticipates that the facility agreement will be entered into

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before the year end. From Listing, the Group, without the need for further debt or equity financing will have sufficient financial resources to take its producing mine at the Kuranakh Project to full target production rate which is expected to generate positive cash flows by the end of Q1 2011 (on the basis of current costs and prices). Other than the proposed ICBC financing, there is no other arrangement which involves financial support being provided to the Group by the Petropavlovsk Group. The fact that the Group is able to operate a viable business without the ICBC financing demonstrates the Group's financial independence from its controlling shareholder. Other options which the Company would explore if the ICBC Facility is not made available are referred to below. These options would not involve any guarantee or other form of financial assistance being provided by any other member of the Petropavlovsk Group.

Third, alternative financing proposals are available to the Company. In preparing for Listing, the Directors have sought a number of financing arrangements as alternatives to those being negotiated with ICBC. These alternative arrangements are not contingent upon a guarantee from Petropavlovsk or any other member of its Group being made available. The Company has received an indicative term sheet from a European bank in relation to a proposed club deal where the underwriting syndicate would comprise around 4 to 5 banks of which the provider of the term sheet would be one of the lead arrangers. The Company has also received a preliminary indication of terms from another European bank in relation to a proposed club deal of up to US\$350 million which would similarly be split between a number of underwriting banks. The proposed terms in each case are not contingent upon a guarantee from Petropavlovsk being made available. The Directors expect that the listed status of the Company (once achieved), the fact that the Group has no material indebtedness and the ability of the Company's projects to produce significant future cash flows will assist it in obtaining alternative debt or equity financing on a stand-alone basis. The Group does not consider that, for the purposes of demonstrating its financial independence, any alternative financing need be on matching terms to the ICBC Facility. If the Group does not proceed with the ICBC financing (currently anticipated to be in the region of US\$340 million), its funding strategy in relation to Stage 1 of its development programme may change and it may raise a different amount from an alternative lender. In the Company's experience, European banks typically provide project finance on a "club deal" basis (with members of the "club" committing smaller individual amounts) rather than facilities provided on a solo basis such as that in negotiation with ICBC. The availability of finance from a single Chinese lender, in the Directors' opinion, would offer potentially greater benefits for the Group compared to alternative financing. The nature of financing available to Mineral Companies engaged in development is different from corporate facilities provided to more mature companies with existing cash flows and a financial track record. Whereas it would not be unusual for a company with the requisite track record to canvass the same basic financing package from a number of lenders and select the most favourable terms, the same process is not usually available to a development stage Mineral Company. Each lender to a development stage Mineral Company will propose the terms upon which it will lend based upon its view of one or more relevant projects, meaning that there may not be comparable financing options. Such finance is typically provided on a more bespoke basis, with reference to the individual lender's preferences, and its appetite and capacity for financial exposure to the opportunities presented by a particular asset. In the case of Chinese lenders, the negotiation of natural resources finance facilities is often interlinked with the negotiation of an EPC contract with a Chinese contractor, which may alter the size and terms of the proposed financing (particularly

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when compared with a typical European lending model without a linked EPC contract). The Company is a development stage Mineral Company applying for listing under Listing Rule 18.04 which satisfies the listing criteria in Chapter 18 of the Listing Rules whether or not it obtains the proposed ICBC financing. Accordingly, based upon the above analysis, the Group is financially independent and the Sponsor confirms that it is satisfied the Group is financially independent.

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 by alternative sources of debt or equity 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 Stages 2 and 3 of its development programme by deferring those stages, and/or modifying the capital expenditure plan for Stage 1. See also the Risk Factor headed “The Group may not be able to finance its future planned capital expenditure” in this prospectus.

The Company believes that it is not dependent on Petropavlovsk on financial, operational or management matters. The Directors believe, on the basis of the reasons stated above, that the ICBC Facility supported by the proposed guarantee by Petropavlovsk would not compromise the financial independence of the Company.

Other than in relation to the ICBC Facility, the Company will have sufficient working capital and cash reserves to meet its ongoing operational activities. Furthermore, it will generate sufficient income from its operations to fund its ongoing liquidity requirements.

SOLE SPONSOR’S CONFIRMATION

Having regard to the measures disclosed in this section, namely, the delineation and independence of the Company’s business from that of Petropavlovsk, the arrangements in place for managing conflicts of interest in light of Petropavlovsk’s interest in the Company, the Company’s procedures and policies as disclosed in this section (including, without limitation, the Deed and the Company’s ongoing review of its compliance with the Deed) and the continuing obligations of the Company under the Listing Rules and the provisions of the Companies Ordinance that give certain prescriptive rights to shareholders, including minority shareholders, the Sole Sponsor is of the view that there will be adequate arrangements in place to effectively manage any conflicts of interest between the Company and Petropavlovsk and to protect minority shareholders’ rights.