The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the historical financial information included elsewhere in this prospectus. The Accountants' Report and the accompanying notes referred to therein have been prepared in accordance with HKFRS, which differs in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States. The Group has not identified or quantified the impact of these differences.

This discussion and analysis contains forward-looking statements that reflect the current views of the Directors and involve risks and uncertainties. The Group's actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Risk Factors".

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's portfolio is diversified by project size, stage of development and location. To date, the Group's activities have largely consisted of the acquisition of mining licences, exploration for iron ore, development and early mining and processing activities at the Kuranakh Project (consisting of a limited number of shipments of pre-concentrate in 2008, the commencement of testing and commissioning of the main processing plant in May 2010, the production of titanomagnetite and ilmenite concentrate from June 2010 and sales of titanomagnetite concentrate from September 2010). As a result, the Group's historical operating results do not reflect that of a company in full production. The Group received much of its revenue during the Track Record Period from the mining engineering business operated by its subsidiary, Giproruda.

For further details on the Group, refer to the sections headed "History and Restructuring" and "Business" in this prospectus.

BASIS OF PREPARATION

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements present the financial information of the Group for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, or since the subsidiaries' respective dates of incorporation/establishment or acquisition, whichever is the shorter period. The combined statements of financial position of the Group as at 31 December 2007, 2008 and 2009 and as at 30 June 2010 have been prepared to present the combined assets and liabilities of the Group at the end of those reporting periods. The combined income statement of the Group for the six months ended 30 June 2009 has been prepared for comparative purposes and is unaudited.

The financial information has been prepared based on the financial statements of the Company and entities controlled by the Company (and its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of (other than business combinations involving entities under common control) during the Track Record Period are included in the combined income statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions and balances between companies in the Group are eliminated in full on combination.

KEY FACTORS AFFECTING RESULTS OF OPERATIONS

The Group's stage of development

The Group's results of operations have varied, and are expected to continue to vary, depending on the development stage of each of its projects. To date, the Group's activities have largely consisted of the acquisition of mining licences, exploration for iron ore, development of its mining sites and early mining and processing activities at the Kuranakh Project (consisting of a limited number of shipments of pre-concentrate in 2008, the commencement of testing and commissioning of the main processing plant in May 2010, the production of titanomagnetite and ilmenite concentrate from June 2010 and sales of titanomagnetite concentrate from September 2010). As a result, the Group's historical operating results are not indicative of the operating results it expects to experience when its projects become more advanced.

The Group's financial position and operating results have primarily been affected by costs associated with the acquisition of mining licences, feasibility studies, site preparation, infrastructure development, associated staff costs and other costs associated with exploration and development. All costs are capitalised until the time the project commences production. To the extent that the Group continues to engage in exploration and development activities, its results of operations will be affected by these and other costs associated with pre-production stages of development. To the extent that the Group continues to progress its mining activities into the production and sale of mineral products, its financial position and results of operations will be affected by a variety of additional factors, including production levels, iron ore prices, expected revenue generation, commencement of sales, production costs and transportation costs, among others, as well as levels of capital expenditure required at later stages of project development, including in relation to plant construction, increasing extraction and processing capabilities and other infrastructure development.

Production costs and efficiency

Before mid-2010, the Group had minimal production costs because these costs only related to the production of pre-concentrate which was not processed. With the commencement of testing and commissioning of the main processing plant at the Kuranakh Project in May 2010 and the production of titanomagnetite and ilmenite concentrate from June 2010, the Group experienced high production costs in the short-term due to inefficiencies related to the testing phase where there were high fixed costs over low production volumes. Going forward, the competitiveness and long-term profitability of the Group will depend, to a significant degree, upon the Group's ability to maintain low-cost and efficient operations. Costs associated with mining and production of titanomagnetite and ilmenite concentrates can be broadly categorised into costs attributable to raw materials, depreciation and amortisation, labour costs, overheads and utilities. The Group's production costs will increase together with increases in production volumes and may be impacted by levels of inflation in Russia and the PRC. In addition, there are Russian mining taxes applicable to the Group's ore extraction activities, which are charged monthly. In accordance with Russian tax regulations, the ore extraction tax is determined with reference to the nature of the product produced and is currently 8 per cent. of the total production cost at the Kuranakh Project and 4.8 per cent. of the total production cost at the K&S project.

The Group expects to benefit from low labour costs (compared to the cost of labour in more economically developed countries) due to the location of the Group's operations, and comparatively low transportation costs (compared to iron ore suppliers who transport their product by sea) due to the close proximity of its principal operations to the PRC, the Group's principal market. The Directors believe that these factors will give the Group a lower cost structure compared to other suppliers of iron ore to the PRC market. The Group also benefits from comparatively low electricity costs (compared to its competitors) due to the substantial supply of energy from hydroelectric power sources in the regions in which the Group operates.

Recent acquisitions and investments

Since 1 January 2007, the Group has engaged in acquisition and investment activities to further its strategy of locating, developing and operating industrial commodity projects in the Russian Far East and the north eastern region of the PRC in order to create value in its mining portfolio. The Group's strategic acquisition of assets has enabled it to gain control of key mining properties, with a view to developing these properties in the future. Going forward, the Group will continue to evaluate opportunities to acquire other mining properties. The acquisitions and investments which the Group has carried out since 1 January 2007 initially had a significant impact on the Group's tangible and intangible assets and have since impacted results of operations primarily through impairment charges. To the extent these assets produce in the future, they will have an impact on revenue and costs.

Acquisitions are reflected in the Group's financial statements from the date of each acquisition. Accordingly, the full year effect of acquisitions on the income statement and the cash flows of the Group are not reflected in the financial statements for the financial year in which such acquisitions are completed, but only in the financial statements for the following financial year. The most significant of these investment activities for the periods under review are as follows:

- In June 2007, the Group acquired a 68.5 per cent. interest in Giproruda, a leading engineering institute based in St. Petersburg, Russia that specialises in mine and processing plant design, through the acquisition of shares from minority interest shareholders, for total cash consideration of US$8.1 million. The Group increased its interest to 70.3 per cent. in September and October 2007 for total cash consideration of US$0.2 million.

- In August 2007, through the exercise of an option acquired in April 2006, the Group acquired the remaining 50.0 per cent. interest in LLC KS GOK, which holds the licence for extraction at Kimkan and the licence for exploration and extraction at Sutara, from Philotus, in consideration for the issue of 123,782,467 shares at a cost of £0.52 per share which was the prevailing market value at the time (for total consideration of US$149.3 million), which increased the Group's ownership interest in LLC KS GOK to 100 per cent. The Group had previously acquired the other 50.0 per cent. interest in LLC KS GOK from Malavasia Enterprises, Inc. in June 2006.

- In September 2007, the Group acquired a 70.2 per cent. stake in Lapwing, the holding company that owns LLC GMMC GOK, which, in turn, holds the licence to develop and exploit the Garinskoye iron ore deposit in the Amur Region of Russia. Consideration for the acquisition of this asset was the settlement of a loan previously made by the Group to Lapwing for €20.2 million, in exchange for 20.2 million shares at €1 each in Lapwing. In January 2008, the Group agreed to acquire the 0.1 per cent. ownership interest in Lapwing held by PBO Handelsges M.B.H., a minority shareholder, for a total non-cash consideration amounting to US$0.3 million. In February 2008, the Group acquired an additional 29.3 per cent. interest in Lapwing from Olis Constructions Limited ("Olis"), with the result that the Group's interest in Lapwing as at 31 December 2008 amounted to 99.6 per cent. Including acquisition costs, the total purchase consideration for the acquisition of the 29.3 per cent. interest from Olis was US$122.1 million, including settlement of a US$65.0 million loan made by the Group to Olis in December 2007, which bore an interest rate of 5.2 per cent. per annum and interest payable thereunder.

- In August 2008, the Group entered into a joint venture agreement with Chinalco for the development of a titanium sponge production plant in Jiamusi City, Heilongjiang Province, PRC and established the joint venture company Jiatai Titanium. The Group holds 65.0 per cent. of Jiatai Titanium and agreed to contribute approximately US$69.5 million to the joint venture and Chinalco holds 35.0 per cent. of Jiatai Titanium and agreed to contribute approximately US$37.0 million to the joint venture, with neither party having voting control of the joint venture. The Group contributed US$20.8 million to the joint venture in September 2008 and has contributed to date a further US$15.3 million on the titanium sponge processing technology. During the six months ended 30 June 2010, Chinalco advised the Group that it had decided to withdraw from some of its non-core ventures and consequently it wished to dispose of its equity interest in Jiatai Titanium and withdraw from the joint venture project, and the Directors concluded that the most appropriate course of action was to provide for an impairment against the amounts already invested in such joint venture in an amount of US$33.1 million.

- In September 2008, the Group exercised previously-acquired options to purchase a 100 per cent. interest in both Rumier Holdings Ltd and Guiner Enterprises Ltd, Cypriot registered companies, which hold 100 per cent. investments in LLC Optima and LLC Ekvador, respectively, which, in turn, hold the licences for the right to mine the Kostenginskoye and the Garinskoye Flanks deposits, respectively. The combined consideration for both assets upon exercise of the options amounted to approximately US$45.0 million in cash paid for the options and 21,875,000 shares (10,937,500 shares for each asset) at a cost of £0.23 per share which was the prevailing market value at the time (equivalent to approximately US$9.0 million).

- In February 2009, the Group entered into a joint venture agreement with Jianlong and Kuranakii to develop a processing plant in the north eastern region of the PRC for the production of vanadium pentoxides and other vanadium products. The Group's contribution to the joint venture is expected to be approximately US$6.7 million, equivalent to a 46 per cent. interest in the joint venture, Jianlong's contribution is expected to be approximately US$7.4 million, equivalent to a 49 per cent. interest, and Kuranakii's contribution is expected to be approximately US$0.8 million, equivalent to a 5 per cent. interest. The Group contributed approximately US$2.0 million to the joint venture in November 2009 and a further US$2.0 million was paid during the six months ended 30 June 2010. The remaining amount of approximately US$2.7 million was paid in September 2010.

Impairment provisions

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit ("CGU"). The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

Management necessarily applies its judgement in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

In particular, the Group completed impairment testing for all of its CGUs as at 31 December 2008. K&S and Garinskoye were assessed as a single CGU for impairment purposes because at the time they were expected to be developed as a single project. The impairment testing identified that a provision of US$86.5 million was required against the Kuranakh Project, with a further provision of US$299.9 million against K&S and Garinskoye, due to a potential delay in the development of the projects as a result of the unavailability of project financing and weaker forecasted iron ore prices.

The Group also completed impairment testing for all of its CGUs as at 31 December 2009 and identified that an additional provision of US$87.9 million was required against the Kuranakh Project due to higher railway tariffs for the transportation of ilmenite concentrate and further delays in the completion of the project leading to higher capital costs. For the purposes of this impairment testing, K&S and Garinskoye were assessed as separate CGUs for impairment purposes following the decision to develop K&S independently of Garinskoye.

During the six months ended 30 June 2010, the Company was advised that its joint venture partner Chinalco had decided to withdraw from some of its non-core ventures and consequently it wished to dispose of its equity interest in Jiatai Titanium and withdraw from the joint venture project. To date the Company has invested approximately US$20.8 million in the joint venture, and a further US$15.3 million on the titanium sponge processing technology, which was expected to be recharged to the joint venture. As a consequence the building of the titanium sponge production plant has been deferred and there is uncertainty as to the eventual outcome of the joint venture activities and the recoverability of the amounts invested. As a result, the Directors concluded that the most appropriate course of action was to provide for an impairment against the invested amounts of US$33.1 million. This impairment was allocated to intangible assets (US$0.7 million), property, plant and equipment (US$14.6 million) and interests in joint ventures (US$17.8 million). The impairment took into account the recoverable value of the Group's share of the joint venture of US$4.9 million which reflected the Group's 65 per cent. share of the cash within the joint venture, net of its liabilities. Following discussions with Chinalco, the Group has recently entered into an agreement with Chinalco pursuant to which, and subject to certain conditions, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for Chinalco's stake in Jiatai Titanium. Further details of this agreement are set out in the sub-section headed "Jiatai Titanium" of the section headed "Business" in this prospectus.

In addition, the Group also recognised an impairment provision in the six months ended 30 June 2010 in the amount of approximately US$1.4 million related to the impairment of further amounts advanced in respect of Bolshoi Seym.

As at the Last Practicable Date, nothing has come to the attention of the Directors that would indicate that a material impairment of the Group's tangible and intangible assets would be required.

The assessment of a project's recoverable value is subject to a number of significant assumptions including those relating to forecast prices, production costs and capital expenditure. Changes to the assumptions underlying the assessment of the recoverable value may result in changes to impairment charges, either through further impairment charges or reversal of previously recognised impairments, which could have a significant impact on the results of operations in future periods. In addition, further delays, increases in the total forecast cost of planned projects or negative outcomes to exploration and evaluation activities could lead to additional impairment charges in the future.

For further details of the assumptions used when assessing the impairment of the Group's tangible assets and the effect of those assumptions, see note 10 to the historical financial information included at the Accountants' Report at Appendix I to this prospectus.

Effect of exchange rates

The Company and most of the other companies within the Group have a U.S. dollar functional currency. Accordingly, depreciation or appreciation of the U.S. dollar versus other currencies exposes the Group to increases or decreases in the value of assets and liabilities on the Group's consolidated statement of financial position that are denominated in those currencies. The most significant impact during the Track Record Period was the foreign exchange loss generated upon the translation of the Group's Rouble-denominated cash to US dollars in an amount of US$22.6 million in 2008. As a result, following the rapid depreciation of the Rouble at the end of 2008 and the start of 2009, in late 2008 the Group revised its policy of holding cash in Roubles to hedge against Rouble-denominated capital and operating expenditures to a policy of holding cash in the functional currency of the respective entities to help minimise exposure to fluctuations in currency exchange rates. The Group does not enter into forward currency exchange rate hedging contracts.

The Group's main exposure to foreign currency fluctuations is in the translation of Rouble-denominated monetary assets and liabilities, such as prepayments for property, plant and equipment, VAT receivables and trade and other debtors. During the Track Record Period, the U.S. dollar strengthened significantly against the Rouble between August 2008 and March 2009, which generated foreign exchange losses for the Group. Between March 2009 and April 2010, the U.S. dollar depreciated significantly against the Rouble, which generated foreign exchange gains for the Group. From May 2010 to the end of the Track Record Period, the U.S. dollar appreciated somewhat against the Rouble, which resulted in foreign exchange losses. The following table sets forth the average and closing rates of exchange of the Rouble against the US dollar for the periods indicated:

	Six months ended 30 June	Year ended 31 December		
	2010	2009	2008	2007
		(RUR/US$)		
Closing	31.20	30.24	29.38	24.55
Average	30.05	31.77	24.87	25.55

Source: Central Bank of Russia

Most of the Group's operating expenses are denominated in Roubles and to a lesser extent Renminbi, and prior to 30 June 2010 most of the corporate overheads were denominated in GBP and Roubles. Historically, with the exception of the sales of pre-concentrate for US$501,000 in 2008, which were priced in USD and accounted for approximately 2 per cent. of the Group's revenue over the Track Record Period, sales of engineering services provided by Giproruda were priced in Roubles. Historically, the Group's capital expenditure in relation to construction was primarily denominated in Roubles. Expenditure for the mining fleet is generally priced in USD and Euro. However, the Group expects to receive most of its revenues from the sale of magnetite, titanomagnetite and ilmenite concentrates in U.S. dollars, as these commodities are typically priced in U.S. dollars. Accordingly, the Group's financial results may be affected by fluctuations in the exchange rate between the Rouble (and to a lesser extent, the British pound, Renminbi or Hong Kong dollar) and the U.S. dollar. Depreciation of the U.S. dollar versus the Rouble will increase the Group's operating costs in U.S. dollar terms and thereby negatively impact the Group's operating results, while appreciation of the U.S. dollar versus the Rouble (and to a lesser extent, the British pound, Renminbi or Hong Kong dollar) will decrease the Group's operating costs in U.S. dollar terms and thereby positively impact the Group's operating results.

Commodity prices and demand

During the Track Record Period, iron ore prices did not have an effect on the Group's results of operations because the only sales during this period were of pre-concentrate in 2008, which was sold at a negotiated price which was not benchmarked against iron ore prices. The Group anticipates that in the future, substantially all of its revenues will be derived from the sale of magnetite, titanomagnetite and ilmenite concentrates. Accordingly, prices of magnetite, titanomagnetite and ilmenite concentrates are expected to have a material impact on the Group's results of operations.

Magnetite and titanomagnetite concentrate prices

Magnetite and titanomagnetite concentrate prices are influenced by global iron ore prices. Historically, iron ore prices were set on an annual benchmark basis, which was negotiated between the three major iron ore producers (Vale, BHP Billiton and Rio Tinto) and their major steel producing customers. Recently, however, there has been a shift towards quarterly benchmark pricing. In addition a spot market has developed, based on exports of Indian ore to China, with daily quotations. If this trend towards quarterly benchmark or spot market pricing continues, there is likely to be increased iron ore price volatility. Events such as changes in production capacity, temporary price reductions or other attempts to capture market share by significant producers may have an effect on market prices. Although smaller iron ore producers, such as the Group, are unlikely to be able to influence market prices directly, the prices they realise on sales of their products can, to some extent, be affected by contractual arrangements, production levels, product quality and hedging strategies. The Group does not intend to hedge against fluctuations in mineral prices.

Iron ore prices are significantly affected by changes in global economic conditions and related industry cycles. The global financial crisis of 2007 and 2008 resulted in the worldwide economy entering into a recessionary period, the impact of which persists despite some signs of early recovery. This resulted in weakness in the demand for steel and other products manufactured from iron ore and consequently lower prices for iron ore concentrate, including in China, the Group's primary target market. During 2008, iron ore prices were highly volatile, increasing to record levels in the second quarter of 2008 and then sharply declining thereafter. As the global economy began to recover in 2009 and in the first half of 2010, the spot price for iron ore increased to April 2010, after which iron ore prices once again declined. However, a protracted period of prevailing low iron ore prices in the future would have a direct and negative impact on the Group's business, negatively impacting revenue levels derived from iron ore sales from producing assets and potentially resulting in continued construction activities and commercial production being uneconomical. In addition, a protracted decrease in the market prices of iron ore could affect the Group's ability to finance its development project at K&S and exploration project at Garinskoye, particularly if low commodity price cycles coincide with substantial repayment commitments on project loans, if such loans are utilised.

For the purposes of determining what price should be paid for a particular ore, a standard methodology is generally used incorporating three main factors: freight costs, iron content and mineralogy and chemical impurities. Titanomagnetite concentrate, being a variation of a magnetite concentrate typically with a high vanadium and titanium content, is generally priced at a discount to iron ore benchmark prices due to the additional processing cost (the cost of processing a titanomagnetite ore is approximately twice that of processing a standard magnetite or haematite).

The Group expects to price its products using the prevailing pricing mechanism in existence at the time of entering into offtake agreements or other sales arrangements. Currently, the Group is party to an offtake agreement with Jianlong, pursuant to which sales of titanomagnetite concentrate from the Kuranakh Project on a 'delivery at frontier' basis are made based on an annual 'free on board' iron ore benchmark price for BHP Billiton and Rio Tinto plus a premium reflecting the Group's transportation costs.

For a further discussion of iron ore prices and demand, see the section headed "Industry Overview" in this prospectus.

Ilmenite concentrate prices

Ilmenite concentrate prices are not based on iron ore prices. There is no similar benchmark pricing mechanism for ilmenite concentrate as there is for magnetite or titanomagnetite concentrates. Therefore the Group expects to negotiate ilmenite concentrate prices on a contract by contract basis, based on prevailing market prices for ilmenite concentrate.

For a further discussion of ilmenite concentrate prices, see the section headed "Industry Overview" in this prospectus.

Impact of the acquisition of the Aricom Group by the Petropavlovsk Group and the recent restructuring

Acquisition of the Aricom Group by the Petropavlovsk Group

Following the acquisition of the Aricom Group by the Petropavlovsk Group in April 2009, the Group loaned to Petropavlovsk Group companies through intercompany loans up to US$178.2 million, and received intercompany loans from the Petropavlovsk Group companies totalling US$133.3 million. As a result, the Group recognised interest receivable from the Petropavlovsk Group of US$12.9 million and US$10.6 million and incurred interest payable to the Petropavlovsk Group of US$9.8 million and US$11.2 million in the year ended 31 December 2009 and the six months ended 30 June 2010, respectively. All of these intercompany loans have been settled as part of the restructuring described below.

Recent restructuring

Pursuant to the restructuring described in the section headed "History and Restructuring" in this prospectus, as at 30 June 2010, steps 1 through 4 had been completed. These restructuring steps did not impact the Group's results of operations.

After 30 June 2010, the remaining restructuring steps described in the sub-section headed "Restructuring of the Group" of the section headed "History and Restructuring" in this prospectus took place. These restructuring steps are not expected to have an impact on the Group's results of operations.

For further details on the acquisition of Aricom and the restructuring, see the section headed "History and Restructuring" in this prospectus.

Capital expenditure programme

The Group has in the past made, and expects to continue in the future to make, significant capital expenditures in relation to its projects. This has had, and is expected to continue to have, a significant impact on the Group's financial position, largely by increasing cash outflows. Because such capital expenditures are capitalised, historically they have impacted the Group's results and operations through impairment charges and may also impact results of operations over time through incremental amortisation charges. For further details on the Group's capital expenditure programme, see "Liquidity and capital resources — Capital expenditure programme" below.

CONSOLIDATED INCOME STATEMENT

The following discussion provides a description of the composition of the Group's principal consolidated income statement line items for the Track Record Period. To date, the Group's activities have largely consisted of the acquisition of mining licences, exploration for iron ore, development of its mining sites and early mining and processing activities at the Kuranakh Project, as well as the mining engineering business carried on by Giproruda. As a result, the Group's historical operating results do not reflect that of a company in full production. The Group's trading activities during the Track Record Period were primarily related to Giproruda.

Revenue

The Group intends to derive its revenues principally from the sale of magnetite, titanomagnetite and ilmenite concentrates mined at the Group's deposits. To date, the Group has progressed only one of its projects, the Kuranakh Project, from the exploration to production stage. The Group commenced production at the Kuranakh Project in June 2010 and subsequent sales of titanomagnetite concentrate began in September 2010. Accordingly, revenues to 30 June 2010 were derived primarily from the provision of services by the Group's mining engineering services institute, Giproruda, and in 2008, the sale of iron ore pre-concentrate of US$0.5 million produced at the Kuranakh Project. Giproruda was consolidated as a subsidiary from 14 July 2007.

Net operating expenses

Net operating expenses is comprised of cost of sales and service costs, administrative expenses and other net operating expenses.

Cost of sales and service costs

Cost of sales from the Group's principal activity—mining for titanomagnetite and ilmenite concentrate—primarily consist of raw materials, depreciation of tangible assets associated with production, amortisation of subsoil licence costs, salaries and overheads. Cost of sales also includes utilities, taxes (other than corporation taxes) and the write-down of inventories. Service costs relating to the provision of engineering services consist primarily of labour costs and subcontracting costs. Salaries and overheads are primarily fixed costs. Depreciation is both a fixed and a variable cost, and amortisation is a variable cost. Property, plant and equipment related to mining are depreciated on a unit of production basis.

Administrative expenses

Administrative costs include wages and salaries of the Group's management, corporate and engineering staff, social security and other benefits for employees (including share-based payments), lease of administrative premises, utilities, travel and business development, depreciation of property, plant and equipment and other administrative expenses. The Group does not have a pension fund; however, it contributes to the private pensions of eleven UK employees in accordance with their employment contracts.

Other net operating income

Other net operating income reflects the net results from rental income in Giproruda and the sale of inventories to construction contractors at the Kuranakh Project. This line item also includes income from the sale of property, plant and equipment and other minor items which are not core to the Group's business.

Impairment charges

Impairment charges consist of provisions for impairments to the carrying value of intangible assets, property, plant and equipment, and interests in joint ventures relating specifically to the Kuranakh, K&S, Garinskoye and Bolshoi Seym projects and Jiatai Titanium.

Share of results of an associate

Share of results of an associate is derived from income relating to the Group's ownership interest in LLC Uralmining, a company holding the licence to develop the Bolshoi Seym deposit, and the Group's interest in Giproruda. The Group's interest in LLC Uralmining was accounted for as a financial asset held at cost until July 2007, when the Group extended a loan to LLC Uralmining to fund its development programme, at which time significant influence was obtained and the investment began to be accounted for as an associate. During 2009, recognition of the share of any losses was discontinued as the investment in LLC Uralmining was fully impaired.

Giproruda was accounted for as an associate from the time the Group acquired an initial 68.5 per cent. interest on 8 June 2007, due to a restriction in voting rights. On 13 July 2007, the Group obtained full voting rights in respect of its 68.5 per cent. interest in Giproruda, thereby obtaining control of Giproruda, and began to account for it as a subsidiary.

Share of results of joint ventures

Share of results of joint ventures relates to the Group's two joint ventures, namely (i) Jiatai Titanium, the joint venture with Chinalco to process ilmenite from the Kuranakh Project into titanium sponge, which was entered into in August 2008 and with regards to which, following Chinalco's recent decision to dispose of its equity interest in Jiatai Titanium and withdraw from this project, the Group has, following discussions with Chinalco, recently entered into an agreement with Chinalco pursuant to which, and subject to certain conditions, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for Chinalco's stake in Jiatai Titanium. Further details of this agreement are set out in the sub-section headed "Jiatai Titanium" of the section headed "Business" in this prospectus. (The Group currently holds 65.0 per cent. of the joint venture and Chinalco currently holds 35.0 per cent., with neither party having voting control of the joint venture) and (ii) the joint venture with Jianlong and Kuranakii to process vanadium slag for the production of vanadium and pentoxides, in Shuangyashan, Heilongjiang Province, the PRC, which was entered into in November 2009 (the Group holds 46 per cent. of the joint venture and the other parties hold 49 and 5 per cent., respectively).

Other gains and losses and other expenses

Other gains and losses and other expenses comprise changes in the fair value of financial assets at fair value through profit and loss, net foreign exchange (gain)/loss, listing costs (for the year ended 31 December 2007 only, which related to the listing of Aricom on the London Stock Exchange) and costs associated with the acquisition by Petropavlovsk (for the year ended 31 December 2009 only).

In 2009, changes in the fair value of financial assets at fair value through profit and loss comprised warrants recognised as a liability of the Company at their fair value. The warrants did not meet the definition of equity. Accordingly they were recognised as a liability at their fair value. Changes in the fair value are recognised in the income statement.

In 2007 and 2008, changes in the fair value of financial assets at fair value through profit and loss comprised highly liquid investments under a discretionary management service with a maturity of up to six years and short-term deposits with varying maturities of between three to seven months.

In order to calculate net foreign exchange (gain)/loss for the Group, the individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Accountants' Report, the results and financial position of each Group company are expressed in U.S. dollars, which is the presentation currency for the Accountants' Report.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items and non-monetary items carried at fair value, are included in the income statement for the year.

Financial income

Financial income consists of interest income from cash and cash equivalents, interest income on loans receivable from related parties, interest on other loans and receivables and profit arising from settlement of derivatives.

Financial expenses

Financial expenses consist of interest expenses on loan payables to a related party, the unwinding of the discount on environmental obligations related to the Kuranakh Project, and bank and other finance charges.

Taxation

Taxation consists of current tax and deferred tax for the relevant period. United Kingdom corporation tax was calculated at an effective rate of 28 per cent. for the six months ended 30 June 2010, 28 per cent. for the year ended 31 December 2009, 28.5 per cent. for the year ended 31 December 2008 and 30.0 per cent. for the year ended 31 December 2007. The corporation tax rate in Russia changed from 24 per cent. to 20 per cent. effective 1 January 2009 and remains 20 per cent. currently. Taxation for the other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. In the future the Group will also be subject to Hong Kong tax.

RESULTS OF OPERATIONS

The following table sets forth income statement data for the Group for the six months ended 30 June 2009 and 2010, and for the years ended 31 December 2007, 2008 and 2009:

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	US$'000	*US$'000* (unaudited)	*US$'000*	*US$'000*	*US$'000*
Selected Income Statement data					
Revenue	5,198	2,874	8,260	9,674	4,938
Net operating expenses	(22,074)	(20,713)	(40,555)	(36,956)	(23,664)
Cost of sales and service costs	(3,173)	(2,206)	(5,305)	(6,268)	(3,153)
Administrative expenses	(19,312)	(19,254)	(35,345)	(30,888)	(20,986)
Other net operating income	411	747	95	200	475
Impairment charges	(34,511)	(97,371)	(97,371)	(386,450)	—
	(51,387)	(115,210)	(129,666)	(413,732)	(18,726)
Share of results of an associate	—	—	—	850	(59)
Share of results of joint ventures	—	(496)	(90)	(444)	—
Net operating loss	(51,387)	(115,706)	(129,756)	(413,326)	(18,785)
Other gains and losses and other expenses	1,539	(11,717)	(13,552)	(21,223)	2,305
Financial income	10,743	3,651	15,145	14,119	15,197
Financial expenses	(11,269)	(1,430)	(10,337)	(588)	(602)
Loss before taxation	(50,374)	(125,202)	(138,500)	(421,018)	(1,885)
Taxation (expense)/credit	(1,315)	199	(637)	(5,582)	1,996
(Loss)/profit for the year/period	(51,689)	(125,003)	(139,137)	(426,600)	111

Comparison of the six months ended 30 June 2009 and 2010

Revenue

Revenue increased by US$2.3 million, or 79.3 per cent., from US$2.9 million for the six months ended 30 June 2009 to US$5.2 million for the six months ended 30 June 2010. This increase was primarily attributable to an increase in revenue generated by Giproruda. This was due to the recovery of the mining sector in the second half of 2009, as the financial markets began to recover from the global financial crisis, resulting in Giproruda entering into six new contracts, revenue in relation to which was recognised in the six months ended 30 June 2010.

Net operating expenses

Cost of sales and service costs

The Group's cost of sales and service costs increased by US$1.0 million, or 45.4 per cent., from US$2.2 million for the six months ended 30 June 2009 to US$3.2 million for the six months ended 30 June 2010. This increase was primarily attributable to an increase in staff costs and sub-contractor costs (which are reflected as "other costs") incurred during the six months ended 30 June 2010 in relation to servicing the six new contracts referenced above. This increase in staff and sub-contactor costs was slightly offset by a one-time inventory write-off to reflect ore stockpiles at their net realisable value in the six months ended 30 June 2009 that was not repeated in the six months ended 30 June 2010.

Additional detail regarding the Group's costs of sales and service costs for the periods discussed is shown in the table below:

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000* (unaudited)
Cost of Sales and Service Costs		
Staff costs	1,846	1,234
Materials	—	1
Depreciation	214	163
Electricity	—	1
Inventory written off	—	239
Other costs	1,113	568
	3,173	2,206

Administrative expenses

The Group's net administrative expenses remained constant at US$19.3 million for the six months ended 30 June 2009 and the six months ended 30 June 2010. However, there were changes in the components of administrative expenses, as shown in the table below. The increase in staff costs for the six months ended 30 June 2010 was primarily attributable to an increase in personnel at the Kuranakh Project, K&S and the office in Moscow and an increase in costs allocated to the Group from the Petropavlovsk Group. The decrease in professional fees for the six months ended 30 June 2010 was primarily a result of management fees of US$0.7 million paid to the Petropavlovsk Group in the six months ended 30 June 2009 in respect of management services provided to Aricom when it was independent of the Petropavlovsk Group. The management fee was not repeated in the six months ended 30 June 2010 as Aricom did not receive management services from the Petropavlovsk Group during that period. The increase in travel and entertainment expenses in the six months ended 30 June 2010 was primarily attributable to increased travel in preparation for the Global Offering. The decrease in share-based payments was primarily attributable to a decrease in the expense related to an Aricom long-term share incentive plan from US$1.09 million for the six months ended 30 June 2009 to US$0.22 million for the six months ended 30 June 2010, due to the expiration of the Aricom long-term share incentive plan in February 2010. The allowance for doubtful debts for the six months ended 30 June 2009 was primarily attributable to prepayment by the Group for the construction of apartments for employees for which construction was suspended, debtors assessed to be unrecoverable by Giproruda and prepayment by the Group for a used locomotive which the seller was not able to deliver, which allowances were not repeated in the six months ended 30 June 2010.

	Six months ended 30 June	
	2010	2009
	US$'000	*US$'000* (unaudited)
Administration Expenses		
Staff costs	10,823	7,440
Depreciation	637	436
Professional fees[1]	1,783	2,752
Bank charges	104	72
Insurance	213	547
Office rent	1,236	1,345
Travel and entertainment	1,359	650
Share-based payments	403	1,231
Office costs	615	430
(Reversal of allowance)/allowance for doubtful debts	(11)	3,548
Loss on disposal of property, plant and equipment	904	256
Others	1,246	547
	19,312	19,254

1 Professional fees comprise audit fees, legal fees, consulting fees and management services fees.

Other net operating income

Other net operating income decreased by US$0.3 million, or 42.9 per cent., from US$0.7 million for the six months ended 30 June 2009 to US$0.4 million for the six months ended 30 June 2010.

Impairment charges

The Group recognised an impairment charge of US$34.5 million in the six months ended 30 June 2010 compared to an impairment charge of US$97.4 million in the six months ended 30 June 2009. In this six months ended 30 June 2009, the Group recognised impairment provisions against (i) the Kuranakh Project of US$87.9 million due to higher railway tariffs for the transportation of ilmenite, and further delays in the completion of the project relating to the construction of the processing plant as a result of resource constraints of the construction contractor, which led to higher capital costs, (ii) Bolshoi Seym of US$9.4 million due to uncertainty regarding the progression of the project as it was not deemed a priority of the shareholders during the period, and (iii) certain other assets due to lower recoverability or uncertainty of the projects. In the six months ended 30 June 2010, approximately US$33.1 million of the US$34.5 million impairment charge related to Jiatai Titanium. This impairment was allocated to intangible assets (US$0.7 million), property plant and equipment (US$14.6 million) and investment in joint ventures (US$17.8 million). The impairment takes into account the recoverable value of the Group's share of the joint venture of US$4.9 million which reflects the Group's 65 per cent. share of the cash within the joint venture, net of its liabilities. As Chinalco advised the Group during the period that it had decided to withdraw from some of its non-core ventures and consequently it wished to dispose of its equity interest in Jiatai Titanium and withdraw from the joint venture project, the Directors concluded that the most appropriate course of action was to provide for an impairment against the amounts already invested in such joint venture in an amount of approximately US$33.1 million. The remaining US$1.4 million impairment charge in the six months ended 30 June 2010 related to the impairment of further amounts advanced to LLC Uralmining in respect of Bolshoi Seym.

Share of results of an associate

Share of results of an associate was US$nil for the six months ended 30 June 2009 and for the six months ended 30 June 2010 because equity accounting for associates was discontinued during the six months ended 30 June 2009 when the investment in the associate was impaired to US$nil.

Share of results of joint ventures

Share of results of joint ventures decreased by US$0.5 million, or 100 per cent., from US$0.5 million for the six months ended 30 June 2009 to US$nil for the six months ended 30 June 2010. This decrease was primarily attributable to the impairment of the Group's investment in Jiatai Titanium, which has already been made in accordance with the Group's shared recoverable value as at 30 June 2010.

Net operating loss

Reflecting the above factors, net operating loss decreased by US$64.3 million, or 55.6 per cent., from US$115.7 million for the six months ended 30 June 2009 to US$51.4 million for the six months ended 30 June 2010.

Other gains and losses and other expenses

Other gains and losses and other expenses changed by US$13.2 million, or 112.8 per cent., from a loss of US$11.7 million for the six months ended 30 June 2009 to a gain of US$1.5 million for the six months ended 30 June 2010. This change was primarily attributable to the extinguishment of the financial liability in respect of warrants that Aricom had in issue from April 2009 when converted in May 2010. For the six months ended 30 June 2009, a US$6.9 million loss was recorded to reflect increased liability in respect of the warrants, which liability was extinguished in May 2010 when the warrants were exercised by the holder. In addition, the increase in other gains and losses and other expenses was also a result of an approximately US$1.4 million increase in net foreign exchange gain largely resulting from the strengthening of the U.S. dollar against the Rouble which resulted in foreign exchange gains on Rouble denominated loans, which was partially offset by a foreign exchange loss on Rouble denominated trade and other receivables and cash and cash equivalents. Finally, the change in other gains and losses and other expenses is also explained by a decrease in the other costs recorded in the periods, as approximately US$5.6 million in costs associated with the acquisition of Aricom by the Petropavlovsk Group were recorded in the six months ended

30 June 2009, whereas only approximately US$2.4 million in listing costs were incurred in the six months ended 30 June 2010 in relation to the Global Offering.

Financial income

Financial income increased by US$7.0 million, or 189.2 per cent., from US$3.7 million for the six months ended 30 June 2009 to US$10.7 million for the six months ended 30 June 2010. This increase was primarily attributable to the increase from US$1.7 million in the six months ended 30 June 2009 to US$10.6 million in the six months ended 30 June 2010 in interest received on amounts loaned by the Group to the Petropavlovsk Group following the acquisition of Aricom in April 2009. This increase in interest received was largely due to the approximately two months for which the amounts loaned were outstanding in the six months ended 30 June 2009, compared to almost the entire six months for which the amounts loaned were outstanding in the six months ended 30 June 2010 (as the amounts loaned to the Petropavlovsk Group were transferred to entities within the Group in June 2010 as part of the restructuring of the Group). In addition, the interest income on the amounts loaned to the Petropavlovsk Group increased between the six months ended 30 June 2009 and the six months ended 30 June 2010 as the loan amount outstanding increased between such periods. This increase in financial income was partially offset by the decrease from approximately US$1.8 million in the six months ended 30 June 2009 to approximately US$0.1 million in the six months ended 30 June 2010 in interest income generated by the Group's cash and cash equivalents, which cash and cash equivalents were depleted as a result of the amounts loaned to the Petropavlovsk Group following its acquisition of Aricom.

Financial expenses

Financial expenses increased by US$9.9 million, or 707.1 per cent., from US$1.4 million for the six months ended 30 June 2009 to US$11.3 million for the six months ended 30 June 2010. This increase was primarily attributable to the increase from US$1.0 million in the six months ended 30 June 2009 to US$11.2 million in the six months ended 30 June 2010 in interest paid on the amounts loaned by the Petropavlovsk Group to the Group following the acquisition of Aricom in April 2009. This increase in interest paid was largely attributable to the approximately two months for which the amounts loaned were outstanding in the six months ended 30 June 2009, compared to almost the entire six months for which the amounts loaned were outstanding in the six months ended 30 June 2010 (as the amounts loaned by the Petropavlovsk Group were transferred to entities within the Group in June 2010 as part of the restructuring of the Group). In addition, the interest paid on the amounts loaned by the Petropavlovsk Group to the Group increased between the six months ended 30 June 2009 and the six months ended 30 June 2010 as the loan amount outstanding increased between such periods.

Taxation

Tax increased by US$1.5 million, or 750 per cent., from a tax benefit of US$0.2 million for the six months ended 30 June 2009 to a tax charge US$1.3 million for the six months ended 30 June 2010. This increase was primarily attributable to an increase of approximately US$1.0 million in UK corporate tax expense, due to the increase in financial income and the consideration for tax relief paid by the Group for its utilisation of the Petropavlovsk Group's tax losses.

Loss for the period

As a result of the factors discussed above, the Group recorded a loss of US$125.0 million for the six months ended 30 June 2009 and a loss of US$51.7 million for the six months ended 30 June 2010.

Comparison of the years ended 31 December 2008 and 2009

Revenue

Revenue decreased by US$1.4 million, or 14.4 per cent., from US$9.7 million for the year ended 31 December 2008 to US$8.3 million for the year ended 31 December 2009. This decrease was primarily attributable to the lower revenues from Giproruda, the mining engineering services institute of the Group, particularly due to a decline in the market for its services in the first half of 2009. In addition, the Group generated revenues of US$0.5 million from the sale of iron ore pre-concentrate from the Kuranakh Project in 2008, compared to US$nil in 2009.

Net operating expenses

Cost of sales and service costs

The Group's cost of sales and service costs decreased by US$1.0 million, or 15.9 per cent., from US$6.3 million for the year ended 31 December 2008 to US$5.3 million for the year ended 31 December 2009. This decrease was primarily attributable to lower cost of sales related to the lower revenues from Giproruda, with staff costs decreasing in line with the decrease in revenues. In addition, there was a decrease in the amount of inventory written off due to the high cost of production associated with the start up of operations, which was partially offset by an increase in sub-contractor costs (reflected in "other costs") as certain contracts in the year ended 31 December 2009 required specific work that was carried out by sub-contractors.

Additional detail regarding the Group's costs of sales and service costs for the periods discussed is shown in the table below:

	Year ended 31 December	
	2009	**2008**
	US$'000	***US$'000***
Cost of Sales and Service Costs		
Staff costs	2,631	3,896
Materials	1	123
Depreciation	141	252
Electricity	1	10
Inventory written off	239	1,170
Other costs	2,292	817
	5,305	6,268

Administrative expenses

The Group's administrative expenses increased by US$4.4 million, or 14.2 per cent., from US$30.9 million for the year ended 31 December 2008 to US$35.3 million for the year ended

31 December 2009. This increase was primarily attributable to an increase in allowance for doubtful debts in 2009 due to prepayment by the Group for the construction of apartments for employees for which construction was suspended, debtors assessed to be unrecoverable by Giproruda and prepayment by the Group for a used locomotive which the seller was not able to deliver. The increase in administrative expenses was also due to increased share-based payments resulting from the allocation of expenses incurred by Petropavlovsk in relation to the long-term incentive plan for directors and senior managers of the Group, which was partially offset by a decrease in professional fees (which included reduced legal and consulting fees) and other expenses (which was largely due to reduced marketing spend).

Additional detail regarding the Group's administrative expenses for the periods discussed is shown in the table below:

	Year ended 31 December	
	2009	2008
	US$'000	*US$'000*
Administrative Expenses		
Staff costs	15,223	14,591
Depreciation	847	581
Professional fees[1]	4,351	5,747
Bank charges	155	224
Insurance	749	156
Office rent	2,833	3,201
Travel and entertainment	2,105	2,403
Share-based payments	2,449	482
Office costs	998	736
Allowance for doubtful debts	3,589	—
Loss on disposal of property, plant and equipment	230	201
Others	1,816	2,566
	35,345	30,888

1 Professional fees comprise audit fees, legal fees, consulting fees and management services fees.

Other net operating income

Other net operating income decreased by US$0.1 million, from US$0.2 million for the year ended 31 December 2008 to US$0.1 million for the year ended 31 December 2009.

Impairment charges

The Group recognised an impairment charge of US$386.5 million for the year ended 31 December 2008 compared to an impairment charge of US$97.4 million for the year ended 31 December 2009. The Group recognised an impairment provision in the year ended 31 December 2009 (i) against the Kuranakh Project of US$87.9 million due to higher railway tariffs for the transportation of ilmenite and further delays in the completion of the project relating to the construction of the processing plant as a result of resource constraints of the construction contractor due to reallocation of these resources to the Petropavlovsk Group's gold operations, which led to higher capital costs, (ii) against Bolshoi Seym of US$9.4 million due to uncertainty regarding the progression of the project as it was not deemed a priority of the shareholders during the period, and (iii) against certain other assets due to lower recoverability or uncertainty of the projects.

Share of results of an associate

Share of results of an associate decreased by US$0.9 million, from a gain of US$0.9 million for the year ended 31 December 2008 to US$nil million for the year ended 31 December 2009. This decrease was attributable to the decision to fully impair the investment in the Group's associate, LLC Uralmining, and to discontinue the recognition of the Group's share of results from that date.

Share of results of joint ventures

Share of results of joint ventures decreased by US$0.3 million, or 75.0 per cent., from US$0.4 million for the year ended 31 December 2008 to US$0.1 million for the year ended 31 December 2009, primarily as a result of reduced operating activity of Jiatai Titanium.

Net operating loss

Reflecting the above factors, operating loss decreased by US$283.5 million, or 68.6 per cent., from US$413.3 million for the year ended 31 December 2008 to US$129.8 million for the year ended 31 December 2009.

Other gains and losses and other expenses

Other gains and losses and other expenses decreased by US$7.6 million, or 35.8 per cent., from a loss of US$21.2 million for the year ended 31 December 2008 to a loss of US$13.6 million for the year ended 31 December 2009. This decrease was primarily attributable to foreign exchange losses, which decreased by US$16.4 million, or 72.6 per cent., from US$22.6 million of losses for the year ended 31 December 2008 to US$6.2 million of losses for the year ended 31 December 2009. This decrease was primarily attributable to higher than normal foreign exchange losses on the Group's Rouble denominated funds, due to rapid depreciation of the Rouble in the second half of 2008. As a result, the Group converted much of its Rouble cash holdings to U.S. dollars, resulting in lower foreign exchange losses in 2009. The decrease in other gains and losses and other expenses was partially offset by the one-time costs associated with the acquisition of Aricom by Petropavlovsk in 2009.

Financial income

Financial income increased by US$1.0 million, or 7.1 per cent., from US$14.1 million for the year ended 31 December 2008 to US$15.1 million for the year ended 31 December 2009. This increase was attributable to higher interest received on the loan receivable from the Petropavlovsk Group following the acquisition by the Petropavlovsk Group of Aricom in April 2009 than interest received on the cash deposits held by the Group in 2008.

Financial expenses

Financial expenses increased by US$9.7 million from US$0.6 million for the year ended 31 December 2008 to US$10.3 million for the year ended 31 December 2009. This increase was attributable to the interest paid by the Group on borrowings provided by the Petropavlovsk Group following the Petropavlovsk Group's acquisition of Aricom in April 2009.

Taxation

Tax decreased by US$5.0 million, or 89.3 per cent., from a tax charge of US$5.6 million for the year ended 31 December 2008 to a tax charge of US$0.6 million for the year ended 31 December 2009. This decrease was attributable to the tax effect of the utilisation of losses not previously recognised in the year ended 31 December 2009 to decrease income tax payable.

Loss for the year

As a result of the factors discussed above, the Group recorded a loss of US$426.6 million for the year ended 31 December 2008 and a loss of US$139.1 million for the year ended 31 December 2009.

Comparison of the year ended 31 December 2007 and 2008

Revenue

Revenue increased by US$4.8 million, or 98.0 per cent., from US$4.9 million for the year ended 31 December 2007 to US$9.7 million for the year ended 31 December 2008. This increase was primarily a result of the inclusion of a full year of revenue from the Group's mining engineering services institute, Giproruda, with revenues increasing from US$4.9 million for the period from the acquisition to 31 December 2007 to US$9.2 million for the year ended 31 December 2008. In addition, the Group generated revenues of US$0.5 million from the sale of iron ore pre-concentrate from the Kuranakh Project in 2008, compared to US$nil in 2007.

Net operating expenses

Cost of sales and service costs

Cost of sales and service costs increased by US$3.1 million, or 96.9 per cent., from US$3.2 million for the year ended 31 December 2007 to US$6.3 million for the year ended 31 December 2008. This increase was primarily a result of inclusion of a full year of service costs from Giproruda (as it became a subsidiary in July 2007) and, to a lesser extent, costs associated with the sale of iron ore pre-concentrate from the Kuranakh Project. In addition, in the year ended 31 December 2008, work in progress inventory was written off to its net realisable value.

Additional detail regarding the Group's costs of sales and service costs for the periods discussed is shown in the table below:

	Year ended 31 December	
	2008	2007
	US$'000	US$'000
Cost of Sales and Service Costs		
Staff costs	3,896	1,718
Materials	123	3
Depreciation	252	171
Electricity	10	34
Inventory written off	1,170	—
Other costs	817	1,227
	6,268	3,153

Administrative expenses

Administrative expenses increased by US$9.9 million, or 47.1 per cent., from US$21.0 million for the year ended 31 December 2007 to US$30.9 million for the year ended 31 December 2008, primarily due to an increase in staff costs, rent and general overheads in connection with the expansion of the Group's activities. Average staff numbers increased from 228 for the year ended 31 December 2007 to 641 for the year ended 31 December 2008.

Additional detail regarding the Group's administrative expenses for the periods discussed is shown in the table below:

	Year ended 31 December	
	2008	2007
	US$'000	US$'000
Administrative Expenses		
Staff costs	14,591	9,257
Depreciation	581	282
Professional fees[1]	5,747	5,496
Bank charges	224	248
Insurance	156	68
Office rent	3,201	1,209
Travel and entertainment	2,403	1,594
Share-based payments	482	1,086
Office costs	736	563
Allowance for doubtful debts	—	—
Loss on disposal of property, plant and equipment	201	134
Others	2,566	1,049
	30,888	20,986

1 Professional fees comprise audit fees, legal fees, consulting fees and management services fees.

Other net operating income

Other net operating income decreased by US$0.3 million, or 60.0 per cent., from US$0.5 million for the year ended 31 December 2007 to US$0.2 million for the year ended 31 December 2008.

Impairment charges

The Group recognised an impairment charge of US$386.5 million for the year ended 31 December 2008 compared to an impairment charge of US$nil for the year ended 31 December 2007. The Group recognised an impairment provision against the Kuranakh Project of US$86.5 million and an impairment provision against the combined K&S and Garinskoye project of US$299.9 million due to a postponement in the planned development of these projects, primarily because of a slow project finance market and forecast weaker iron ore prices.

Share of results of an associate

Share of results of an associate increased from a loss of US$0.1 million for the year ended 31 December 2007 to a profit of US$0.9 million for the year ended 31 December 2008. This increase was primarily due to a foreign currency gain on loans held by LLC Uralmining, an associate of the Group.

Share of results of joint ventures

Share of results of joint ventures increased from US$nil for the year ended 31 December 2007 to US$0.4 million for the year ended 31 December 2008. This loss was attributable to the Group's share of operating costs in Jiatai Titanium, which was established during the year ended 31 December 2008.

Net operating loss

Reflecting the above factors, the Group's loss from operating activities increased by US$394.5 million, from US$18.8 million for the year ended 31 December 2007 to US$413.3 million for the year ended 31 December 2008.

Other gains and losses and other expenses

Other gains and losses and other expenses changed by US$23.5 million, from a gain of US$2.3 million for the year ended 31 December 2007 to a loss of US$21.2 million for the year ended 31 December 2008. This change was primarily attributable to a US$25.1 million increase in net foreign exchange (gain)/loss, from a gain of US$2.5 million for the year ended 31 December 2007 to a loss of US$22.6 million for the year ended 31 December 2008. This increase was primarily attributable to foreign exchange losses on the Group's Rouble denominated funds, due to rapid depreciation of the Rouble in the second half of 2008. The US$23.5 million change in other gains and losses and other expenses was partially offset by the absence of the one time listing costs in 2007 which did not recur in 2008.

Financial income

The Group's financial income decreased by US$1.1 million, or 7.2 per cent., from US$15.2 million for the year ended 31 December 2007 to US$14.1 million for the year ended 31 December 2008 as a result of decreased interest income and interest on financial assets resulting from the depletion of cash balances due to continuing capital expenditures.

Financial expenses

Financial expenses remained consistent at US$0.6 million for the year ended 31 December 2007 and the year ended 31 December 2008.

Taxation

Corporate tax increased by US$7.6 million, from a tax benefit of US$2.0 million for the year ended 31 December 2007 to a tax charge of US$5.6 million for the year ended 31 December 2008. The tax charge relates primarily to the reduction in the deferred tax assets due to foreign exchange movements of US$4.4 million and tax on the operating profits generated by Giproruda of US$0.7 million.

(Loss)/profit for the year

Reflecting the above factors, the Group recorded a profit of US$0.1 million for the year ended 31 December 2007 and losses of US$426.6 million for the year ended 31 December 2008.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Since 1 January 2007, the Group's principal source of liquidity has primarily been from the two placings of Aricom's shares on 5 June and 18 December 2007, which raised approximately US$554 million and US$64.2 million, respectively, and a US$60 million investment by the Pre-IPO Investors on 26 August 2010. As at 30 June 2010, the Group had cash and cash equivalents of US$25.9 million. Future sources of liquidity and capital resources up to the end of 2010 are expected to be debt finance, cash flow from operations, investment income and proceeds from the Global Offering. The Group intends to sign a fixed price EPC contract for the development of K&S. In order to meet the obligations of the EPC contract, the Group will need to obtain new debt financing facilities. If these facilities cannot be secured, the EPC contract may not be entered into and the Company will need to implement a revised plan for the development of K&S.

The Group's principal capital expenditures have historically related to the construction of the Kuranakh Project and development of K&S. Future uses of cash are expected to be the acquisition of new licences and the further development of the Group's mining operations.

Net current assets

As at 31 July 2010, based on unaudited financials, the Group had net current assets of approximately US$36.8 million, as set out in detail below:

	As at 31 July 2010
	(US$'000) (unaudited)
Current assets	
Inventories	19,143
Trade and other receivables	29,047
Cash and cash equivalents	22,626
	70,816
Current liabilities	
Trade and other payables	(29,316)
Loans due to a related party	(4,462)
Current income tax payable	(269)
	(34,047)
Net current assets	36,769

Cash flow information

The following table summarises the Group's sources and uses of funds for each of the periods indicated:

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	US$'000	*US$'000* (unaudited)	*US$'000*	*US$'000*	*US$'000*
Selected Cash Flow Statement data					
Net cash outflow from operating activities	(22,522)	(15,425)	(27,729)	(51,948)	(16,817)
Net cash outflow from investing activities	(41,793)	(151,014)	(249,610)	(70,023)	(281,759)
Net cash inflow/(outflow) from financing activities	71,910	(290)	38,654	73	613,989
Net increase/(decrease) in cash and cash equivalents	7,595	(166,729)	(238,685)	(121,898)	315,413
Cash and cash equivalents at the end of the period/year	25,865	90,227	18,415	257,822	406,687

Net cash outflows from operating activities

The Group's net cash outflow from operating activities increased by US$7.1 million, or 46.1 per cent., from US$15.4 million for the six months ended 30 June 2009 to US$22.5 million for the six months ended 30 June 2010. Operating cash outflows before movements in working capital amounted to US$15.3 million for the six months ended 30 June 2009 compared to US$11.7 million for the six months ended 30 June 2010. The Group experienced net increases in inventories, trade and other receivables and trade and other payables during the six months ended 30 June 2009 and net increases in inventories and trade and other payables and net decreases in trade and other receivables during the six months ended 30 June 2010. The Group's inventories increased by US$2.5 million for the six months ended

30 June 2009 and by US$4.4 million for the six months ended 30 June 2010, this comparative increase in 2010 being primarily attributable to commencement of mining activities at the Kuranakh Project. The Group's trade and other receivables decreased by US$0.6 million for the six months ended 30 June 2009 and increased by US$15.1 million for the six months ended 30 June 2010, the comparative increase in 2010 being primarily attributable to the increased level of advances to suppliers as final construction activities were completed at the Kuranakh Project, additional development activities at K&S and an increase in VAT recoverable. The Group's trade and other payables increased by US$2.1 million for the six months ended 30 June 2009 and by US$9.0 million for the six months ended 30 June 2010, the comparative increase in 2010 being primarily attributable to a US$7.9 million accrual relating to Jiatai Titanium for completion of the design study in regards to the processing plant.

The Group's net cash outflow from operating activities decreased by US$24.2 million, or 46.6 per cent., from US$51.9 million for the year ended 31 December 2008 to US$27.7 million for the year ended 31 December 2009. This decrease was mainly attributable to the decrease in the operating losses before working capital changes. Operating cash outflows before movements in working capital amounted to US$22.8 million in 2009 compared to US$24.3 million in 2008. The Group experienced net decreases in inventories and net increases in trade and other receivables and trade and other payables in 2009 and net increases in inventories, trade and other receivables, and trade and other payables in 2008. The Group's inventories decreased by US$0.3 million in 2009 and increased by US$11.3 million in 2008, the comparative decrease in 2009 being primarily due to the suspension of mining activities and non-recurring initial investments made in 2008. The Group's total trade and other receivables increased by US$4.6 million in 2009 and increased by US$18.1 million in 2008, the comparative increase in 2008 being primarily attributable to US$6.5 million in VAT recoverable partially offset against an increase in other debtors and receivables and advances to suppliers. The Group's total trade payables increased US$1.0 million in 2009 and increased US$3.9 million in 2008, the comparative decrease in 2009 being primarily attributable to an increase in project development activity.

The Group's net cash outflow from operating activities increased by US$35.1 million, or 208.9 per cent., from US$16.8 million for the year ended 31 December 2007 to US$51.9 million for the year ended 31 December 2008. The increase was principally due to an increase in operating losses in 2008. Operating cash outflows before movements in working capital amounted to US$24.3 million in 2008 compared to US$21.0 million in 2007. The Group experienced net increases in inventories, trade and other receivables, and trade and other payables in 2008 and net increases in inventories and net decreases in receivables and payables in 2007. The Group's inventories increased by US$11.3 million in 2008 and by US$1.8 million in 2007, the comparative increase in 2008 being primarily due to the commencement of mining activities at the Kuranakh Project in 2008. The Group's total trade and other receivables increased by US$18.1 million in 2008 and decreased by US$14.8 million in 2007, the increase in 2008 being primarily attributable to US$7.7 million in VAT recoverable, US$2.1 million in loans to associates, US$2.0 million in capital expenditure related prepayments and US$1.9 million in trade receivables due from customers under engineering contracts. The Group's total trade payables increased US$3.9 million in 2008 and decreased by US$8.6 million in 2007, the increase in 2008 being by primarily attributable to an increase in operating activity.

Net cash outflows from investing activities

The Group's net cash outflow from investing activities was US$41.8 million and US$151.0 million for the six months ended 30 June 2010 and 2009, respectively. Net cash used in investing activities in the six months ended 30 June 2010 consisted primarily of US$60.8 million of capital expenditure for purchases of property, plant and equipment and intangible assets, which was partially offset by US$22.0 million received from the Petropavlovsk Group in repayment of loans previously issued. Net cash outflow from investing activities in the six months ended 30 June 2009 consisted primarily of US$33.0 million of capital expenditure for purchases of property, plant and equipment and US$120.1 million lent to the Petropavlovsk Group.

The Group's net cash outflow from investing activities was US$249.6 million, US$70.0 million and US$281.8 million for the years ended 31 December 2009, 2008 and 2007, respectively. Net cash used in investing activities for the year ended 31 December 2009 consisted primarily of US$176.2 million of loans issued to the Petropavlovsk Group, and capital expenditure for purchases of property, plant and equipment and intangible assets of US$73.9 million. Net cash used in investing activities for the year ended 31 December 2008 consisted primarily of US$20.8 million paid as contribution to Jiatai Titanium, US$45.0 million paid for options to acquire the interests in the Kostenginskoye and the Garinskoye Flanks deposits and capital expenditure for purchases of property, plant and equipment of US$108.5 million, which was partially offset by proceeds from the disposal of short-term investments of US$113.3 million and investment income of US$16.5 million. Net cash outflow from investing activities for the year ended 31 December 2007 consisted primarily of US$99.3 million used to purchase short-term investments principally related to funds placed on deposit or in highly-liquid funds following Aricom's 2007 share placing, US$47.3 million paid to acquire the Group's interest in the Garinskoye deposit, loans advanced of US$65.0 million and capital expenditure for purchases of property, plant and equipment of US$76.7 million.

Net cash inflows/(outflows) from financing activities

The Group's net cash inflow from financing activities was US$71.9 million for the six months ended 30 June 2010, and the Group's net cash outflow from financing activities was US$0.3 million for the six months ended 30 June 2009. Cash inflow from financing activities in the six months ended 30 June 2010 consisted primarily of further cash loaned by the Petropavlovsk Group of US$94.4 million, which was partially offset by the cash settlement of US$22.5 million of the total dividend declared to the Petropavlovsk Group. Cash outflow from financing activities in the six months ended 30 June 2009 consisted primarily of the payment of arrangement costs for a debt facility that ultimately did not proceed.

The Group's net cash inflow from financing activities was US$38.7 million, US$0.07 million and US$614.0 million for the years ended 31 December 2009, 2008 and 2007, respectively. Cash inflow from financing activities for the year ended 31 December 2009 consisted primarily of US$38.9 million of loans received from the Petropavlovsk Group. Cash inflow from financing activities in 2008 related primarily to cash proceeds received upon the issuance of shares, partially offset by share issue costs. Cash inflow from financing activities for the year ended 31 December 2007 related to US$639.5 million in cash proceeds from Aricom's June and December 2007 share placements, which was partially offset by associated share issues costs of US$24.9 million.

Capital expenditures

In the past three years, the Group's capital expenditures have been primarily in connection with the acquisition, exploration and development of deposits. These capital expenditures amounted to US$64.1 million for the six months ended 30 June 2010, US$83.0 million for the year ended 31 December 2009, US$164.7 million for the year ended 31 December 2008 and US$106.3 million for the year ended 31 December 2007. While capital expenditures include the acquisition of assets such as tangible assets and licences, they do not include the acquisition of a subsidiary (which is a business combination) or the acquisition of a non-controlling interest in another entity, the figures in relation to which for the Track Record Period are described in the sub-section headed "Statement of Financial Position — Property, plant and equipment and intangible assets" of this section in this prospectus.

The Group's capital expenditures of US$64.1 million for the six months ended 30 June 2010 primarily related to the continued evaluation and development of its projects, which amounted to US$63.8 million, including US$32.5 million in relation to the Kuranakh Project and US$18.4 million in relation to K&S. The Group's capital expenditures of US$83.0 million for the year ended 31 December 2009 primarily related to the continued evaluation and development of its projects, which amounted to US$74.7 million, including US$56.9 million in relation to the Kuranakh Project and US$17.7 million in relation to K&S. The Group's capital expenditures of US$164.7 million for the year ended 31 December 2008 primarily related to the continued evaluation and development of its projects of in an amount of US$108.1 million (including US$61.9 million in relation to the Kuranakh Project and US$26.1 million in relation to K&S), and US$53.9 million in relation to the acquisition of the licences related to the Garinskoye Flanks and Kostenginskoye deposit. The Group's capital expenditures of US$106.3 million for the year ended 31 December 2007 primarily related to the continued evaluation and development of the Group's projects in an amount of US$54.0 million (including US$38.8 million in relation to the Kuranakh Project and US$8.2 million in relation to K&S), and US$51.8 million in relation to the acquisition of the licence related to Garinskoye deposit.

Capital expenditure programme

The following table summarises the Group's expected capital expenditures (based on current plans and subject to financing) for the years ended 31 December 2010, 2011 and 2012, further details for which can be found in the section headed "Business" in this prospectus.

The Group expects to finance these capital expenditures in part through the net proceeds of the Global Offering and the US$60 million investment by the Pre-IPO Investors and in part through additional external financing to be arranged after Listing. A non-binding indicative term sheet with ICBC in relation to the ICBC Facility has been entered into 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 of its development programme at K&S. These alternative sources may include alternative debt financing, the Group's existing cash resources and/or the net proceeds of the Global Offering (which are intended to be used for other purposes) and/or raising additional equity finance after Listing. If the ICBC Facility is completed, the Group intends to utilise such financing in connection with Stage 1 of its development programme at K&S, together with a portion of the net proceeds of the Global

Offering (as set out in further detail in the sections headed "Business" and "Future Plans and Use of Proceeds" in this prospectus).

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.

	For the years ending 31 December			
	2010	2011	2012	
Project	*US$ millions*	*US$ millions*	*US$ millions*	Description of primary expenditures
Kuranakh	42.2	6.0	—	Construction and purchasing equipment
K&S	95.2	146.5	146.5	EPCM contract prepayment, construction and purchasing equipment
Ushumunsky	7.7	7.7	—	Stripping and mining
Garinskoye	9.5	9.5	66.8	Geological exploration and engineering
Rubicon Bridge	5.0	7.5	—	Research and design
Kostenginskoye	1.6	1.6	—	Geological exploration and engineering
Giproruda	0.5	0.5	—	Building refurbishment
Total	161.7	179.3	213.3	

Note:
The table above contains projections based on the Group's business plan and related estimates and assumptions. The Group may decide not to pursue its business plan in its current form or on the timelines referenced in the tables. Moreover, changes to the Group's business plan and/or the availability of financing may result in changes to the amount of capital expenditures it is required to make, the projects toward which it applies capital expenditures and the timing of its capital expenditures. It is highly likely that the Group's actual capital expenditures will be higher or lower, potentially materially, than the projected capital expenditures set out in the tables above. Prospective investors should specifically consider the factors identified in this prospectus which could cause actual capital expenditures to differ from projected capital expenditure requirements before making an investment decision.

Indebtedness

The Group had no material outstanding bank facilities as at 31 July 2010.

The following table sets out the Group's outstanding balances with the Petropavlovsk Group as at the dates indicated:

	As at	
	30 June 2010	31 July 2010
	US$'000	*US$'000*
Unsecured loans from Petropavlovsk Group	—	4,462

Prior to 30 June 2010, loans from the Petropavlovsk Group were settled in full as part of the Restructuring. Between 30 June 2010 and 31 July 2010, further loans of US$4,462,000 were advanced to the Group by the Petropavlovsk Group. As of the Latest Practicable Date, the US$4,462,000 loans from Petropavlovsk Group had been fully repaid.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Company did not have outstanding, at the close of business on 31 July 2010 or on the Latest Practicable Date, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Contingent Liabilities

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.

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").

Gatnom and OMIF filed a petition for the winding-up of Lapwing 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 of Lapwing 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, their shareholdings 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. 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 petitioners' 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 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 is expected to have a material influence on its rights to explore or mine.

The Directors confirm that there has been no material adverse change in the Company's indebtedness or contingent liabilities since 31 July 2010.

Contractual commitments

As at 30 June 2010, the Group had the following contractual commitments:

	Repayable within				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Capital commitments[1]	18,520	—	—	—	18,520
Operating leases[2]	1,045	2,843	1,447	—	5,335
Total	19,565	2,843	1,447	—	23,855

Notes:

1 Includes capital commitments in relation to the Kuranakh Project (US$2.7 million), K&S (US$14.5 million) and Garinskoye (US$1.3 million).

2 The operating leases are primarily in relation to the head office in Moscow.

TRADE RECEIVABLES

Over the Track Record Period, the Group's trade debtors originated as part of the activity of Giproruda. The amounts due relate to services performed under engineering contracts that have been invoiced. The related credit period normally granted to customers is between 5 and 45 days.

The following table sets out the Group's trade receivables and the periods in which they became due as at the dates indicated:

	As at 30 June	As at 31 December		
	2010	2009	2008	2007
	US$'000	*US$'000*	*US$'000*	*US$'000*
Less than one month	1,324	1,002	766	1,555
One to three months	43	180	572	1
Three to six months	—	9	148	—
Over six months	530	642	321	2
Total	**1,897**	**1,833**	**1,807**	**1,558**

51 per cent. of trade debtors as at 30 June 2010 were subsequently settled before 31 July 2010.

Amounts due from customers primarily are amounts accrued but not yet invoiced in relation to Giproruda's long-term engineering services contracts. These amounts are expected to be invoiced and settled within one year.

Advances to suppliers generally take the form of prepayments which are made for equipment and construction services as well as subcontractor work in relation to engineering service contracts. Balances are normally settled within one year.

Given the early stage of the IRC's development it has historically had very limited sales. Consequently Trade Receivable Days for the Track Record Period has been deemed not meaningful and has been excluded from the prospectus.

TRADE PAYABLES

For trade creditors, the average credit period on purchases of goods and services for each of the years ended 31 December 2007, 2008 and 2009 was 30 days, 14 days and 26 days, respectively.

The following table sets out the Group's trade payables and the periods in which they became due as at the dates indicated:

	As at 30 June 2010	As at 31 December 2009	2008	2007
	US$'000	*US$'000*	*US$'000*	*US$'000*
Less than one month	5,260	3,154	7,388	4,686
One to three months	36	789	55	110
Three to six months	985	135	157	—
Over six months	35	1,788	230	38
Total	6,316	5,866	7,830	4,834

99.2 per cent. of trade creditors were less than 3 months old as at 31 December 2007, 95.1 per cent. as at 31 December 2008, 67.2 per cent. as at 31 December 2009 and 83.9 per cent. as at 30 June 2010. Trade creditors were settled between 20 and 32 days over the Track Record Period.

62 per cent. of trade payables as at 30 June 2010 were subsequently settled before 31 July 2010.

Trade payables also include advances from customers in relation to engineering contracts.

Given the early stage of IRC's development it has historically had very limited sales and consequently very limited cost of goods sold as it focused on developing its projects. As a result, Trade Payable Days for the Track Record Period has been deemed not meaningful. Consequently it has been excluded from the prospectus.

INVENTORIES

During the Track Record Period, the Group was developing its assets and this development activity required relatively high levels of construction material to be on site. As a result, at the Kuranakh Project, stores and spares increased until May 2010 when the plant was commissioned. It is expected that these stores and spares will be depleted during the remainder of the year now that the plant is operational. Approximately US$5 million, or 38 per cent., of the inventory balances as at 31 December 2009 were utilised before 30 April 2010. This relatively low level of utilisation was the result of the remote locations of the Group's assets, which required significant balances of stock to be kept on site in order to mitigate the risk of any disruption in supply.

The work in progress level was relatively unchanged between 2008 and 2009, although it was written down to its net realisable value, resulting in a charge to the combined income statements of US$1.2 million in 2008 and US$0.2 million in 2009.

As of 31 July 2010, inventories had increased by US$2.1 million to US$19.1 million from the closing balance as at 30 June 2010.

Given the early stage of the Group's development it has historically had very limited sales and consequently very limited cost of goods sold as it focused on developing its projects. As a result, Inventory Turnover Days for the Track Record Period has been deemed not meaningful. Consequently it has been excluded from the prospectus.

Working Capital

Based on past performance and current expectations, the Directors are of the opinion that cash on hand, expected cash flow to be generated from operations and the estimated net proceeds from the Global Offering will be adequate to support currently planned business operations, commitments and other contractual obligations for at least the next 12 months from the date of this prospectus and the Group has sufficient working capital for 125 per cent. of its present requirements, that is for at least the next 12 months from the date of this prospectus.

STATEMENT OF FINANCIAL POSITION

The following table sets out summarised information of the Group's financial position as at 30 June 2010 and as at 31 December 2009, 2008 and 2007:

	As at	As at 31 December		
	30 June 2010	2009	2008	2007
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Goodwill	—	—	—	58
Intangible assets	28,540	28,690	613	427
Property, plant and equipment	445,218	404,741	442,610	561,438
Interest in an associate	—	—	3,704	2,854
Interests in joint ventures	8,911	22,692	20,387	—
Deferred tax assets	—	—	—	4,879
Amount owed by an associate	—	—	6,368	4,288
Other non-current assets	11,362	4,173	13,737	10,934
	494,031	460,296	487,419	584,878
Current assets				
Inventories	17,050	13,033	8,481	2,015
Trade and other receivables	31,808	19,739	24,960	13,967
Loans due from related parties	—	375,384	—	65,111
Short-term investments	—	—	—	91,791
Cash and cash equivalents	25,865	18,415	257,822	406,687
	74,723	426,571	291,263	579,571
Total assets	568,754	886,867	778,682	1,164,449
Current liabilities				
Trade and other payables	(27,473)	(16,437)	(14,993)	(12,728)
Current income tax payable	(320)	(270)	(1,182)	(446)
Derivative financial instruments	—	(1,711)	—	—
	(27,793)	(18,418)	(16,175)	(13,174)
Net current assets	46,930	408,153	275,088	566,397
Total assets less current liabilities	540,961	868,449	762,507	1,151,275
Non-current liabilities				
Deferred tax liabilities	(1,834)	(1,961)	(2,422)	(5,014)
Provision for close down and restoration costs	(2,916)	(2,990)	(2,108)	(2,294)
Loans due to a related party	—	(264,158)	—	—
Other non-current liabilities	—	—	(111)	(1,571)
	(4,750)	(269,109)	(4,641)	(8,879)
Total liabilities	(32,543)	(287,527)	(20,816)	(22,053)
Net assets	**536,211**	**599,340**	**757,866**	**1,142,396**
Equity				
Share capital	2,457	2,265	2,265	2,147
Share premium	697,637	1,183,520	1,183,520	1,130,638
Capital reserve	12,241	6,908	—	—
Treasury shares	—	—	(24,801)	(20,256)
Reserves	24,904	21,983	28,179	22,247
Accumulated losses	(205,471)	(619,700)	(435,623)	(8,307)
Equity attributable to equity holder of the Company	531,768	594,976	753,540	1,126,469
Non-controlling interests	4,443	4,364	4,326	15,927
Total equity	**536,211**	**599,340**	**757,866**	**1,142,396**

Property, plant and equipment and intangible assets

During the Track Record Period, the Group's capital expenditures have been primarily in connection with the acquisition, exploration and development of deposits. These capital expenditures amounted to US$64.1 million for the six months ended 30 June 2010, US$83.0 million for the year ended 31 December 2009, US$164.7 million for the year ended 31 December 2008 and US$106.3 million for the year ended 31 December 2007.

During the Track Record Period, the Group was also engaged in the acquisition of subsidiaries and acquisitions of non-controlling interests which are discussed above under the heading "Key factors affecting results of operations — Recent acquisitions and investments". These acquisitions amounted to US$nil for the six months ended 30 June 2010, US$nil for the year ended 31 December 2009, US$110.7 million for the year ended 31 December 2008 and US$35.3 million for the year ended 31 December 2007.

Interest in an associate

Interest in an associate held at 31 December 2007, 2008 and 2009 and 30 June 2010 represented the Group's 49 per cent. ownership interest in the ordinary shares of LLC Uralmining throughout the Track Record Period. LLC Uralmining is incorporated and carries out its mining and project development activities in Russia, where it holds the licence to develop the Bolshoi Seym deposit.

As at 31 December 2009, impairment charges of US$3.7 million and US$5.7 million were recognised in relation to the Group's interest in and the amount owed by LLC Uralmining. Due to uncertainties about the commercial viability of the project and the progression of the development of the project at 31 December 2009, it was decided to impair the carrying value of the equity interest of US$3.7 million and loans advanced of US$5.7 million.

In the six months ended 30 June 2010, further loans advanced to LLC Uralmining of approximately US$1.5 million were impaired during the same period.

Interest in joint venture

The Group entered into a joint venture agreement with Chinalco in relation to Jiatai Titanium which was approved on 12 August 2008. The Group currently holds a 65 per cent. interest and Chinalco currently holds a 35 per cent., with neither party having voting control of the joint venture and each party agreeing to contribute RMB474.5 million (equivalent to US$69.5 million) and RMB255.5 million (equivalent to US$37.0 million) respectively (which remained consistent through the remainder of the Track Record Period). Contributions to the registered capital to reflect these respective interests were to be made in tranches. The first tranche of US$20.8 million was paid by Aricom in September 2008. The remaining tranche to be contributed by the Group comprised a US dollar equivalent of US$48.7 million as at 30 June 2010 and in accordance with the terms of the joint venture agreement were due in 31 December 2009. The timing and payment of these contributions are uncertain. However, following discussions with Chinalco, the Group has recently entered into an agreement with Chinalco pursuant to which, and subject to certain conditions, one of which is the extension for the period in which the outstanding capital has to be paid up, the Group would bid, in the public listing and bidding process to be implemented in accordance with PRC laws, for Chinalco's stake in Jiatai Titanium. Further details of this agreement are set out in the sub-section headed "Jiatai Titanium" of the section headed "Business" in this prospectus.

For the six months ended 30 June 2010, the investment in Jiatai Titanium was impaired by US$33.1 million. Further information on the impairment of Jiatai Titanium can be found above under the heading "Key factors affecting results of operations — Impairment provisions".

On 19 February 2009, the Group signed an agreement to establish the Vanadium JV. The Group holds 46 per cent. of the joint venture and the remaining 49 per cent. and 5 per cent. are held by Jianlong and Kuranakii respectively, with the parties exercising joint control (which holdings were consistent through the remainder of the Track Record Period). Contributions to registered capital reflect these respective interests are to be made in tranches. The first tranche of a US dollar equivalent of US$2.0 million was paid by the Group in November 2009 and the further contribution of US$2.0 million was paid during the six months ended 30 June 2010. The remaining amounts to be contributed by the Group as at 30 June 2010 comprised a US dollar equivalent of US$2.7 million. Under the terms of the joint venture agreement, all capital contributions were due to be paid within six month of establishment in December 2009. The outstanding amount was fully paid on 9 September 2010, with the Group's portion of the outstanding amount paid using part of the proceeds from the Pre-IPO Investment.

Deferred tax assets and liabilities

The following is the analysis of the deferred tax balances for financial reporting purposes.

	As at 30 June	As at 31 December		
	2010	2009	2008	2007
	US$'000	*US$'000*	*US$'000*	*US$'000*
Deferred tax assets	—	—	—	4,879
Deferred tax liabilities	(1,834)	(1,961)	(2,422)	(5,014)
	(1,834)	(1,961)	(2,422)	(135)

At 31 December 2007, a deferred tax asset of US$1.6 million was recognised in respect of US$6.1 million of losses which were expected to be recoverable against future profits. Of the remaining losses of US$4.5 million as at 31 December 2007 and for the tax losses as at 31 December 2008 and 2009 and 30 June 2010, no deferred tax asset was recognised as there was not sufficient certainty that there would be sufficient taxable profit against which to offset those losses.

The Group has not recognised deferred tax assets of US$2.4 million, US$18.2 million and US$34.5 million and US$40.0 million during each of the years ended 31 December 2007, 2008 and 2009 and 30 June 2010, respectively, in respect of temporary differences arising on certain capitalised development costs. A deferred tax asset of US$6.6 million in respect of the Russian operations of the Group was reversed at 31 December 2008 due to the unpredictability of profit streams in the foreseeable future and significant strengthening of the US dollar against the Rouble during 2008.

Amount owed by an associate

The amounts owed by LLC Uralmining to the Group (which at 31 December 2009 and 30 June 2010 were net of impairment charges) were US$4.3 million, US$6.4 million, US$nil and US$nil as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The amounts due from LLC Uralmining were unsecured, and earned interest at a rate of 6.5 per cent. per annum throughout the Track Record Period. At 31 December 2007, the amount was repayable on 31 August 2008, which was extended during 2008 and became repayable on 31 December 2010.

Other non-current assets

Other non-current assets are principally comprised of prepayments for property, plant and equipment in relation to the construction and development of the Kuranakh Project and K&S. Most of the equipment was purchased on advance payment terms which is a common practice in Russia. The amounts outstanding usually fluctuate significantly from the end of one financial period to the next as these depend on exact advance payment terms and levels of capital expenditure.

Inventories

The increase in inventories during the Track Record Period was attributable to the incremental construction, completion and commencement of production at the Kuranakh Project.

Trade and other receivables

Fluctuations in the Group's trade and other receivables were primarily driven by the levels of VAT recoverable and advances to suppliers. These balances fluctuated depending upon the level of capital expenditure in the period, timing of receipt of VAT recovered and the advance payment terms agreed with suppliers.

Loans due from related parties

As at 31 December 2007, loans receivable related to a loan agreement with Olis. The loan bore interest at a rate of 5.2 per cent. per annum, and was repayable at the earlier of the date of completion of the proposed acquisition by the Group from Olis of shares in Lapwing pursuant to the acquisition agreement and the maturity date of the loan, which was 30 June 2008. This loan was secured by shares which Olis held in Lapwing. A total of 6,998,647 shares had been pledged as security, representing 29.26 per cent. of the issued share capital of Lapwing.

A loan receivable of US$65.0 million was held at 31 December 2007. Subsequent to 31 December 2007, consideration for the acquisition of Lapwing was offset against the loan.

The loans due from related parties of US$375.4 million at 31 December 2009 were due from the Petropavlovsk Group and were fully settled before 30 June 2010. As the loans payable were transferred to Thorrouble Limited and Thordollar Limited, these intercompany loans were eliminated on combination at 30 June 2010.

Short-term investments

As at 31 December 2007, the financial assets carried at fair value through profit and loss ("FVTPL") comprised highly-liquid investments held under discretionary management service with a maturity of up to six years, and short-term deposits with varying maturities from three to seven months. In 2008, the Group disposed of its financial assets at FVTPL and transferred funds to cash and cash equivalents, and no other financial assets at FVTPL have been acquired since. At 31 December 2007, the Group held funds under discretionary management service of US$48.9 million and short-term deposits of US$42.8 million. The funds under discretionary management service included certificates of deposit, commercial papers, floating rate notes and bonds which did not meet the definition of cash and cash equivalents due to their terms and conditions. The short-term deposits comprise term deposits with banks with maturities between three and twelve months.

These assets were purchased as part of the Group's short term liquidity management strategy and were liquidated during 2008 in order to utilise the cash for the development of the Group's assets. Management does not intend to acquire such deposits to manage its liquidity in the future.

Cash and cash equivalents

During the Track Record Period, the Group's cash balances fluctuated significantly. These fluctuations resulted primarily from the subscription monies related to the issue of shares in the year ended 31 December 2007; the acquisition of property, plant and equipment, and acquisition of licences and subsidiaries during the Track Record Period; and issue of loans to the Petropavlovsk Group during the year ended 31 December 2009. The Group's sources and uses of funds for each of the periods are disclosed above under the heading "Liquidity and Capital Resources".

Trade and other payables

Fluctuations in the Group's trade and other payables were primarily driven by the timing of payments and levels of expenditure.

Derivative financial instruments

On 4 June 2007, Aricom issued 133,000,000 units each comprising three ordinary shares of Aricom and one tradable warrant. Each warrant then conferred the right to subscribe for one ordinary share of Aricom at a price of 80 pence (subject to adjustment). On acquisition of Aricom by Petropavlovsk PLC, these warrants were acquired by Petropavlovsk PLC in exchange for the issue of warrants conferring the right to subscribe for ordinary shares in Petropavlovsk PLC.

A share split occurred in April 2009, pursuant to which the warrants were split by ten, resulting in 1,330,000,000 warrants in issue at 31 December 2009. Each warrant conferred the right to subscribe for one ordinary share of Aricom at a price of 8 pence (subject to adjustment). At 31 December 2009, the warrants had a fair value of US$1.7 million which was recorded as a liability at that date.

On 26 May 2010, Petropavlovsk exercised all of these warrants in Aricom. As a result Aricom issued 1,330,000,000 ordinary shares of GBP0.0001 for consideration of GBP0.08 per share which amounted to US$154.4 million, and was settled via a promissory note issued by Petropavlovsk. At this time the related derivative liability was extinguished. This promissory note has since been settled by the dividend declared by Aricom.

Provision for close down and restoration costs

The long-term provision recognised relates to mine closure, site and environmental restoration costs for the Kuranakh Project, based on estimates provided by external consultants in 2007, which form part of the Technical Economic Model for the Kuranakh Project. The expected timing of the cash outflows in respect of the provision is on the closure of mining operations which is expected to be sometime after 2020. The provision was recognised on a consistent basis over the Track Record Period.

Loans due to a related party

Loans due to a related party at 31 December 2009 were comprised of loans payable to Peter Hambro Mining Rouble Treasury Limited of US$264.2 million. The loans payable were transferred to Thor Rouble and Thor Dollar in June 2010. Accordingly, these intercompany loans were eliminated on combination at 30 June 2010.

Other non-current liabilities

Other non-current liabilities at 31 December 2007 included the long-term portion of amounts owed to the Administration of the Masanovskiy Region of Russia in connection with obligations arising under the Garinskoye licence in an amount of US$922,000. At 31 December 2008, all amounts payable to the Administration of the Masanovskiy Region of Russia were due within one year and included in current liabilities. At 31 December 2009 and 30 June 2010 there were no non-current amounts owing to the Administration of the Masanovskiy Region of Russia.

OFF-BALANCE SHEET ARRANGEMENTS

Save as disclosed under the sub-sections "Liquidity and capital resources—Capital expenditures" and "Liquidity and capital resources—Contractual commitments" of this section in this prospectus, the Group is not party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Group's financial condition, changes in financial condition, income or expenses, results of operations, liquidity, capital expenditure or capital resources.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET AND CREDIT RISK

During the Track Record Period, the board of directors monitored the financial risks relating to the operations of the Group. The following information should be read in conjunction with the Accountants' Report, which is included in Appendix I — "Accountants' Report" to this prospectus.

Counterparty risk

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are monitored by the board of directors, and limits have been established to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The Group's principal financial assets are cash and cash equivalents, trade receivables and loans due from related parties. Cash equivalents represent investments in money market funds and amounts held on deposit with financial institutions.

The credit risk on liquid funds held in current accounts and available on demand is limited because the Group's counterparties are primarily banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on money market funds is limited because the counterparties are investment funds with high credit ratings assigned by international credit rating agencies. These investment funds are managed in accordance with approved investment criteria, requiring that investments have certain credit ratings and limiting the concentration of investment in any one security.

Foreign exchange risk

The Group is mainly exposed to foreign exchange risk associated with fluctuations in the relative value of U.S. dollars, British pounds, Roubles and going forward in Renminbi and the Hong Kong dollar. The Group's policy was to hold a portion of its cash equivalents in Roubles to cover its exposure arising on capital and operational expenditure incurred in Roubles. When the Rouble started to weaken rapidly at the end of 2008 the Group reduced its proportion of cash held in Roubles.

The following table details the Group's sensitivity to a 5 per cent., 20 per cent., 25 per cent. and 25 per cent. change in exchange rates of functional currencies of the Group's companies against the relevant foreign currencies for the years ended 31 December 2007, 2008 and 2009, and the six months ended 30 June 2010, respectively. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates.

	US dollars currency impact			
	30 June 2010	31 December 2009	31 December 2008	31 December 2007
	US$'000			
	25% sensitivity	25% sensitivity	20% sensitivity	5% sensitivity
Profit or loss	525	629	88	3,009

	Roubles currency impact			
	30 June 2010	31 December 2009	31 December 2008	31 December 2007
	US$'000			
	25% sensitivity	25% sensitivity	20% sensitivity	5% sensitivity
Profit or loss	5,685	50,941	5,384	1,856

	British pounds currency impact			
	30 June 2010	31 December 2009	31 December 2008	31 December 2007
	US$'000			
	25% sensitivity	25% sensitivity	20% sensitivity	5% sensitivity
Profit or loss	196	252	152	2

Commodity price risk

The Group expects to generate most of its revenue from the sale of ilmenite, titanomagnetite and iron ore. The Group's policy is to sell its products at the prevailing market price. The Group does not hedge its exposure to the risk of fluctuations in the price of its products.

Interest rate risk

The Group is exposed to interest rate risk through the holding of cash and cash equivalents, including monies invested in money market funds. The interest rates attached to these instruments are at floating rates. The Group also holds amounts on deposit with fixed rates of interest. The mix between fixed and floating rate financial assets limits the Group's interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for the average balance of interest bearing financial asset investments held during the Track Record Period.

If interest rates had been 1 per cent. higher/lower and all other variables were held constant, the Group's profit/(loss) for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 would decrease/increase by US$3,380,000, US$2,578,000, US$1,843,000 and US$628,000, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Group's significant accounting policies are more fully described in note 3 to the Accountants' Report included in the section headed Appendix I — "Accountants' Report" to this prospectus. Some of the Group's accounting policies require the application of significant judgment and estimates by the Group's management that can affect the amounts reported in the financial information. By their nature, these judgments are subject to a degree of uncertainty and are based on the Group's historical experience and on various other assumptions that the Group believes are reasonable under the circumstances. The results of this analysis form the basis for making judgments about the reported carrying amounts of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions. Areas requiring significant use of estimates and judgments in applying the Group's accounting policies include:

Impairment of assets and assessment of cash generating units

The Group reviews the carrying value of its intangible assets and property, plant and equipment and interests in joint ventures to determine whether there is any indication that those assets are impaired. In making assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit, or CGU. The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs to sell and value in use.

The Group's management necessarily applies its judgment in allocating assets to CGUs, in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied within the value in use calculation. Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets.

Changes to the assumptions underlying the assessment of the recoverable value may result in changes to impairment charges, either through further impairment charges or reversal of previously recognised impairments, which could have a significant impact on the financial information in future periods. In addition, further delays, increases in the total forecast cost of planned projects or negative outcomes to exploration and evaluation activities could lead to further impairment charges in the future.

Provision for restoration, rehabilitation and environmental costs

Costs arising from site restoration works, and the decommissioning of plant, discounted to their present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. The provision is based on estimates prepared by external consultants. The Group's management uses its judgment and experience to provide for these costs. The ultimate costs of site restoration and decommissioning are uncertain, and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Ore reserve estimates

The estimates of the Group's Ore Reserves and Mineral Resources contained herein are based on the JORC Code. The JORC Code requires the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore Reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of close down and restoration costs. Also, for the purpose of impairment review and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to Ore Reserves where there is a high degree of confidence that such resources will be extracted.

Ore Reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values due to changes in estimated future cash flows;
- Depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;
- Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and
- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement.

Assumptions relating to the valuation of share-based payments

In order to value options granted, the Group has made judgments as to the volatility of its own ordinary shares, the probable life of the options granted and the time of exercise of those options. The Group has also made a judgment as to which methodology to use in valuing the options in each case.

Estimation of percentage completion of engineering contracts at Giproruda

To estimate the percentage completion of engineering contracts and, therefore, determine the amount of contract revenue and associated costs to recognise requires that the management makes an estimate of the stage of completion of the contract activity at the end of each reporting period. The Directors consider that these estimates are made by suitably qualified project managers.

Tax provisions

Assessing the outcome of uncertain tax positions requires judgments to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

Deferred tax

Recognition of deferred tax assets requires management to assess the likelihood that future tax profits will be available, which the deferred tax assets can be utilised to offset. This requires management to assess future profits of the business and the likelihood and timing of these amounts.

RELATED-PARTY TRANSACTIONS

See the section headed “Connected Transactions” in this prospectus.

DISTRIBUTABLE RESERVES AND DIVIDEND POLICY

Although the Company did not have any distributable reserves as at 30 June 2010, as the business of the Group develops, and subject to the availability of distributable reserves, the Directors intend to pursue a dividend policy which reflects the Group’s cash flow and earnings, while maintaining an appropriate level of dividend cover and having regard to the need to further fund development of the Group’s activities.

PROPERTY VALUATION

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

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules are set out below:

	US$'000	*US$'000*
Valuation of properties as of 31 July 2010 as set out in the valuation report included in Appendix IV		34,668
Carrying amounts of land and buildings included in property, plant and equipment as at 30 June 2010 as set out in the Accountants' report included in Appendix I	16,323	
Add:		
Exchange difference on land and buildings included in property, plant and equipment during the period from 1 July 2010 to 31 July 2010	300	
Less:		
Depreciation of land and buildings included in property, plant and equipment during the period from 1 July 2010 to 31 July 2010	(18)	
Carrying amounts of land and buildings included in property, plant and equipment as at 31 July 2010 subject to valuation as set out in the valuation report included in Appendix IV		16,605
Net valuation surplus		18,063

LOSS FORECAST

See the section headed Appendix III — "Loss Forecast" to this prospectus.

UNAUDITED PRO FORMA ESTIMATED LOSS PER SHARE

See the section headed Appendix II — "Unaudited Pro Forma Financial Information" to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

See the section headed Appendix II — "Unaudited Pro Forma Financial Information" to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors confirm that, as of the Latest Practicable Date, the Directors were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Company's financial or trading position or prospects since 30 June 2010, being the date of the Company's last audited financial information as set out in the section headed Appendix I — "Accountants' Report" to this prospectus. In addition, the Directors believe that, save as disclosed in this prospectus, no material changes have occurred since the effective date of the Competent Person's Report (being 30 June 2010).