铁货 IRC

IRC Limited

HONG KONG STOCK CODE: 1029

Annual Report 2016

ABOUT US

We are a vertically integrated producer of industrial commodities, operating in the Russian Far East and North-Eastern China. We are characterised by our low cost growth profile.

WHY IRC

IRC is unique in the iron ore market due to its competitive advantages, namely superior geology and direct access using established world-class infrastructure to China, the world's largest iron ore market.

2016 AND BEYOND

K&S mine, our 3.2 million tonnes per annum project, has started trial production in 2016 and will ramp up to full production capacity in 2017. It will produce premium 65% iron ore products at some of the lowest industry costs level. In long term, we will have optionalities of doubling group's production capacity and beyond by developing K&S Phase II and other exploration projects.

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CHAIRMAN & CHIEF EXECUTIVE OFFICER REVIEW

NEW ERA OF REWARD TO SHAREHOLDERS IS UNLOCKED AS K&S MOVES TO FULL CAPACITY

Dear Shareholders and Stakeholders,

A New Era for IRC, A Time of Reward for Shareholders

IRC is now in the final stage of transforming into a high-growth, low-cost, pure-play iron ore producer. As we write this letter, K&S is already cashflow positive and has been since the beginning of 2017. In March 2017, K&S successfully operated at 75% production capacity and is making sales of over 100,000 tonnes of iron ore per month to our Chinese customers. In the next couple of months, K&S will become an even more attractive world-class asset as it ramps up to its full production capacity of 3.2 million tonnes per annum and reward our shareholders with greater value.

2016 saw a series of major milestones being achieved. It was a year of many “firsts” for K&S – first ore produced, first thousand tonnes and most importantly first shipment to customers. These firsts represent our tremendous efforts and the significant progress we have made during the year. We remain confident in delivering K&S at full operating capacity as scheduled.

Production increasing as iron ore price rallies

2017 is set to be a good year for IRC as K&S is entering the market at a fortunate timing. During the second half of 2016, we signed the take-over certificate of K&S which marks the beginning of official trial production of the mine.

In 2016, the commodities market showed strong signs of recovery, with iron ore being the best performer of the majors – finishing up more than 80%. The year-end benchmark price closed at c.US$80 per tonne, reaching its highest level since September 2014.

Recently, the iron ore market price surged to near US$100 per tonne in March 2017. If we assume the estimated unit cash cost of K&S at c.US$34 per tonne delivered to the Chinese border (based on our cost optimisation analysis), K&S is well-positioned to enjoy the upside of this price recovery. An updated cash cost analysis will be provided when K&S is nearer to full scale operation, allowing IRC to fully analyse the cost base in detail.

Our focus on cost reductions

While it is blessing that K&S has commenced production and is generating revenue, it is still essential to monitor, control and optimise our costs for good margins. During 2016, we remained lean in both operating and corporate levels, with corporate administrative costs further shrinking and operating cost of Kuranakh remaining at minimal level since we moved the mine to care and maintenance. This is the third year running where costs have decreased despite the growth in the company. (For costs figures, please refer to the next section of CFO Statement & Results of Operations.)

Support from lenders, new investors and contractors

It is pleasing to note there has been an appreciation of IRC’s new stability and exciting value prospects by the investor community and other stakeholders. During 2016 the share register of IRC evolved materially with an influx of new investors. Tiger Capital Fund is one such new core investor, who intends to maintain a long-term investment, not only boosting IRC’s immediate cashflow for operational and financial needs, but also signifying to external audiences their confidence in K&S and the future of IRC. The investor also brought IRC an additional board member whose expertise will provide further diversity and experience to the Board.

Additionally, we owe thanks to the assistance from our lender. Following extensive negotiations, ICBC granted waivers to the Group for the obligations to maintain certain cash deposits and to comply with certain financial covenants. In addition, ICBC has also agreed to restructure our 2017–2020 repayments under the Project Finance Facility which fully relieve K&S from principal repayments in 2017. These waivers will help strengthen cashflow when K&S is beginning to produce in full capacity.

In further good news we are glad to report an amicable settlement has been reached with our construction contractor, CNEEC which included monetary compensation to IRC. The agreement also allowed us to maintain a friendly relationship with CNEEC for potential future collaboration on warranty works as needed. To be clear we also maintain the rights to pursue claims under the EPC contract, such as delay penalties if needed.

The Sino-Russian Bridge

With the help of the Sino-Russian Amur River Bridge project, a Sino-Russian project to encourage bilateral trade, we expect to further reduce K&S' unit cash cost by US$5 per tonne when the bridge is in use; providing an even stronger margin for IRC. The Russian side of the bridge construction began during 2016, while the Chinese side of the bridge is now complete. The infrastructure is expected to bring closer economic cooperation which IRC may take advantage of.

In addition, we believe China's Belt-And-Road initiatives may benefit commodities producers like us as the initiatives may stimulate the iron ore market demand by a series of infrastructure projects along the new "Silk Road". Also, with Far East of Russia being one of the strategic points for the Sino-Russia Economic Corridor, K&S is well-situated to enjoy this geographical advantage.

Outlook for 2017 and beyond

2017 is a year of transformation for IRC, and it is time for all stakeholders to reap the rewards of many years of hard work. We will be celebrating the full commercial production of K&S very soon. With the commodities market in an improved position than previous years, we hope to yield better earnings and strive for greater value generation.

We would like to thank our team for their hard work in the past years, and we wish to extend our gratitude to our shareholders, for your patience and ongoing support in IRC.

George Jay Hambro
Chairman

Yury Makarov
Chief Executive Officer

CFO STATEMENT & RESULTS OF OPERATIONS

As noted in our Chairman and CEO Review, we saw a strong rebound of the commodities market towards the end of 2016, especially for iron ore. Market analysts reported that they have seen a pick-up in hard commodities, supported by an uptick of global economic activities in China, the U.S. and Europe. In particular, China's economic stimulus policies seem to have taken effect on its property market and infrastructure sector, leading to the lift of demand in the iron ore market. In addition, we note that there is an increase in demand toward high grade iron ore, thanks to China's policies in increasing the efficiency of steel industry. This is reflected in the premium between benchmark 62% Index and 65% Index. The spread has increased to c. US$12-13 per tonne in 2016. For K&S, being a high grade iron ore producer, that is an additional benefit.

These positive news are reflected in the performance of the IRC share price as K&S development advances. During the second half of 2016, we announced the commencement of trial production of K&S, IRC's share price surged over 70% comparing to the beginning of the year. We believe that as K&S enters into full scale commercial production in 2017, we will see a more stabilised and strengthened financial position, which we hope can be further reflected in our share price performance.

During 2016, we are proud to report accomplishments on financing deals which satisfied our immediate financial needs and also kept our balance sheet at healthy level, with our cash and deposit balance amounting to c. US$33 million as at the end of 2016. These include:

(1) Successful equity fund-raising of US$25 million from a new core investor – Near the end of 2016, we have formed new alliance with Tiger Capital Fund, who injected c. US$25 million into IRC and brought an additional member to the Board.

(2) Amicable settlement with CNEEC – We have reached an amicable settlement agreement with CNEEC of which we received cash compensation of US$4.5 million in December 2016 and reduced outstanding construction payment liability by US$3.9 million while reserving the rights to claim for further penalties from the contractor.

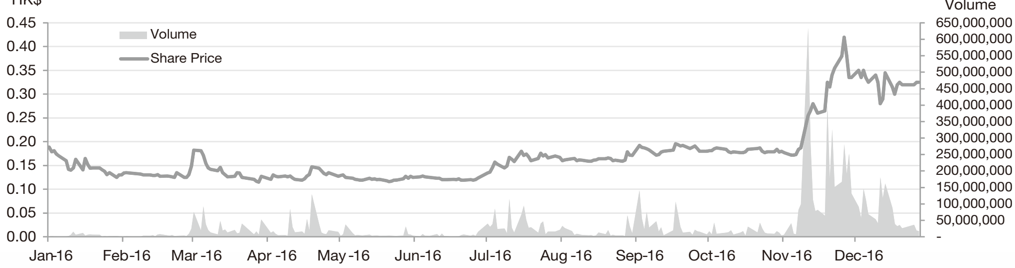
(3) US$10 million working capital facility obtained from Sberbank to finance the operation of K&S – As the sales from K&S to the Chinese customers are picking up, this line of credit provides support to our increasingly busy operation. The facility further de-risks the operation of K&S and strengthens our cash flow position.

In addition, just recently, we are thankful to have reached an agreement with ICBC regarding restructuring of the repayments under the Project Finance Facility, of which all principal repayment instalments in the year 2017 totalling c. US$43 million shall be repayable in equal parts over the subsequent five repayments instalments from 2018 to 2020. We believe this agreement not only helps IRC in maintaining a strong financial position, but also allows us to better allocate resources in the near future.

Turning to cost, we can report that we maintained our cost well. During 2016, we managed to keep our corporate administrative cost low from an already lean level of US$11 million in 2015 to US$10 million. Excluding the share-based payments which are non-cash in nature, Central Administration expenses reduced by 12.8% to US$9.3 million. Furthermore, operating cost shrunk 74% as we moved Kuranakh to care and maintenance and the last batch of sales was completed in the first half of 2016.

Lastly, regarding our numbers outlook, we know that investors are curious about our margins after K&S comes into full production. Our margin hinges on two main factors: the iron ore price and our cost which is mainly denominated in Rouble. Therefore apart from keeping K&S operation efficient, we are also considering the feasibility of hedging iron ore prices and Rouble exchange rate to secure our bottom line for future growth. We will remain cautious and prudent in the process to optimise shareholder's wealth.

FY2016 IRC Share Price/Volume



CFO STATEMENT & RESULTS OF OPERATIONS (CONTINUED...)

The table below shows the consolidated results of the Group for the year ended 31 December 2016 and 2015:

	For the year ended 31 December		
	2016	2015	Variance
Key Operating Data			
Iron Ore Concentrate			
— Sales volume (tonnes)	**219,352**	1,091,600	(79.9%)
— Average price (US$/tonne)	**39**	51	(23.5%)
Ilmenite			
— Sales volume (tonnes)	**60,044**	205,632	(70.8%)
— Average price (US$/tonne)	**117**	119	(1.7%)
Consolidated Income Statement (US$'000)			
Revenue			
Iron Ore Concentrate	**8,637**	55,906	(84.6%)
Ilmenite	**6,943**	24,445	(71.6%)
Engineering Services	**887**	1,559	(43.1%)
Total Revenue	**16,467**	81,910	(79.9%)
Site operating expenses and service costs	**(24,795)**	(95,896)	(74.1%)
Central administration expenses	**(10,397)**	(10,780)	(3.6%)
Impairment charges	**(47)**	(480,050)	(100%)
Share of results of a joint venture	**47**	1	>100%
	(18,725)	(504,815)	(96.3%)
Other income, gains and (losses)	**689**	(3,769)	n/a
Financial expenses, net of financial income	**(776)**	(414)	87.4%
Loss before taxation	**(18,812)**	(508,998)	(96.3%)
Taxation expense	**(315)**	(247)	27.5%
Loss after taxation	**(19,127)**	(509,245)	(96.2%)
Non-controlling interests	**901**	276	>100%
Loss attributable to owners of the Company	**(18,226)**	(508,969)	(96.4%)
Underlying Results (US$'000)			
Loss attributable to owners of the Company, excluding impairment charges	**(18,179)**	(28,919)	(37.1%)

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the mining operation. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. However, as with most of IRC's international industry peers, the Group's income statement includes material non-cash impairment provisions. These impairments are provided mainly in light of the volatility of the global economy, such as the weakness in global bulk commodity markets, and are therefore non-operating and non-recurring in nature.

The underlying loss, which excludes impairment charges, in 2016 reduced 37.1% to US$18.2 million (31 December 2015 Underlying Loss: US$28.9 million). The significant reduction in underlying loss was mainly due to the decision to move Kuranakh to care and maintenance and suspend its operation in early 2016, when the iron ore market was weak and Kuranakh was making negative contribution to the Group. IRC is now assessing the feasibility of re-opening Kuranakh in light of the recent stronger iron ore prices.

To facilitate a better understanding of the Group's operating results, the calculation of the Group's underlying results, which excludes the effect of the impairments, is set out below:

	For the year ended 31 December		
US$'000	**2016**	2015	Variance
Loss attributable to owners of the Company	**(18,226)**	(508,969)	(96.4%)
Impairment charges	**47**	480,050	(100.0%)
Underlying loss for the year	**(18,179)**	(28,919)	(37.1%)

Iron ore concentrate

IRC's 2016 operating results are mainly derived from the mining operation of Kuranakh. Since Kuranakh has been moved to care and maintenance since the beginning of 2016, IRC has halted the production of iron ore concentrate in 2016. Consequently, the sales volume of iron ore diminished to 219,352 tonnes compared to the last year. The sales of the iron ore of Kuranakh were completed during the second quarter of 2016, with shipments mainly made during the first quarter of 2016, where the iron ore price market was still at a low position. As a result, the average achieved selling price of the iron ore concentrates decreased 23.5% to US$39 per tonne, the sales revenue of iron ore consequently decreased 84.6% to US$8.6 million.

Ilmenite

Also as a result of Kuranakh being moved to care and maintenance since the beginning of 2016, the production of ilmenite has been suspended. The last batch of ilmenite sales was completed during the second quarter of 2016 and 60,044 tonnes of ilmenite were sold in total during the year. The average achieved selling price was a slight decrease from last year's US$119 to US$117 per tonne in 2016.

Engineering Services

Revenue from Giproruda, the small engineering services division of the Group, reduced by 43.1% to US$0.9 million, due to decreased billing for its consulting services.

SITE OPERATING EXPENSES AND SERVICE COSTS

Site Operating Expenses and Service Costs mainly represent the mining and operating expenses incurred by the Group's sole mine in production, the Kuranakh mine. In light of Kuranakh being moved to care and maintenance, the decrease in sales volumes of iron ore and ilmenite has consequently resulted in a significant decrease in site operating expenses by 74.1% from US$95.9 million to US$24.8 million and a breakdown of the expenses is set out in note 8a to the consolidated financial statements on page 107.

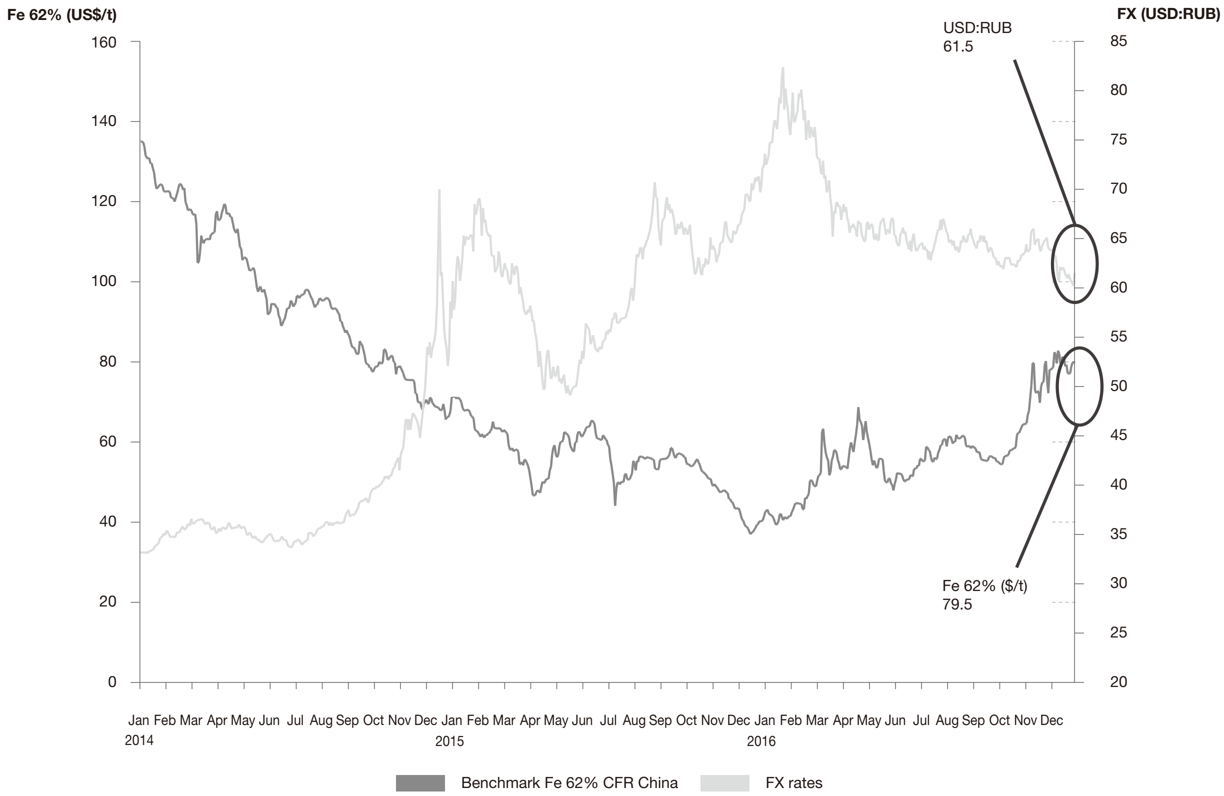
In accordance with the general market practice and for presentation and analysis purposes, the table below classifies ilmenite sales as a by-product credit by treating the sales revenue as an offsetting item in the production cash cost of iron ore. The details of the key cash cost components are as follows:

	2016		2015
	Total cash cost US$ million	**Cash cost per tonne US$/t**	Cash cost per tonne US$/t
Mining	**1.0**	**5.4**	8.8
Processing	**2.3**	**12.3**	11.4
Transportation to plant	**0.7**	**3.8**	5.7
Production overheads, site administration and related costs	**2.7**	**14.4**	16.4
Transportation to customers	**3.9**	**17.8**	19.4
Movements in inventories and finished goods	**4.4**	**20.1**	3.5
Contribution from sales of ilmenite* and others	**(3.5)**	**(18.8)**	(10.3)
Net cash cost	**11.5**	**55.0**	54.9

* net of tariff and other railway charges for ilmenite

Despite operating at a much reduced scale, the cash cost per tonne of Kuranakh was largely in line with the same period last year as the Group continued to implement stringent cost cutting measures, with the aid of Russian Rouble devaluation. The Russian Rouble remained weak in 2016. While the Group's income is mainly US Dollars denominated and therefore unaffected by the Roubles depreciation, the Group's operating costs, which are mostly denominated in Roubles, reduced significantly in 2016. The chart below shows how the depreciation of Russian Rouble helped to offset the effect of the reduction in iron ore prices:

Benchmark Fe 62% CFR China VS. FX rates (USD:RUB)



SEGMENT INFORMATION

As Kuranakh was moved to care and maintenance, "Mine in production" segment reports a segmental loss of US$6.5 million, an improvement compared to last year (31 December 2015: segmental loss before impairment of US$12.7 million). The "Engineering" segment also recorded a loss of US$1.4 million (31 December 2015: US$1.3 million) following a decrease in consultancy billings.

CENTRAL ADMINISTRATION EXPENSES

In light of the challenging market and operating environments, special attention continues to be given to controlling administrative costs. The successful implementation of the cost savings initiatives continued to provide benefits, with the Group's central administration costs reduced to US$10.4 million, 4% reduction from last year (31 December 2015: US$10.8 million). Excluding the share-based payments which are non-cash in nature, central administration expenses reduced by 12.8% to US$9.3 million.

IMPAIRMENT CHARGES

During the year ended 31 December 2016, full provision was made on the interest in the vanadium joint venture amounting to US$47,000 (31 December 2015: US$5,895,000) as a result of the Kuranakh project being put under care and maintenance, which led to cessation in supply of raw materials from Kuranakh to the joint venture for its further production of vanadium for sale. As there is a lack of certainty of the going concern of the joint venture in the foreseeable future, the interest in the joint venture is fully impaired for prudence.

In 2015, due to the weak iron ore price environment, impairments of US$437.3 million and US$36.9 million were made against the carrying value of K&S and certain exploration and evaluation assets and other assets, respectively. No such impairment is made in 2016.

SHARE OF RESULTS OF JOINT VENTURE

In 2016, the vanadium joint venture, 46% owned by IRC, provided the group with a nominal profit of US$47,000 (31 December 2015: share of profit of US$1,000).

OTHER INCOME, GAINS AND LOSSES

Gains from the Other Gains and Losses and Other Expenses amounted to US$0.7 million (31 December 2015: loss of US$3.8 million) mainly represents the exchange losses following the depreciation of Russian Rouble and net gain on disposal of property, plant and equipment from Kuranakh.

NET FINANCIAL EXPENSES

Net financial expenses mainly represent the interest income from bank deposits, net of the interest expenses of the working capital facilities.

TAXATION

During 2016 tax charges remained at a low level of US$0.3 million (31 December 2015 tax expense: US$0.2 million).

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

As the iron ore price performance has improved in 2016 compared to the same period last year, there was no significant impairment made against the projects of the Company during the year ended 31 December 2016, the only impairment charges were made on the interest in a joint venture amounting to US$47,000 (31 December 2015 impairment charges: US$480.1 million). As a result, the Loss attributable to the Owners of the Company in 2016 reduced significantly by 96.4% to US$18.2 million (31 December 2015 Loss: US$509.0 million).

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the year ended 31 December 2016 and 31 December 2015:

	For the year ended 31 December	
US$'000	**2016**	2015
Net cash generated from/(used in) operations	**1,006**	(799)
Interest paid	**(10,150)**	(11,022)
Capital expenditure	**(14,734)**	(52,599)
Proceeds on issuance of new shares and share options, net of transaction costs	**25,292**	49,434
Proceeds from bank borrowings, net of repayment	**(29,806)**	(926)
Proceeds from constructor in remedying mining project defect	**4,508**	—
Other payments and adjustments, net	**(1,060)**	(815)
Net movement during the year	**(24,944)**	(16,727)
Cash and bank balances (including time and restricted deposits)		
— At 1 January	**58,263**	74,990
— At 31 December	**33,319**	58,263

The net cash generated from operations amounted to US$1.0 million (31 December 2015: net cash used in operation: US$0.8 million), mainly due to the cash inflow from the release of Kuranakh's working capital after the mine was moved to care and maintenance. Capital expenditure of US$14.7 million was spent mainly on the K&S mine. The reduction in capital expenditure reflects the fact that K&S is nearing completion.

During the year, the Group allotted and issued 937.5 million new shares to Tiger Capital Fund and received net proceeds of approximately US$25.3 million. A net bank repayment of US$29.8 million represents mainly the drawing down of the short-term loan facility offset by the repayments of the ICBC Project Facility, which was to finance the construction of the K&S project.

In addition, the Group has received proceeds of US$4.5 million from CNEEC, the main contractor of K&S project in remedying the defects of the project construction.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

General Nice Subscription

On 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice Development Limited ("General Nice") and Minmetals for an investment by General Nice and Minmetals in new shares of the Company up to approximately HK$1,845 million (equivalent to approximately US$238 million) in aggregate. The share placements not only provided the Group with strong strategic Chinese investment partners, but also solidified the Group's financial strength by unlocking the value in IRC's extensive portfolio of development projects. The transaction also includes off-take and marketing arrangements, providing IRC with both sales volume and cash-flow security. As at 31 December 2016, General Nice has completed more than 80% of its commitment by investing approximately US$170 million into the Company, while the completion of the subscription by Minmetals is subject to further agreement between the parties.

General Nice has agreed to commence paying interest on the outstanding investment amount of US$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 31 December 2016. The Company is in discussions with General Nice and Minmetals about a further deferred completion and other available options.

Tiger Capital Fund New Shares Subscription

On 30 December 2016, IRC has completed the issuance of new shares to a new core investor with an additional member of the Board. Accordingly, Tiger Capital Fund injected c. US$25 million into IRC for newly issued IRC shares, giving them a 13.22% shareholding; and Mr Cheng Chi Kin as a representative of Tiger Capital Fund joined the Board of IRC as a non-executive director in February 2017, providing further diversity, expertise and experience to the Board. In accordance with the intended use of proceeds of the transaction as disclosed in the shareholders' circular dated 12 December 2016, the proceeds was to assist the Company to meet its cashflow needs and provide extra working capital to K&S as it ramps up to full commercial production. The proceeds had been used in accordance with the intention above-mentioned in 2017.

Cash Position and Capital Expenditure

As at 31 December 2016, the carrying amount of the Group's cash and bank deposits was approximately US$33.3 million (31 December 2015: US$58.3 million). The balance represents a decrease of US$25.0 million, mainly due to the repayment of ICBC Facility Loan during the year.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2016, US$41.2 million (31 December 2015: US$146.1 million) was incurred on development and mining production activities. The significant reduction is attributable to the reduced operating expenses in Kuranakh with the mine moving to care and maintenance and the decrease in capital expenditure at K&S with the project nearing completion. No exploration activity was carried out for the year ended 31 December 2016 and 2015. The following table details the capital and operating expenditures in 2016 and 2015:

	For the year ended 31 December 2016			For the year ended 31 December 2015		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
Kuranakh	**22.1**	**–**	**22.1**	93.1	0.1	93.2
K&S development	**1.3**	**17.6**	**18.9**	0.5	52.0	52.5
Exploration projects and others	**–**	**0.2**	**0.2**	–	0. 4	0. 4
	23.4	**17.8**	**41.2**	93. 6	52. 5	146. 1

The table below sets out the details of material new contracts and commitments entered into during 2016 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to completion.

		For the year ended 31 December	
US$'m	**Nature**	**2016**	2015
Kuranakh	Purchase of property, plant and equipment	**–**	–
K&S	Purchase of property, plant and equipment	**0.1**	1.3
	Sub-contracting for excavation related works	**–**	–
Others	Other contracts and commitments	**–**	–
		0.1	1.3

Borrowings and Charges

As 31 December 2016, the Group had gross borrowings of US$257.0 million (31 December 2015: US$286.9 million). All of the Group's borrowings were denominated in US dollars. Of the gross borrowings, US$1.4 million (31 December 2015: US$10.6 million) was bank borrowing for funding the working capital of the Group while the remaining borrowings represents the long term borrowing of US$233.8 million (31 December 2015: US$276.3 million) drawn down from the US$340 million ICBC loan facility which is guaranteed by Petropavlovsk and other unsecured short-term bridge loans of US$21.8 million, which were fully repaid in January 2017. The Group has been keeping its borrowing costs at market level, with its weighted average interest rate at approximately 6.4% (31 December 2015: 6.1%) per annum. As of 31 December 2016, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, decreased to 61.1% (31 December 2015: 63.4%) mainly due to the repayment of the ICBC loan facility and increase in the Group's net assets following the share subscription by Tiger Capital Fund as mentioned above.

On 27 February 2017, the Company announced that subject to the fulfilment of certain conditions precedent, ICBC has agreed to restructure the repayments under the Project Finance Facility as follows: (i) two repayment instalments, originally due for payment on 20 June 2017 and 20 December 2017 and in an aggregate amount of US$42.5 million have been waived; and (ii) in respect of the five subsequent repayment instalments under the Project Finance Facility, each repayment instalment has been increased by US$8.5 million to US$29.8 million, with the aggregate amount of the increase being equal to US$42.5 million. The waiver of the 2017 loan principal repayments and the restructuring of the five subsequent repayments become effective on 20 March 2017 after the conditions precedent were fulfilled.

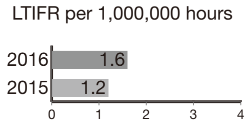
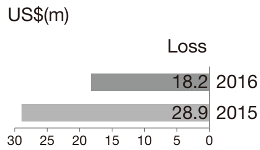
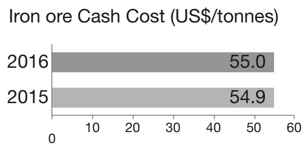
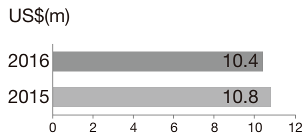
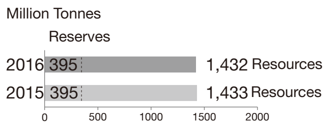
Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally in Russian Roubles and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging but the Group will consider entering into hedging transactions to protect against any downside risks.

Employees and Emolument Policies

As at 31 December 2016, the Group employed approximately 1,477 employees (31 December 2015: approximately 1,800 employees). The total staff costs excluding share based payments decreased to US$17.8 million for 2016 (31 December 2015: US$26.5 million) following decreases in headcount due to Kuranakh mine being moved to care and maintenance and adjustments in staff remuneration. As part of the cost reduction program, an aggressive cost saving approach was taken by reducing salaries and directors' fees (as applicable) for all Board members by 15% in March 2015, which also applied to most of senior management of the Group. In addition, a further 10% reduction in salaries and directors' fees (as applicable) for Board members and most of senior management was implemented in January 2016. Although there was some recovery in the commodities market towards the end of 2016, the Group takes a prudent approach and these cost control measures continue to be in effect. No bonuses were paid in 2016. The emolument policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to market conditions and trends.

Key Performance Indicators

KPI	CONTEXT	2016 DEVELOPMENT	2016 PERFORMANCE
Safety	Our aim is zero harm culture; we adhere to strict safety policies and standards. LTIFR is the frequency of injuries with loss of working ability.	Continuous trainings for all operational employees and contractors. IRC took proactive steps in examining the implementation of the industrial safety management system, and will improve the system where necessary.	**Safety – maintained at similar level** 
Profitability	Profitability focuses on longer term. Currently, K&S mine has commissioned in 2016 and in the process of ramping up to full capacity. Kuranakh has been moved to care and maintenance.	Kuranakh was making negative contribution and was moved to care and maintenance. Contributions from K&S was not reflected in 2016's profitability.	**Profitability – Underlying Loss Reduced** 
Production	Good track record of beating annual production target each year.	K&S has entered into last stages of the commissioning program and started trial production stage during 2016, while Kuranakh has been moved to care and maintenance.	**Production** Not applicable as Kuranakh was moved to care and maintenance and K&S has not commenced commercial production.
Efficiencies & Cash Cost	"Cash cost" shows the cost of running a mine to produce a given amount of a product. It is a benchmark of operating efficiency. Cash cost disregards central administrative expenses.	In 2016, cost optimisation programme continues to reduce operating expenses. Similarly, cost optimisation studies were carried out for K&S.	**Efficiency & Cash Cost** 
Administrative Overheads	Administrative overheads measure costs of supporting units for the business to carry out profit making activities.	In 2016, stringent measures of corporate costs cutting continued across the Group.	**Administrative Overheads** 
Exploration & Development	Our exploration programmes aim to add value through the discovery of new resources and increase and confirm confidence in mineable reserves.	Efforts and resources were focused on hot commissioning of K&S. No exploration activities were carried out during 2016.	**Exploration & Development – Reserves remains at similar level** 
HSE & Community	HSE is measured by adhering to legislation and best practices in the communities and environment where we operate. Our success is also reflected in the certification and awards that we receive.	The integrated environmental management system ("EMS") helps IRC in reducing its impact on the environment. The EMS complies with international standard ISO 14001:2004.	**Extensive HSE statistics are published in the HSE Section.**

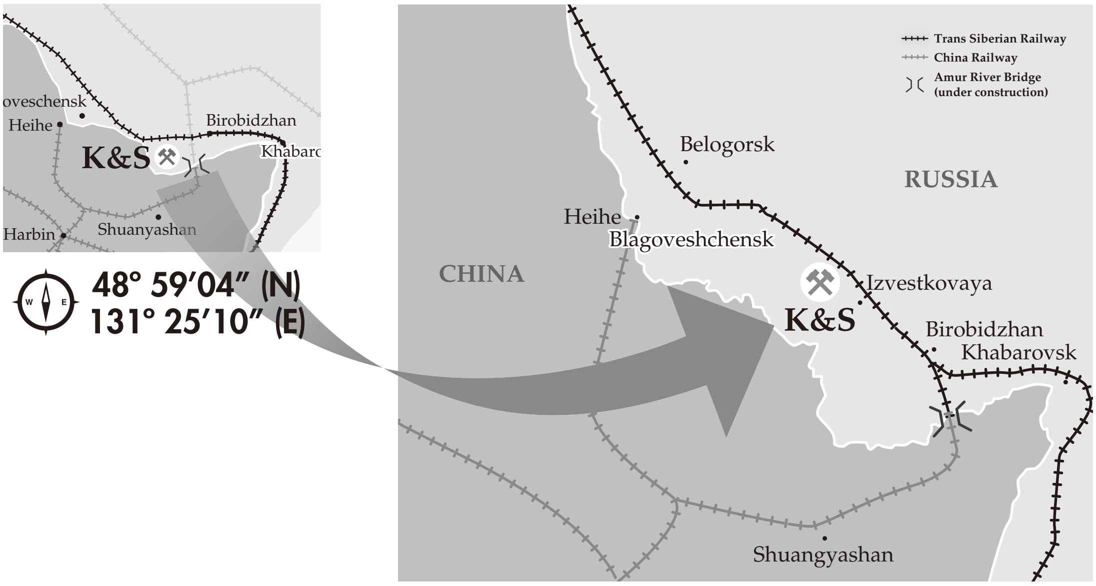
KEY PERFORMANCE INDICATORS (CONTINUED...)

	2015 PERFORMANCE	FUTURE OPPORTUNITIES
Overall performances in safety remains at satisfactory level. Group LTIFR per 1,000,000 hours remains similar to last year at 1.6. One fatality was recorded this year while injury rate remains the same as last year.	Overall improvements in safety performances. Group LTIFR per 1,000,000 hours decreased to 1.2. However one fatality was recorded for an independent contractor.	IRC will continue to set high safety standards and a target of zero harm across its operations. As operations ramp up at K&S, education programmes for employees and contractors will expand.
Kuranakh reported a negative segmental EBITDA before impairment of US$6.5 million, a 48.6% reduction in loss compared to last year. The net loss of the Group excluding non-cash impairment was significantly reduced to US$18.2 million, compared to net loss of US$28.9 million in 2015.	Kuranakh reported a negative segmental EBITDA before impairment of US$12.7 million, a 29.6% reduction in loss compared to 2014. The net loss of the Group excluding non-cash impairment of US$480.1 million was US$28.9 million.	As the large-scale low-cost K&S operation commences production in 2016, cash flows will be boosted. The Group's decision to put Kuranakh under care and maintenance will reduce loss under current iron ore environment.
There are no production guidelines for year 2016 as Kuranakh was moved to care and maintenance; and K&S has only started trial production in the second half of 2016.	In 2015, Kuranakh iron ore production was 1,114,153 tonnes, 23.8% ahead of the 900,000 tonnes target. Ilmenite production was 193,236 tonnes, 20.8% ahead of 160,000 tonnes target.	Full commercial production is anticipated from K&S in first half of 2017, boosting group production in 2017.
Although Kuranakh has been moved to care and maintenance, the average cash cost per tonne of iron ore maintained at a similar level of US$55.0 despite the reduction in operating scale.	The average cash cost per tonne of iron ore of Kuranakh mine decreased by almost 50% to US$54.9 in 2015.	The depreciation of Rouble will continue to aid our production cash cost as our costs are mainly denominated in Rouble. The construction of Amur River Bridge could further reduce rail transport costs by up to US$5 per tonne to customers in China.
In 2016, central administrative costs of the Group were further from an already lean level of US$10.8 million to US$10.4 million.	In 2015, central administrative costs of the Group were further reduced to US$10.8 million.	The Group will continue to carry out more stringent cost saving measures to minimise the administrative overheads costs.
Group resources and reserves remained at similar level, amounted to 1,432 million tonnes and 395 million tonnes respectively.	Group resources amounted to 1,433 million tonnes as at the end of 2015. Reserves decreased to 395 million tonnes, mainly due a reflection of iron ore pricing environment and revised mining plan.	Exploration and development activities will resume when the market conditions and the Group's cash flow improve.
Ongoing efforts in 2016, including the maintenance of EMS, to help IRC mitigate its impact in all health, social and environmental aspects.	The integrated EMS was recertified in 2015 and has been extended to all Company's activities. This helped reduce the impact of our operations on the environment.	The Group will continue to strive to reduce energy consumption and emissions, water usage and waste. ISO certification will be maintained.

PROJECT REVIEW

K&S

100% owned



OVERVIEW

The K&S Mine, 100% owned by IRC, is located in the Jewish Autonomous Region (EAO) of the Russian Far East. It is the second full-scale mining and processing operation that the Group has developed. The project consists of two principal deposits – Kimkan and Sutara. The K&S Phase I is to produce 3.2 million tonnes per annum of iron ore concentrate with 65% Fe grade. There is an option for a Phase 2 expansion to a total of 6.3 million tonnes per annum. The Phase I Processing Plant is being constructed by CNEEC and funded through a project finance facility provided by ICBC.

K&S enjoys tremendous geological advantage. The Trans-Siberian Railway is linked directly to the mine site, allowing easy transport of products to customers in China. With the help of the Amur River Bridge, which is expected and reported to be commissioned by mid 2018, the transport cost and distance can be further reduced.

K&S is located in the Obluchenskoye District of the Jewish Autonomous Region (EAO) in the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also 130 kilometres from the federal highway connecting to the regional capital of Birobidzhan, and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S NEARS FULL COMMISSIONING AS RAMP UP CONTINUES

During 2016, K&S has entered into the final stages of the commissioning process and successfully produced its maiden iron ore products, which marked the beginning of K&S' trial production period. The first shipment of products to customers in China was also one of the significant milestones for K&S.

While certain issues encountered during the final stages of commissioning programme have been resolved, some teething issues remain, nonetheless with well-experienced site team, IRC remains confident in resolving the issues for full ramp-up and commercial production in the first half of 2017.

K&S SALES & MARKETING IN TRIAL PRODUCTION STAGE

During 2016, as a result of trial production, a total of 168,031 tonnes of iron ore concentrates have been produced of which 142,588 tonnes have been sold.

The price of the product is determined with reference to the international Platts spot price of 65% Fe iron ore concentrates. As K&S is still undergoing trial production, the achieved selling price is not published for commercial reasons. When K&S is near full ramped up capacity, long-term offtake contracts will be signed to secure a stable revenue stream.

AMICABLE AGREEMENT WITH CNEEC

At the end of December 2016, IRC has signed a settlement agreement with its main contractor for K&S project, CNEEC. As a result of the agreement, K&S has issued the Taking-over Certificate to CNEEC, which is a major milestone for the project that marks the start for the performance test period and warranty period.

According to the settlement agreement, IRC received cash compensation of US$4.5 million in December 2016 towards the remedial and associated costs that K&S incurs in remedying certain defects; with the reduction in outstanding construction payment liability by US$3.9 million while reserving the rights to claim for further delay penalties from CNEEC. Although IRC has issued the Taking-over certificate to CNEEC, CNEEC remains responsible for the warranty of the project. Details of the agreement is set out in the announcement of IRC on 28 December 2016.

SAFETY

The LTIFR is a measure of the number of lost-time injuries per one million hours worked. The K&S Mine reported a satisfactory safety performance for 2016 with one injury recorded during the year and the LTIFR was 0.68. In order to reduce possibility of the reoccurrence of similar accidents in the future, the Company took proactive steps in examining the implementation of the industrial safety management system, and will improve the system where necessary.

MINING

The Kimkan operation covers nearly 50 km^2 and comprises two key ore zones – Central and West. Open pit mining commenced at the Central area, with ore being stockpiled for processing.

In order to support a continuous production of K&S, a continuous supply of required feedstock has to be provided. During the fourth quarter of 2016, the mining contractor has re-commenced the mining process; firstly with drilling and blasting operations to prepare ore volumes in the open pit, and later with excavation and hauling operations to replenish ore stockpile that will be used for plant feeding. The drilling, blasting, excavation and hauling works have recommenced since December 2016 with approximately 75,000m^3 of rock mass blasted.

AMUR RIVER BRIDGE/TONGJIANG BRIDGE

Amur River Bridge is a national project between China and Russia to build a railway bridge across the Amur River border between the two countries. The Amur River Bridge was hailed as one of the major projects between the two countries. These infrastructure projects including the Amur River Bridge are expected to bring closer economic cooperation which IRC may benefit from.

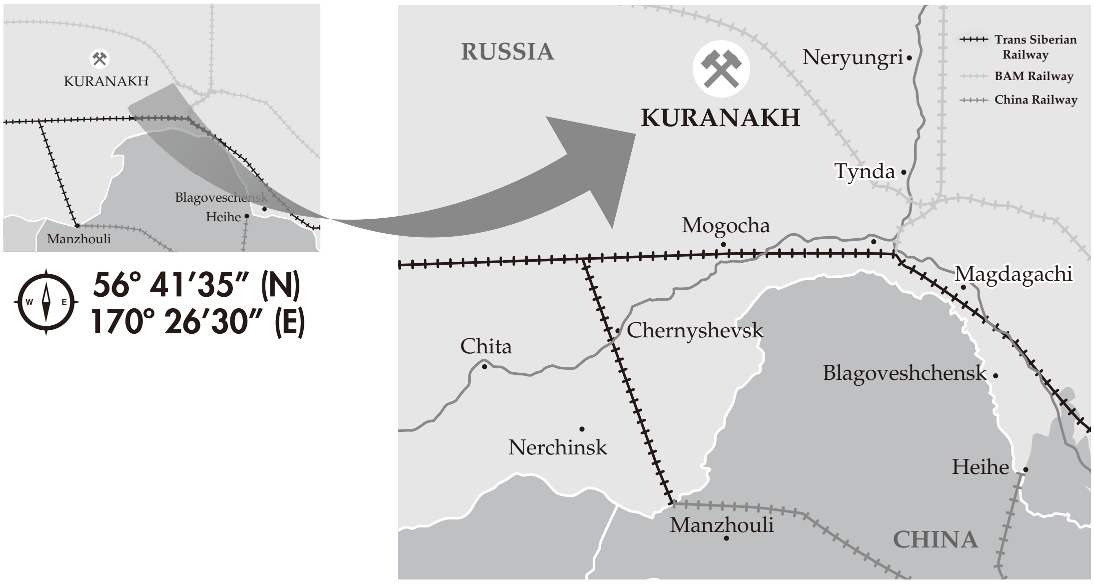
According to the public sources and media reports, the Chinese side of the bridge has been completed, while the Russian side of the construction has started during 2016.

The current distance from K&S operation to the Chinese border (Suifenhe) is approximately 1,000 kilometres. When the Amur River Bridge is completed, the distance and cost for K&S transport of products will be hugely reduced.

K&S mine is situated approximately 240 kilometres from the bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the bridge. The bridge could halve the transport costs of K&S and further confirming IRC as one of the lowest cost iron ore projects in the world.

Kuranakh

100% owned



OVERVIEW

Kuranakh, 100% owned by IRC, was the Group’s first mining operation and the first vertically integrated titano-magnetite operation in Russia, designed, built and managed by IRC. The mine was initiated in 2010 and was moved to care and maintenance since the end of 2015 due to difficult operating environment in commodities market.

The Kuranakh Mine is located in the Amur Region of the Russian Far East, near the town of Olekma, a principal stop on the BAM Railway. The operation covers $85km^2$ and comprises the Kuranakh and Saikta open-pit mines, an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The operation produces an iron ore concentrate with a 62.5% Fe quality content and an ilmenite concentrate with a 48% TiO_2 quality content. The concentrates are directly loaded onto railcar wagons for transportation via the BAM and Trans Siberian Railways to customers in Russia and China and internationally via the Russian Pacific sea ports.

SAFETY

At Kuranakh, the LTIFR, a measure of the number of lost-time injuries per one million hours worked, was 4.80 in 2016 compared to 1.90 in 2015. The deterioration of performance is mainly due to the reduction of the number of hours worked as the mine was moved to care and maintenance.

KURANAKH – CARE & MAINTENANCE

As announced at the end of 2015, IRC has decided to move Kuranakh to care and maintenance due to difficult operating environment. In 2016, only limited cost and activities were recorded in order to relief the Group's cash flow. The Group has reduced the number of staff at Kuranakh to minimum levels for equipment maintenance and security. Certain personnel have been relocated to K&S where trial production has begun. The only major non-operating cost that the site will bear is domestic property taxes however relief will be sought for these.

In light of improved commodities market near the end of 2016, the management of IRC may consider the option of re-opening Kuranakh if the iron ore market upside prevails.

2016 PRODUCTION & SALES STATISTICS

As Kuranakh has been moved to care and maintenance status, only the first quarter of 2016 has recorded production using remaining stockpiles of ore. The production volume of the year decreased considerably. During 2016, a total of c.53,000 m^3 of overburden was removed; and c.569,000 tonnes of ore was removed at Kuranakh mine. The Crushing and Screening Plant processed c.578,000 tonnes of ores. Production and sales of iron ore concentrates and ilmenite during the year amounted to c.219,000 tonnes and c.60,000 tonnes respectively. The average selling price for Kuranakh's iron ore concentres and ilmenite were US$39 per tonne and US$117 per tonne respectively.

FINANCIAL PERFORMANCE

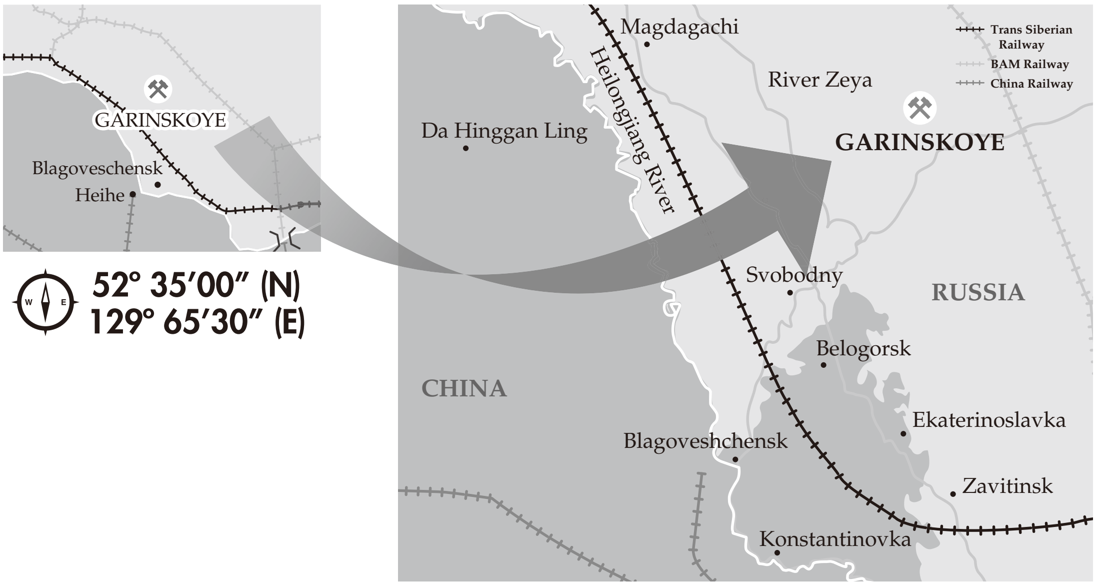
As Kuranakh has been moved to care and maintenance, the last shipments of product were completed in the second quarter of 2016. During the year, the revenue from iron ore concentrates amounted to US$8.6 million and ilmenite amounted to US$6.9 million.

Due to lean operation as a result of the cost optimisation programme and weak Rouble, the unit cash costs inclusive of transportation costs remained at a low level, at US$55.0 per tonne in 2016, similar to 2015 at US$54.9 per tonne. For the breakdown of cash cost, please refer to "Site Operating Expenses And Service Costs" on page 8 of this report.

In 2016, Kuranakh reported an improved segmental EBITDA loss before impairment of US$6.5 million, a 48.6% reduction compared to US$12.7 million in 2015.

Garinskoye

99.6% owned



OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration. The project offers the potential for a low cost DSO-style operation, that can be transitioned into a large-scale long-life open pit mining operation.

The project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans Siberian Railways. With exploration licences for ground covering over 3,500 km^2, the project is the largest in terms of area in the IRC portfolio.

CURRENT DEVELOPMENT

There are two possibilities to develop Garinskoye. The first option is to develop a large-scale 4.6 million tonne per annum open-pit operation with a life-of-mine of 20 plus years, which requires the construction of a rail connection. The second option is an intermediate DSO-style operation that does not require a rail connection and can be started up in advance of a larger conventional operation. The DSO-style plan comprises a pit with a 20.2 million tonnes reserve, 48% Fe grade, and a strip ratio of 1.7:1 m^3 per tonne. The DSO-style plan would then be able to produce 1.9 million tonnes per annum, with 55% grade iron ore fines and a life of operation of 8 years. There is an option to further increase the project value at very little additional capital expenditure with the addition of a further wet magnetic separation stage to produce a high-grade “super-concentrate” with an Fe 68% content.

In 2013, IRC completed an internal Bankable Feasibility Study. In 2014, a third-party verification and a fatal flaws analysis for the DSO-style operation was carried out.

Currently, the Garinskoye project was placed on hold until the market conditions for iron ore improve.

EXPLORATION PROJECTS & OTHERS

IRC's other exploration projects comprise an extensive portfolio that is diversified by geography, commodity and development stages. It aims to add value through the discovery of new resources and increasing and confirming mineable reserves. Currently, IRC is keeping these valuable licenses for later development until market conditions improve. Apart from exploration projects, IRC is also involved in complementary business of a steel slag reprocessing plant (SRP) and a mining consultancy services agency (Giproruda). Regarding SRP project, as its feedstock is dependent on the concentrate from Kuranakh, and as the latter was moved to care and maintenance during 2016, IRC has been seeking alternative sources of materials as the feedstock for the project. However, if Kuranakh is to be reopened in light of recent recovery of iron ore prices, it may once again resume providing feedstock to the SRP project. In addition, during 2016, the exploration licenses of Orlovsko and Molybdenum projects have not been renewed after thorough consideration for their economical values, cost of development and market conditions in order to divert the Group's resources to develop projects with higher returns. Below is a summary of the Group's current exploration projects portfolio:

Project	Products/Service	Location
Kostenginskoye (K&S Resource Base) (100% owned)	Iron ore concentrate	Jewish Autonomous Region, Russian Far East
Bolshoi Seym (100% owned)	Ilmenite	Amur Region, Russian Far East
SRP (46% owned)	Vanadium Pentoxide	Heilongjiang, China
Giproruda (70% owned)	Technical mining research and consultancy services	St. Peterburg, Russia

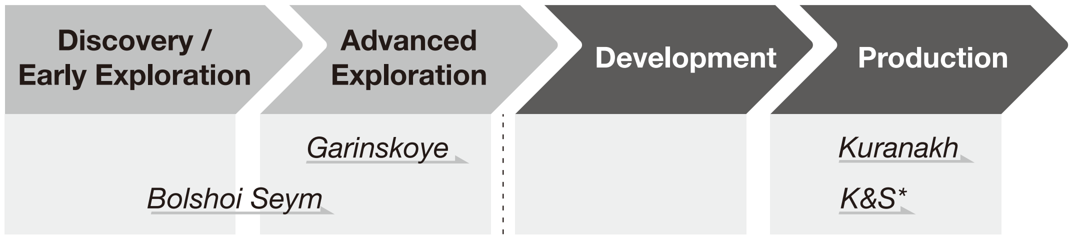
MINERAL RESOURCES AND ORE RESERVES STATEMENT

EXPLORATION OVERVIEW

IRC geologists explore prospective areas, confirming historical exploration results and existing mineable reserves. This mitigates risks during mining operations and reduces mining and processing costs. The data obtained during exploration helps develop strategies, business concepts and optimise mine models.

IRC has established one of the largest geological portfolios of quality ferrous ores in the Far East of Russia, comprising a range of deposits by geography, geology, commodity, extraction and processing style and importantly at different stages of development, thereby providing unrivalled optionality.

The portfolio is divided into producing and development operations and exploration projects.



* Including Kostenginskoye

OPERATIONS

Over 2016, although no material exploration activity was carried out, minor changes to resources and reserves were mainly due to the commencement of trial production at K&S. Reflecting these changes, the Group resources and reserves as at 31 December 2016 are as follows.

31 December 2016		
IRON ORE	RESOURCES	**1,432.1 million tonnes**
		29.2% Fe
	RESERVES	**394.5 million tonnes**
		32.1% Fe

What is a Mineral Resource?
A 'Mineral Resource' is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

What is an Ore Reserve?
Ore Reserves are those portions of Mineral Resources that, after the application of all Modifying Factors, result in an estimated tonnage and grade which, in the opinion of the Competent Person making the estimates, can be the basis of a technically and economically viable project, after taking account of material relevant Modifying Factors. Ore Reserves are reported as inclusive of marginally economic material and diluting material delivered for treatment or dispatched from the mine without treatment.

The table below details the Group's Mineral Resources and Ore Reserves as at 31 December 2016 (after the application of geological losses). All figures are prepared in accordance with the Guidelines of JORC Code (2012) for consistent basis of presentation. On the following pages, a further breakdown by project is available detailing cut-off grades and changes during 2016. Rounding-off of numbers may result in minor computational discrepancies. Where this occurs, such discrepancies are deemed to be insignificant.

Resources Summary

Project	Category	Tonnage Mt	Fe Grade %	Fe Mt	TiO_2 Grade %	TiO_2 Mt
RESOURCES						
Kuranakh	Measured	—	—	—	—	—
	Indicated	8.8	31.1%	2.7	9.8%	0.9
	Inferred	8.4	30.7%	2.6	9.6%	0.8
	Total	17.2	30.9%	5.3	9.7%	1.7
K&S*	Measured	21.0	31.4%	6.6	—	—
	Indicated	380.6	32.7%	124.4	—	—
	Inferred	461.0	30.3%	139.6	—	—
	Total	862.6	31.4%	270.6	—	—
Garinskoye	Measured	—	—	—	—	—
	Indicated	210.9	35.5%	74.9	—	—
	Inferred	48.6	30.8%	15.0	—	—
	Total	259.5	34.7%	89.9	—	—
Bolshoi Seym	Measured	—	—	—	—	—
	Indicated	270.8	17.8%	48.1	7.7%	20.8
	Inferred	22.0	16.9%	3.7	7.7%	1.7
	Total	292.8	17.7%	51.8	7.7%	22.5
Group	**Total Measured**	**21.0**	**31.4%**	**6.6**	**—**	**—**
	Total Indicated	**871.1**	**28.7%**	**250.2**	**7.7%**	**21.6**
	Total Inferred	**540.0**	**29.8%**	**160.9**	**8.2%**	**2.5**
	Total	**1,432.1**	**29.2%**	**417.7**	**7.8%**	**24.1**

* Including Kostenginskoye

Reserves Summary

Project	Category	Tonnage Mt	Fe Grade %	Fe Mt
RESERVES				
Kuranakh	Proven	—	—	—
	Probable	—	—	—
	Total	—	—	—
K&S	Proven	21.6	31.9%	6.9
	Probable	346.7	31.0%	107.4
	Total	368.3	31.0%	114.3
Garinskoye	Proven	—	—	—
	Probable	26.2	47.0%	12.3
	Total	26.2	47.0%	12.3
Group	**Total Proven**	**21.6**	**31.9%**	**6.9**
	Total Probable	**372.9**	**32.1%**	**119.7**
	Total	**394.5**	**32.1%**	**126.6**

Kuranakh

Kuranakh is a medium-size titanomagnetite and ilmenite deposit, located in the Tynda District of the Amur Region in the Russian Far East. Between 2004 and 2006 geological exploration and confirmation works were conducted at the deposit. Currently two ore zones have been allocated for mining: Saikta and Kuranakh.

Within the Kuranakh and Saikta deposits three ore types have been distinguished:

1. An ilmenite-titanomagnetite type in massive ores (massive lenticular and streaky congregations)
2. Titanomagnetite-ilmenite
3. Titanomagnetite-hemoilmenite types (as disseminations, impregnations and pockets) in the gabbroids

The main useful components include titanium and iron; other components include vanadium, chromium, nickel, and cobalt. Of these only vanadium is considered a useful by-product and is taken into account in the assessment of resources and reserves.

Due to low iron ore priced environment in previous years, the Group has put Kuranakh under care and maintenance since the beginning of 2016, with minimal production only during the first quarter of 2016 using remaining stockpiles. As a result, no open-pit mining activities happened during 2016. Also based on low iron ore price environment last year, the reserves of Kuranakh were proved uneconomical and were assumed to be nil.

MINERAL RESOURCES AND ORE RESERVES STATEMENT (CONTINUED...)

The full Kuranakh resources are stated below:

Kuranakh and Saikta Mineral Resources & Ore Reserves

	Tonnage Mt	Fe Grade %	Fe Mt	TiO_2 Grade %	TiO_2 Mt
RESOURCES					
Kuranakh Pit					
Measured	—	—	—	—	—
Indicated	4.4	32.0%	1.4	10.2%	0.5
Inferred	3.3	31.0%	1.0	9.92%	0.3
Total	7.7	31.6%	2.4	10.1%	0.8
Saikta Pit					
Measured	—	—	—	—	—
Indicated	4.4	30.3%	1.3	9.3%	0.4
Inferred	5.1	30.4%	1.6	9.3%	0.5
Total	9.5	30.4%	2.9	9.3%	0.9
Total Measured	**—**	**—**	**—**	**—**	**—**
Total Indicated	**8.8**	**31.1%**	**2.7**	**9.8%**	**0.9**
Total Inferred	**8.4**	**30.7%**	**2.6**	**9.6%**	**0.8**
Total	**17.2**	**30.9%**	**5.3**	**9.7%**	**1.7**

Assumed average cut-off grades: Kuranakh 17% Fe.

Kimkan and Sutara

Kimkan and Sutara (K&S) is a large magnetite project located in the Obluchenskoye District of the EAO in the Russian Far East. The project consists of two principal deposits – Kimkan and Sutara. In the calculation of K&S resources and reserves, Kostenginskoye Deposit, which is located 18 km south of the Sutara Deposit and is believed to have a similar structure to the Sutara Deposit, have been included in K&S. The Kostenginskoye Deposit represents a potential ore feed extension for K&S to increase mine life. The resources of the Kostenginskoye Deposit were included in the inferred category under the total resources of K&S.

To date all of the necessary exploration activities as well as confirmation drilling have been completed on all areas except for the Kostenginskoye Deposit.

The current mining plan of K&S was based on a feasibility study completed in 2015. The geological model assumes steeply deepening tabular ore body. Mining activities start with Kimkan deposit first, then Sutara deposit at later stage. During previous years, as extensive mining and exploration drilling activities were carried out and stockpiled in K&S, therefore only minimal mining and drilling activities were necessary towards the end of the year in light of the commencement of trial production at K&S. As a result, a slight decrease in resources and reserves were recorded within the year.

A breakdown of mineral resource and ore reserves for K&S is detailed in the table below:

K&S Mineral Resources & Ore Reserves

	Tonnage Mt	Fe grade %	Fe Mt
Resources			
Kimkan & Sutara			
Measured	21.0	31.4%	6.6
Indicated	380.6	32.7%	124.4
Inferred	281.6	32.0%	90.1
Total	683.2	32.4%	221.1
Kostenginskoye			
Measured	—	—	—
Indicated	—	—	—
Inferred	179.4	27.6%	49.5
Total	179.4	27.6%	49.5
Total Measured	**21.0**	**31.4%**	**6.6**
Total Indicated	**380.6**	**32.7%**	**124.4**
Total Inferred	**461.0**	**30.3%**	**139.6**
Total	**862.6**	**31.4%**	**270.6**
Reserves			
Kimkan & Sutara			
Total Proven	**21.6**	**31.9%**	**6.9**
Total Probable	**346.7**	**31.0%**	**107.4**
Total	**368.3**	**31.0%**	**114.3**

Assumed average cut-off grades: Kimkan & Sutara Pit Fe cut-off grade 17% and Kostenginskoye Pit Fe cut-off grade 18%

Garinskoye

The Garinskoye Deposit is one of the few large iron ore deposits in the Russian Far East which was explored and studied extensively during the Soviet era. It is situated in the Mazanovsky Administrative District, in the Amur Region and lies approximately 300 km from the regional capital of Blagoveschensk.

The deposit was first discovered in 1949 through an aeromagnetic anomaly. Between 1950 and 1958, detailed exploration was carried out including pits, trenches, shafts and underground development, together with drill holes. The dominant form of mineralisation is magnetite that sees a shift to martite within the oxidation zone. The magnetite ores can be divided into three iron grade types:

1. High grade at above >50% Fe – sub-divided into low and high phosphorus
2. Average grade from 20% to 50%
3. Low grade from 15% to 20% Fe

The current geological exploration works have been conducted at Garinskoye since 2007, and since 2011 works have focussed on the opportunity for a DSO-style operation. In 2016 no new exploration was carried out. The resources and reserves of Garinskoye were prepared under a new set of estimates based on updated geological studies and a feasibility study in 2015. As there are no exploration carried out and based on last year's iron ore price assumptions, the resources and reserves of Garinskoye remains the same in 2016 compared to 2015.

The following table details the Resources and Reserves for Garinskoye:

Garinskoye Mineral Resources & Ore Reserves

	Tonnage Mt	Fe grade %	Fe Mt
Resources			
Measured	—	—	—
Indicated	210.9	35.5%	74.9
Inferred	48.6	30.8%	15.0
Total	**259.5**	**34.7%**	**89.9**
Reserves			
Proven	—	—	—
Probable	26.2	47.0%	12.3
Total	**26.2**	**47.0%**	**12.3**

Assumed average cut-off grades: Garinskoye 16.5% Fe.

Bolshoi Seym

Bolshoi Seym is located in Tynda district of the Amur region, 40 km from the Kuranakh Deposit. At Bolshoi Seym, the license covers an area of 26 km^2. Potentially economic mineralisation at Bolshoi Seym comprises massive ilmenite and magneite. Massive mineralisation comprises 90% to 99% (by volume) of ilmenomagneite, magneite and ilmenite. The Bolshoi Seym mineralisation was initially discovered during the apatite-ilmenite ore exploration programme conducted in 1979–1982 by Kalarskaya GRP, a subsidiary of the state company Dalgeologiya.

Systematic exploration of the Bolshoi Seym Deposit was conducted between 2007 and 2009 by Vostokgeologia. A total of 170 diamond drill holes have been drilled in all zones totaling 39,277 metres of which 158 were exploration holes, 3 were grade control holes, 5 were technological holes, and 4 were hydro-geological holes. In addition to the drilling, 17 trenches have been excavated over a linear distance of 7,893 metres.

A mineral resource estimate of the Bolshoi Seym Deposit was prepared by Micon in compliance with the CIM (Canadian Institute of Mining, Metallurgy and Petroleum) valuation standards. The estimate utilised geological and assay data from diamond drilling and trenching completed by Vostokgeologia in 2007–2009. In 2015, the resources have been assessed using a 5% TiO_2 cut-off grade and prepared under the JORC Code (2012).

In 2012, IRC increased its ownership of the Bolshoi Seym Deposit from 49% to 100%.

The following table details the resources applying a 5% TiO_2 cut-off grade.

Bolshoi Seym Ore Resources

	Tonnage Mt	Fe Grade %	Fe Mt	TiO_2 Grade %	TiO_2 Mt
Resources					
Measured	—	—	—	—	—
Indicated	270.8	17.8%	48.1	7.7%	20.8
Inferred	22.0	16.9%	3.7	7.7%	1.7
Total	**292.8**	**17.7%**	**51.8**	**7.7%**	**22.5**

HEALTH SAFETY ENVIRONMENT COMMUNITY

INTRODUCTION

IRC takes its Health and Safety, Environmental and Community (“HSEC”) responsibilities seriously. They are a core consideration at every stage of our business, not just the day-to-day mining and processing operations, but also through all our functions from exploration to logistics and administration. This also includes the communities where we operate and through our involvement in charitable works, the wider communities of the Amur and Jewish Autonomous regions of the Russian Far East.

In recognition of these, IRC is the first and only pure-play iron ore company in the Russian Far East, as well as the first mining company in the Jewish Autonomous and Amur regions to be certified for compliance with ISO 14001:2004. Since 2012, policies and strategies originate with the Health, Safety and Environment Committee of the Board of Directors. Implementation is overseen by the Executive Committee and designated specialist HSEC teams in Moscow, Birobidzhan and at each operating site.

Finally, together with its largest shareholder, Petropavlovsk plc, IRC is the largest financial contributor to the local economy in the Amur Region. This is repeated in the neighbouring Jewish Autonomous Region with the construction of the K&S Mine, the largest single new investment in the region’s history.

SUSTAINABLE DEVELOPMENT POLICY

IRC operations are large-scale projects that cover large areas. Thousands of people are involved on many sites, working across many disciplines. The Company’s operations provide a stimulus for the economic development of the Russian Far East and as such have become an integral part of the local economic fabric.

The core constituents of IRC’s sustainable development policy are

1. The provision of safe and healthy working conditions

2. The rational use of natural resources

3. The preservation of a favourable environment for future generations

EMPLOYEES, HEALTH & SAFETY

IRC operates a variety of industrial projects, including mines and processing plants in some harsh climatic conditions in the Russian Far East. Mining operations are open pit and heavily mechanised, a positive contrast to labour intensive underground mining.

At the year-end of 2016 IRC employed approximately 1,571 employees and contractors, about 39.62% decrease compared to end of 2015. Reducing the number of involved employees and contractors as one of the operations of the Group, Kuranakh, was moved to care and maintenance.

Workforce Composition

	2015	**2016**
Full-Time	1,655	**1,240**
Part-Time	15	**22**
Casual	23	**30**
Contractors	909	**279**
Female–Ratio %	29.5	**34.1**

Note: the table presents average number for the year

Employment Mission & Vision

Attracting, employing and retaining high-quality and competent staff is fundamental to IRCs business performance. Our success at this reflects our progress towards our vision of becoming a leading Sino-Russian champion and the preferred employer in the Russian Far East. We work hard to gain, train and retain our employees and contractor partners, and to provide a safe, proud and disciplined working conditions and environments to all stakeholders involved.

In addition, central to achieving our human resource goals is safety. The Company's objective is to encourage, facilitate and operate a zero harm environment through:

– Conforming to Russian regulations and international standards of health and safety where practical and reasonable

– Extensive health, safety and basic first aid training on an ongoing basis

– Regular internal audits and external reviews of health and safety policies and equipment

Training & Development

Our company is rapidly growing, which makes opportunities for professional and career growth possible. We understand that investments in skilled labour contribute to long-term success, and a key area of focus is on the continuous improvement of qualifications of our employees. Accordingly, in 2016, the Group continued to provide external and internal training and development to its employees.

Similar to years before, training and development of the Group's personnel in 2016 was conducted by external consultants in the following areas:

– Upgrade professional qualifications, for example in the following areas of "Safety of construction: the organization of construction, reconstruction and major repairs", "Training and retraining of drivers carrying dangerous goods of hazard class 2 and 3;

– Learning new vocational skills;

– Operational and crisis safety training, including labour safety, industrial and fire safety;

– Environmental knowledge and environmental conservation training.

Internal training carried out by the Company in 2016 included:

– a qualification upgrade programme which 337 employees (99.4% of the plan) successfully completed, thereby upgrading their qualifications;

– on-going environmental management and awareness training;

– testing employees' knowledge and implementation of the Group's environmental, operational and technical aspects, which were carried out either on-site or in a distant educational mode, such as "EcoTesting" corporate program. In 2016, 64 employees have been successfully completed such testing.

Labour Standards

The employment and labour standards of the Company are guided by the Constitution of the Russian Federation, Labour Code of the Russian Federation and other laws and regulations of the Russian Federation since the majority of our workforce is based in Russia.

As a general rule, employment contracts are concluded for an indefinite term with all employees. Russian labour legislation imposes express restrictions on the execution of employment contracts with a definite term of duration. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of performance of such duties as well as in other cases expressly identified by Federal Law.

An employer may terminate an employment contract only on the basis of specific grounds set out in the Labour Code. An employee made redundant or dismissed from an enterprise due to its liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides for additional protections for, or favourable treatment of, certain categories of employees, such as pregnant women, workers under the age of 18, workers engaged in dangerous labour conditions or those working in hostile climatic conditions. Under the Labour Code, it is forbidden to employ, engage or use any forced or juvenile labour and the Federal authorities regularly perform field inspections to ensure compliance with the law.

The Labour Code also sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Statutory annual paid vacation leave is typically 28 calendar days, though employees who perform work in harmful and/or dangerous conditions may be entitled to additional paid vacation ranging from 6 to 36 calendar days.

With the purpose of compliance with the relevant laws and regulations and improving labour productivity and quality, the Company has the following in place:

– the employee professional code of conduct;

– internal code of labor conduct;

– regulations on personal data of the employees;

– remuneration and bonus scheme for the employees;

– regulations of enforcing and vacation of disciplinary penalties;

– regulations of rotational work; and

– dormitory rules.

In 2016, the Group was materially in compliance with all relevant employment laws and regulations, including the Labour Code.

Health and Safety

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

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision or other relevant regulatory authority. Legal entities that operate such regulated industrial facilities and sites have a wide range of obligations under Russian law, in particular under the Health and Safety Law and the Labour Code.

The Group recognizes that, in addition to its statutory obligations to protect the health of all its workers, its staff have a right to operate in a safe working environment. All staff receive health and safety training as part of the initial induction process. The Group arranges annual conferences to bring key staff together, allowing them to share experiences and discuss good practice. In addition, all staff received annual health and safety “refresher” training courses to update them on the latest health and safety techniques and procedures being implemented by the Group. Health and safety monitoring and internal inspections of working environments are undertaken to ensure compliance with Russian regulatory requirements as well as with international best practice.

All of the Group’s operating companies are required to have in place health and safety management systems, as reflected in detailed health and safety manuals, to meet Russian regulatory requirements and the Group’s policies. The Group has extensive training programmes and specialist health and safety personnel. The Group investigates every accident in accordance with established procedures and prepares accident reports. The Group also pays special attention to safety induction for new employees and organises bi-monthly health and safety training for all employees. Personnel are provided with appropriate safety equipment.

The Federal authorities planned visit each of the Group’s operations with the periodicity from once a year, to once in three years to inspect explosives storage, industrial facilities, and to check on labour and environmental aspects as well as health and safety procedures and documentation.

Safety Statistics 2011–2016 (Russian Standard Scale)

	2011		2012		2013		2014		2015		**2016**	
	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	**Injuries**	**LTIFR**
Kuranakh	12	5.54	6	2.55	9	3.90	7	3.44	3	1.90	**2**	**4.80**
K&S	0	0.00	0	0.00	1	1.00	1	0.81	0	0.00	**1**	**0.68**
Other projects	–	–	0	0.00	0	0.00	0	0.00	0	0.00	**0**	**0.00**
Group	12	3.61	6	1.77	10	3.00	8	2.42	3	1.18	**3**	**1.57**

The total quantity of the registered injuries with loss of working ability in 2016 remained the same compared to 2015. However, the LTIFR, which is the frequency of injuries with loss of working ability, increased from 1.18 in 2015 to 1.57 in 2016. In view of the aim of reaching an injury rate of zero, and to provide safe conditions of labour, the Company will continue to put more efforts in this area.

During the year, despite a stable index of injury rate, the Company unfortunately recorded one fatal accident, as a result a thorough investigation took place. In order to reduce possibility of the reoccurrence of similar accidents in the future, the Company took proactive steps in examining the implementation of the industrial safety management system, and will improve the system where necessary.

ENVIRONMENTAL MANAGEMENT SYSTEM & ENVIRONMENTAL POLICY

Minimising the impact of our operations on the environment is one of the major constituents of IRC's sustainable development policy. The Company's management team treats activity in this field as a matter of major importance and essential business priority.

In 2010–2012, IRC developed and implemented an integrated environmental management system ("EMS") which was recertified in 2015 by an independent third-party consultant company in compliance with the requirements of the international standard ISO 14001:2004. The EMS continues to function well in 2016. The integrated EMS is part of the general management system used by the Company to manage its operations, including exploration, mining, processing and industrial and civil construction. It is also used for development, implementation and review of the Company's environmental policy management.

During the course of its operations, the atmosphere, underground and surface waters, soil and vegetative cover, geological terrain, animal life and, in water ecosystems and around the Group's projects are impacted. Major steps have been taken to minimize the Group's impact on the environment at all stages, including by adhering to and complying with the following environmental policies:

1. Compliance with the environmental laws of the Russian Federation and international agreements.

2. Minimising the impact on the environment and biodiversity where the Company operates through measures that improve and perfect the environmental management system.

3. Minimising the impact of operations on the indigenous populations where the Company operates, in addition to providing support to indigenous communities to preserve their lifestyle and contribute to sustainable development.

4. Use of scientific research and developments to remove or reduce the impact of operations on the environment and reduce the consumption of materials and energy.

5. Preparation and contingency plans in the event of a health and safety, environmental or natural disaster or emergency.

6. Promoting ecological awareness to employees and stakeholders where the company operates.

7. Encouraging vendors and contractors to adhere to the Company's environmental and safety policies.

8. Disclosing the Company's ecological strategy, research and data to the public, in addition to conducting public consultations and hearings.

9. Board and senior management commitment to adhere to the safety and environmental policies, and environmental management system in all decisions.

10. Involving all employees in the environmental management system through training and incentive programmes.

The main aims of the Group's environmental policy are achieved through the implementation of the following activities:

1. Adherence to local environmental law requirements and international standards of best practice where practical and reasonable

2. Environmental Monitoring of the followings:

   - Air pollutants and emissions (including greenhouse gases)
   - Land use and reclamation
   - Waste management (including hazardous substances)
   - Water management
   - Energy consumption and conservation

3. Biodiversity conservation

4. Community Engagement through:

   - Stakeholders engagement
   - Public hearings and discussions
   - Environmental education

It is worth mentioning that in accordance with the requirements of the international standard ISO 14001:2004 all employees undergo training to understanding the environmental protection activities at their work places. The EMS further extends to be applied to all contract organizations carrying out works on the Company territories. Thus, the proper functioning of an environmental management system reduces the impact of our operations on the environment, thereby encouraging a healthy and ecological culture for our employees.

REQUIREMENTS OF ENVIRONMENTAL LEGISLATION

IRC complies with and indeed often exceeds the standards of Russian legislation and international best practices in its environmental policies. The main Russian Federal Environmental Legislation and Standards which apply to the Group's activities include:

- No. 7, 2002 "Environmental protection"
- No. 2395-1, 1992 "Subsoil Law"
- No. 33, 1995 "Specially Protected Natural Territories"
- No. 52, 1995 "Wild Animals"
- No. 116, 1997 "Industrial Safety of Hazardous Production Facilities"
- No. 89, 1998 "Production and Consumption of Waste"
- No. 52, 1999 "Sanitary-Epidemiological Welfare of the Population"
- No. 96, 1999 "Protection of Atmospheric Air"
- No. 190, 2004 "Urban Development Code"
- No. 166, 2004 "Fisheries and Conservation of Aquatic Biological Resources"
- No. 74, 2006 "Water Code"
- No. 416, 2011 "Water supply and water disposal"
- No. 174, 1995 "Ecological expertise"
- No. 219, 2014 "Introducing of changes into the Federal law "Environment protection" and specific legal acts of the Russian Federation"
- Sanitary – hygienic standard 2.1.5.1315-03 "Maximum Permissible Concentration of Chemical Substances in the Ambient Waters of Household, Portable, Cultural and General Water Use Facilities"
- Sanitary – hygienic standard 2.1.6.1338-03 "Maximum Permissible Concentration of Pollution in Populated Areas"
- Sanitary – hygienic standard 2.2.5.1313-03 "Maximum Permissible Concentrations of Hazardous Substances in the Work Air"
- Sanitary – hygienic standard 2.1.6.2309-07 "Safe Reference Levels of Impact of Pollutants in the Community Air"
- GOST P 56062-2014 "Industrial ecological control. General provisions"
- GOST P 56061-2014 "Industrial ecological control. Requirements for the program of the industrial ecological control"
- GOST P 56059-2014 "Industrial ecological monitoring. General provisions"
- GOST P 56060-2014 "Industrial ecological monitoring. Monitoring of the condition and pollution of the environment on the territories of wastes placement
- GOST P 56063-2014 Industrial ecological monitoring. Requirements for the programs of industrial ecological monitoring

ENVIRONMENTAL MONITORING, CONTROL AND MEASURING

IRC has a comprehensive environmental monitoring system, including monitoring the state of environment, assessment and forecasting of changes of environmental conditions under the influence of natural and anthropogenic factors. Monitoring covers the following areas:

– Atmospheric air

– Natural waters (subsurface and underground)

– Bottom sediments and top soil in stream flow

– Flora and fauna

– Aquatic ecosystems

– Radiation

IRC monitors air emissions and solid waste sources, along with process control parameters and fuel and power resources on a regular basis with the data used to better manage operations.

In order to ensure implementation of environmental protection measures, rational use and restoration of natural resources and to ensure compliance with the requirements of the applicable environmental legislation, IRC carries out industrial environmental control at its production sites.

Objectives of industrial environmental control are:

– checking the conformity of the technological process with design decisions;

– control of hazardous waste management; and

– control of atmospheric air, land and water bodies.

All environmental monitoring and industrial control is performed in accordance with Russian legislation and international guidelines. Only accredited laboratories and advanced research organisations with the appropriate licenses are contracted to undertake this work.

As part of the monitoring programmes, more than 60,600 analyses of various environmental components have been conducted since 2004 and more than 28,300 wastewater and industrial emissions test have been carried out since 2009.

In accordance with the industrial ecological control and environmental monitoring it has been established that IRC's activities have not exceeded any maximum limits or failed to meet any standards.

AIR POLLUTANTS AND EMISSIONS

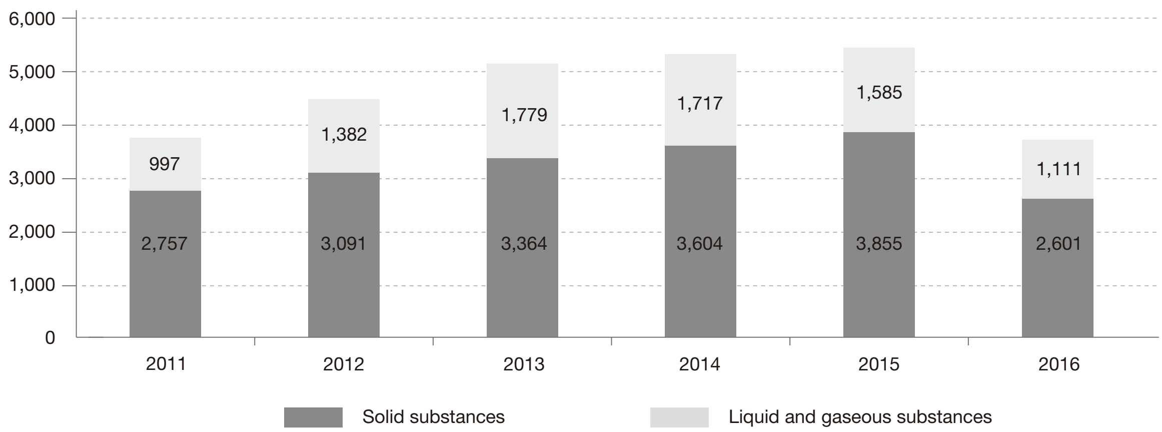
The key air pollutants produced by the Group's operations are as below, which are mainly produced by mining and processing operations.

Liquid and gaseous substances:	Solid substances:
carbon monoxide	inorganic dust (>70% SiO2)
nitrogen dioxide	inorganic dust (70-20% SiO2)
sulfur dioxide	inorganic dust (<20% SiO2)
nitrogen oxides	iron oxide
saturates	carbon soot
benzapyrene	suspended substance
etanol and etc.	dialuminium trioxide and etc.

In 2016 emissions of air pollutants were 3,712 tonnes, which is 31.76% lower than in 2015 (5,440 tonnes), 67.6% of which is emissions from K&S and 32.4% from Kuranakh (which still had some operations in the first quarter of 2016).

The main reason for such a sharp reduction of emissions of air pollutants is mainly related to Kuranakh being moved to care and maintenance in 2016.

Emissions of Air Pollutants from Stationary Sources, 2011–2016 (tonnes)



Stationary emission sources within the licensed areas are installed and operated under the approved draft code provisions for maximum permissible emissions. In addition, the operating companies obtained atmospheric pollutant emission permits.

In 2016 K&S concluded a contract with an organization for the development of new standards for emissions of pollutants into the air, including all industrial facilities of the first stage of construction of K&S Processing Plant, with purpose to obtain permits for emission of air pollutants in 2017.

In accordance with the new requirements of the nature conservation laws of the Russian Federation, the Group ecologists sent an application to register the existing sites of the Group which generate negative impact on the environment, with assignment of categories for them and levels of ecological inspection. In order to improve quality of air and take actions to prevent air pollution and minimize air emissions, the following actions were taken:

– Developing dust suppression schedules by watering. Monitoring of this schedule is ongoing to improve efficiencies.

– Controlling the performance of dust and gas treatment facilities at processing plants through the use of approved dust and treatment facilities.

– Extending the industrial emissions purification programme that reached 95.5% in 2016. Aim to deepen the implementation of the programme through future renovation and replacement opportunities at the plants.

– Continuously monitoring motor vehicle exhaust smoke capacities during technical inspections.

– Carefully monitoring energy consumption targets and fuel utilisation limits to ensure they fall within approved limits.

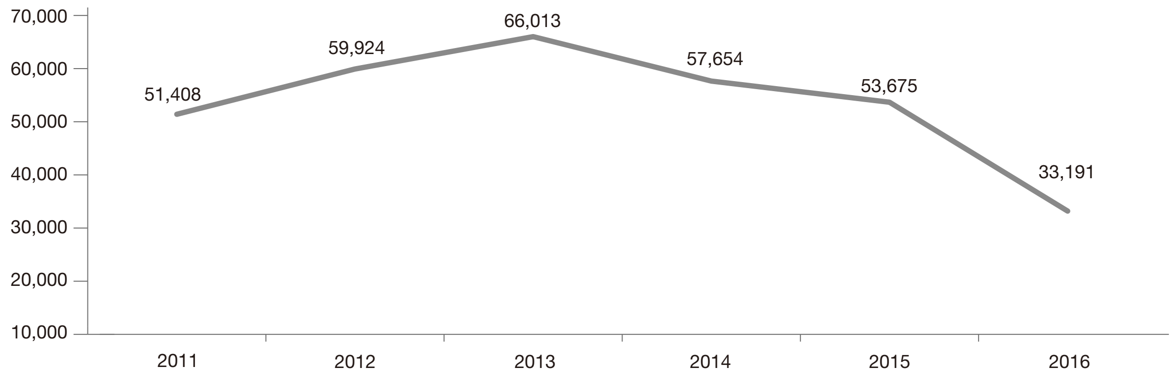
– Reducing diesel powered electric generation.

Industrial environmental monitoring results show that emissions have been within all regulatory limits.

GREENHOUSE GAS EMISSIONS

The greenhouse gas emissions produced by the Group is mainly as a result of fuel use at the project sites. The indicator of impact of the greenhouse gas emissions on the environment is reflected in CO_2-equivalent, which includes greenhouse gases such as carbon dioxide, methane, nitrous oxide and cooling agents. In 2016, there was a reduction of greenhouse gas emissions, the emissions amounted to 33,191 tonnes of CO_2-equivalent, which is 20,884 tonnes (38.16%) lower than in 2015.

Greenhouse Gas Emissions, 2011–2016 (tonnes)



The reduction in greenhouse gas emissions was mainly related to the reduction of consumption of diesel fuel in Kuranakh as a result of suspension of the operation at the mine.

Summary of Air Pollutant & Emission Statistics 2011–2016

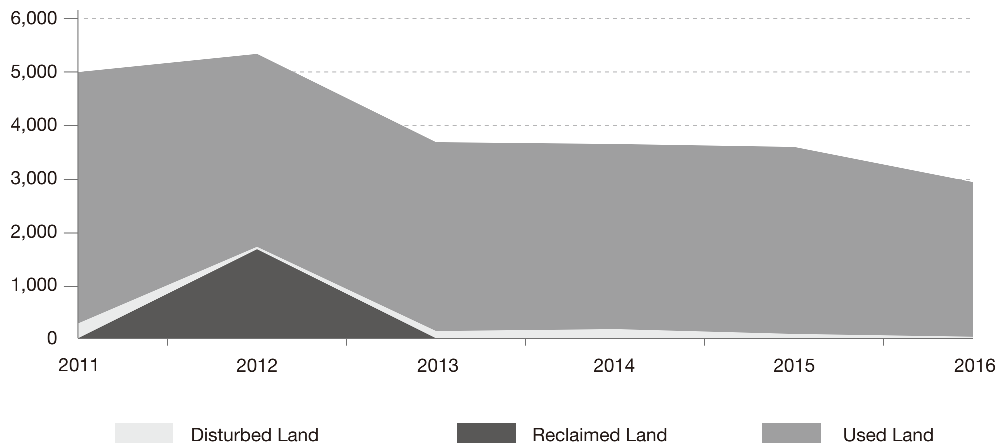
	Unit	2011	2012	2013	2014	2015	**2016**
Air Pollutants & Emissions							
Mass of emitted hazardous pollutants:							
Solid substances	t	2,757	3,091	3,364	3,604	3,855	**2,601**
Liquid and gaseous substances	t	997	1,382	1,779	1,717	1,585	**1,111**
Total	t	3,753	4,473	5,143	5,321	5,440	**3,712**
Greenhouse gas emissions (CO_2-equivalent):							
Gasoline combustion	t	487	439	467	566	555	**569**
Diesel fuel combustion	t	34,466	42,050	47,967	36,260	30,949	**7,609**
Kerosene combustion	t	1	0.14	0.89	1.02	0	**0.13**
Coal combustion	t	16,454	17,435	17,578	20,827	22,171	**25,013**
Total	t	51,408	59,924	66,013	57,654	53,675	**33,191**
Rate of permissible discharge:							
Permissible release of solids	%	100	92	86	90	78	**69**
Permissible release of liquid and gases	%	100	101	81	86	85	**69**
Pollutants removed by gas treatment:							
Removed solid substance	t	2,658	2,510	2,418	2,884	3,147	**3,246**
Removed liquid and gaseous substances	t	299	526	602	783	843	**843**
Total removed	t	2,957	3,036	3,020	3,667	3,990	**4,089**

LAND USE AND RECLAMATION

At the end of 2016, the total amount of land used by IRC was 2,898 hectares, which is 607 (17.32%) hectares less than in 2015. The reduction of land use is mainly because K&S' commissioning has come to the final stages. The total area of soils disturbed was 30.2 hectares in 2016, 91% attributed to K&S' mining and 9% to Kuranakh.

Any land that is disturbed will be restored to its previous state through various engineering and biological solutions. Land reclamation work is carried out in accordance to environmental regulations and respects the natural surroundings of sites. The major component of reclamation work is the removal and preservation of fertile topsoil that will ultimately be restored to the site. Correlation of lands used, disturbed and reclaimed by IRC is presented at the chart below.

Land Use and Reclamation, 2011–2016 (hectares)



Land Use & Reclamation Statistics 2011–2016

	Unit	2011	2012	2013	2014	2015	2016
Land lease:							
Total	ha	4,712	3,616	3,540	3,470	3,505	**2,898**
New surfaces disturbed in the reporting period	ha	279	46	137	173	82.7	**30.2**
Recultivated lands during year							
Reclaimed land	ha	0	1,670	0	0	0	**0**
Used topsoil	m^3	843	0	0	0	0	**0**
Preservation of topsoil							
Removed to stockpiles	m^3	585,200	143,900	42,000	0	0	**0**
Total topsoil stored at 31 December	m^3	1,249,800	1,393,700	1,434,853	1,306,853	1,306,856	**1,306,856**
Forest plantation							
Total	ha	0	0	0	0	0	**0**

WASTE MANAGEMENT

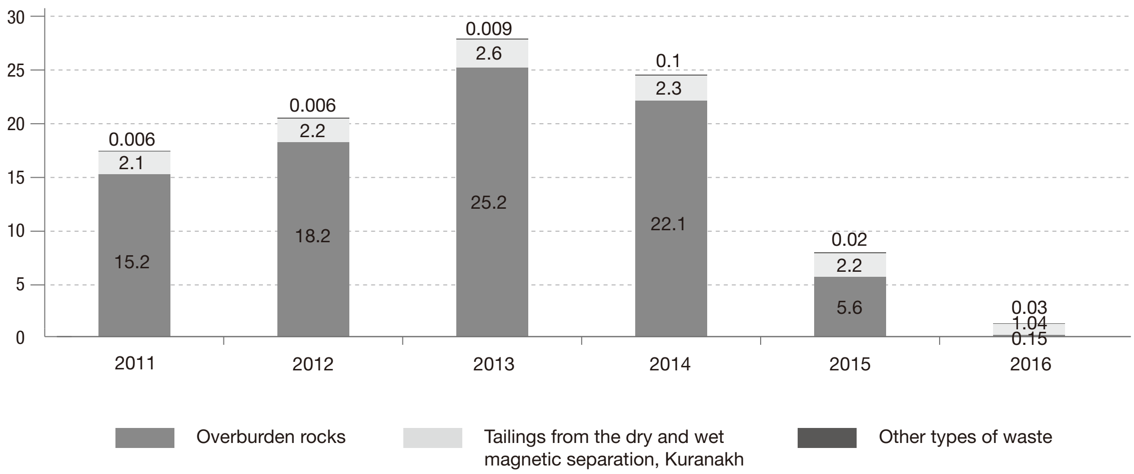
IRC uses five internationally recognised categories to classify hazardous waste:

Class V (practically non-hazardous wastes) – more than 99.19% from all types of waste. These are all industrial wastes: overburden rocks, tailings of wet and dry magnetic separation, and also construction wastes, waste metal and the other types of waste.
Class IV (low-hazard waste) – approximately 0.81% from all types of waste. This class of waste includes both solid and liquid domestic waste.
Class III (moderately hazardous wastes) – approximately 2.2×10^{-3}% from all types of waste. This includes oil contaminated wastes.
Class II (highly hazardous wastes) – approximately 2.1×10^{-5}% from all types of waste. This includes used sulphuric battery acid and waste batteries.
Class I (extremely hazardous waste) – less than 1.9×10^{-5}% from all types of wastes. e.g. mercury-filled lamps.

Staff training in hazardous waste management and labelling is ongoing. Efforts are made to ensure the universal labelling of hazardous materials is according to international standards.

The total volume of waste generated in 2016 decreased 84.48% to 1,220.067 k tonnes, including: overburden of 150,161 tonnes, approximately 12% of total waste and; wet and dry tailings of 1,044.413 k tonnes, approximately 86% of total waste; other types of waste of 25,493 tonnes, approximately 2% of total waste.

Waste Volume, 2011–2016 (million tonnes)



In 2016, IRC generated 838,885 tonnes of industrial and household waste which is 89.3% lower than in 2015. Huge reduction of wastes volume of overburden, tailings of dry and wet magnetic separation and bottom ash wastes is related to the suspension of operations at Kuranakh and also due to the reduction of mining works at K&S as enough stockpiles were in place for initial trial production.

Treatment & Recycling of Waste

IRC constantly work on optimisation in treatment with wastes and also on active reuse of wastes during its production, so that volumes of displaced wastes can be minimized, and subsequently reduce its impact on the environment.

In 2016, 1,589 tonnes of wastes from the Group was recycled, 98% of which were the ash bottom wastes. The ash bottom waste is used in repair and construction of roads and in preparation of de-icing products. The rest of the waste is used in the following ways: sawdust as absorbent of oil products; used oils for heating of the plant facilities.

The quantity of the wastes decontaminated by the Company was 9,809 tonnes, the main part of which was sediment from the cesspools at Kuranakh. Decontamination of these types of waste is performed at the treatment facilities "Biodisc-100" and "Biodisc-350". The waste batteries are decontaminated on the special neutralization unit for used battery acid. Quantity of wastes for decontamination transmitted to the licensed organisations for further treatment is 14,074 tonnes. The main part of which is liquid wastes from K&S.

IRC has developed and approved waste generation standards and waste disposal limits. Across its Russian offices, IRC is implementing the "Green Office" initiative, targeting a reduction in the use of paper, committing to the use of totally chlorine free (TCF) paper, certified by the Forest Stewardship Council – FSC, as well as the collection, and recycling of waste paper. Data collected by the Company shows that consumption of blank paper was reduced by 32% in 2016. Efforts on consolidation and recording of worn electric batteries and office appliances have also been implemented, with final disposal handled by designated third-party professionals.

Waste Management Statistics 2011–2016

	Unit	2011	2012	2013	2014	2015	2016
Formed Waste:							
Total	t	17,263,551	20,412,291	27,837,914	24,373,977	7,861,251	**1,220,067**
Wastes without notice of overburdens and tailings:	t	5,799	7,564	8,353	10,213	22,350	**25,493**
Class I	t	0.59	0.37	0.46	0.59	0.83	**0.231**
Class II	t	2.44	5.77	6.92	5.74	4.18	**0.26**
Class III	t	168.58	146.88	184.11	163.42	110.39	**27.39**
Class IV	t	257.09	269.09	236.30	180.10	10,052.07	**9,970.11**
Class V	t	5,370	7,142	7,925	9,863	12,182	**15,495**
Waste from operations:	t	17,251,954	20,397,162	27,821,209	24,353,551	7,838,902	**1,194,574**
Overburden rocks	t	15,188,563	18,222,979	25,188,323	22,101,404	5,602,431	**150,161**
Wet tailings	t	595,803	675,681	722,893	631,970	659,411	**489,588**
Tailings	t	1,467,588	1,498,502	1,909,993	1,620,177	1,577,060	**554,825**
Waste Management:							
Disposed at the plant	t	19	17	28	22.20	9,816	**9,809**
Reused at the plant	t	2,297	2,546	2,484	2,696	74,624	**1,589**
Buried at plant landfill	t	17,254,618	20,397,162	26,418,779	24,353,551	7,838,902	**838,885**
Transferred to contractors	t	657	4,771	5,763	7,411	9,291	**14,074**

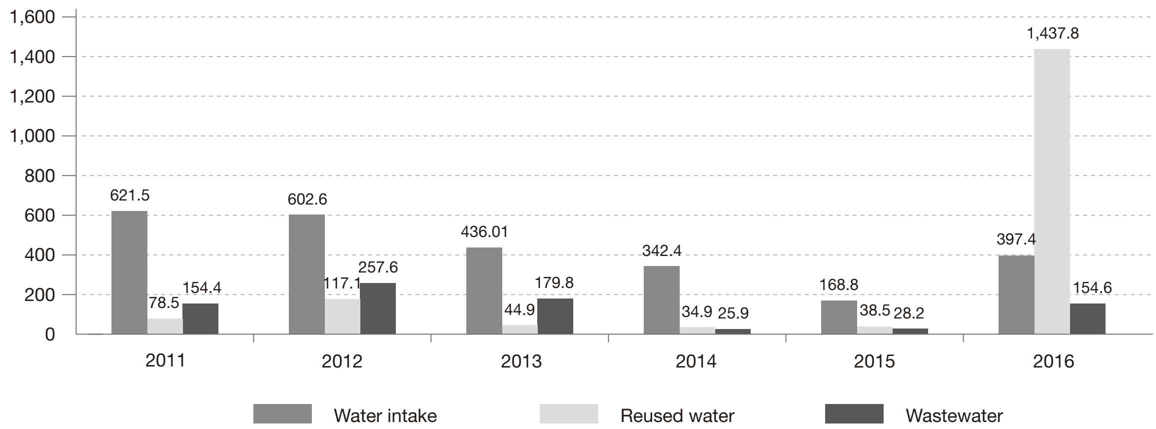
WATER MANAGEMENT

In 2016, the water intake of the Group increased by 228,615m^3 to 397,440m^3, of which 356,659m^3 was sourced from natural water objects and 40,781m^3 from the existing municipal systems. Increase of water volume taken from the underground water objects from wells 9SN, 10SN and 11SN is related to the commissioning works of the K&S Processing Plant, operation of all technological production parameters (cooling of the compressor station, bearings, hydraulic sealing of pumps and preparation of coagulum for thickening of the tailings, firefighting, hydro-cleaning and other technological needs).

Reused water was 1,437,849m^3, which were repeatedly used for utilities (for dust suppression in the quarries and in the access roads, for feeding of the water recycling system).

Water disposal in 2016 was 154,563m^3. In 2016 K&S obtained a permit No. 02/16 from 16.05.2016 for dumping of the pollutants into a nameless creek, left branch of the Taliy stream.

Water Consumption and Disposal, 2011-2016 (Km^3)



The use of water at the operations is conducted on the basis of agreements for water use or licenses for use of subsurface resources. Consumption of water from available public service systems is conducted on the basis of purchase and sales contracts. These arrangements allow the Group to purchase sufficient amounts of water for its operations, and the Group has not been faced with any water shortages.

Water Management Statistics 2011–2016

	Unit	2011	2012	2013	2014	2015	2016
Water intake:	m^3	621,492	602,632	436,010	342,349	168,825	**397,440**
Water disposal:	m^3	154,384	257,604	179,752	25,875	28,207	**154,563**
Volume of reused water:	m^3	78,497	177,064	44,878	34,900	38,466	**1,437,849**

ENERGY CONSUMPTION AND CONSERVATION

IRC pays special attention to energy conservation and efficiency. We use multiple software programs, combined with GPS sensors that monitor vehicle location, idling time and fuel levels to monitor consumption patterns. This data is in turn linked to other software for process analysis, accounting and inventory management to lower costs and improve working capital. In terms of software, “Autograph” and “Production Reporting” software are introduced at the mines allowing better control and rational use of fuel resources. Across the Group the following innovations are applied:

– Installation of light sensors on the accommodation camp light lines.

– Construction of the household waste water treatment station Complect-200 (100×2) of the CST for filtration of sewage and recirculation of treated water in the technological process of beneficiation plant.

– Replacement of temporary power lines VL-6kV with permanent power supply from the main power substation PS-220, to reduce usage of diesel electrical systems.

– Using brown coal with a heat capacity of 4,000 kcal/kg at the drying unit instead of the coal provided in the design, 6,000kcal/kg.

In 2016, consumption of fuel and power resources was 16,471 tonnes, a decrease of 26.21% compared to 2015. This was mainly due to the reduction of the resources consumption on the Kuranakh as a result of it being moved to care and maintenance.

Energy Consumption & Conservation Statistics 2011–2016

	Unit	2011	2012	2013	2014	2015	**2016**
Consumption:							
Coil	t	9,119	9,663	9,742	11,543	12,288	**13,863**
Diesel fuel	l	13,064,130	15,938,978	18,181,913	13,744,216	11,731,094	**2,883,972**
Gasoline	l	207,761	187,237	199,043	241,282	236,567	**242,854**
Kerosene	l	400	55	350	400	0	**50**

BIODIVERSITY CONSERVATION

Many activities were conducted to preserve and maintain biodiversity in and around the Group's operations with the aim of protecting critical habitats and improving the natural habitat of animals and plants. Examples in 2016 include:

- Landscaping and site finishing, with the planting of local flora at operations. 50 trees and bushes have been planted (including fir tree, silver fir, birch, cedar, lilac) on the territory of K&S and also 15 bushes as part of the program on planting of greenery and beautification of the "Glory Alley" in Izvestkovy settlement.

- The installation of fire prevention measures.

- Release of 5,000 juvenile carp in upstream drainage facilities of tailings management facilities.

IRC aims to further its conservation work on monitoring the population and enhancing the habitat of the Far Eastern stork (Ciconia boyciana), an endangered species in the world, across certain license areas. Unfortunately there were no confirmed sightings during 2016.

OPERATING PRACTICES

Supply chain management

For the purchasing, production and services for IRC, the Company holds open tenders for proposals the which include and a questionnaire for tender participants on environmental protection and system of ecological management. IRC takes into serious consideration in choosing service suppliers that evidence data of environmental protection and ecological management practices in their operations. In order to ensure that the suppliers and contractors take ecological safety and reduction of negative impact on the quality of the environment seriously, the contracts have to list out the duties and responsibilities they take with regards to environmental protection.

Product responsibility

Management of the production quality is one of the main factors in increase of the competitiveness of the plant production on the consumer market. The quality control in IRC is implemented at all production stages: starting from the raw material reception and ending with loading of the ready production.

In order to provide and maintain high quality of the produced goods, the division of laboratory samples preparation within the Technical Control Department was set up at the production site. The employees, according to the technological sampling map of the processing plant and technological control of the minerals separation process, regularly make monitoring over quality indicators of mining feedstock and produced final product, and also perform a check of process compliance with the applicable technical requirements.

The quality control of the production is performed to define compliance with the technical conditions, regulations, GOSTs and other normative documents related to quality of the products. For the purposes of providing reliable information to the customers on the safety of industrial use, storage, transportation and utilization of chemical products, the Company issued and registered a Material Safety Data Sheet (MSDS) for the produced iron ore concentrate. It represents a compulsory integral part of technical documentation for the products and includes a warning marking about dangerous properties of industrial products on the human body.

In case of deviations from the specified quality parameters of the product, process engineers of the plant are to undertake prompt measures to detect all bottlenecks in the production process and eliminate them, which minimise the risk of deviations in future. The products sold to customers are loaded onto the wagons for delivery, and packing materials are not used.

Anti-corruption

As required under Russian law (No. 273, 2008 "Anti-corruption") and also voluntarily assumed obligations, IRC actively works on prevention and fighting corruption and implementation of anticorruption policies which concern not only activity inside of the company, but also relations with the state and business partners. The Group's anti-corruption policies are guided by the transparency principle. Although the Group engaged in charity and sponsorship events, it is carried out in compliance with the relevant laws and regulations. Internal documents of the Group are required to comply with anti-corruption policies, and the Group is constantly improving its system of open purchase procedures to reduce the opportunities for corruption to take place. The relationships with contractors are checked to prevent any undisclosed related party and other potential conflict of interest issues, and internal investigations are carried out when there are incidents of damage to product or equipment. The Group also has a "Corporate trust mail" which is an important component of the Group's implementation of its anti-corruption policies as it allows staff to provide information and feedback, which the Group can then use to investigate and resolve any situations where corruption or conflicts of interest have arisen or may potentially arise.

STAKEHOLDERS ENGAGEMENT

In the Russian Far East, IRC increased its stakeholders activities in 2016, predominantly under its "Corporate Framework Programme of Stakeholders' Engagement and Corporate Standards" and its "Communication in the Environmental Management System" programmes. The Company's activities aim to form constructive dialogues with all stakeholders in the region; working closely with stakeholders, engaging them at all stages of the project with timely disclosure and information, and providing mechanisms to air grievances and make claims, as well as reporting and monitoring all procedures.

PUBLIC HEARINGS AND DISCUSSIONS

Public hearings and other forms of public consultations give all concerned parties (community, technical specialists and representatives of state regulatory bodies) the possibility to express their requests as part of direct dialogue with the Group, raise concerns related to project implementation, and receive answers on points of interest. IRC managers and dedicated specialists regularly participate in such public hearings and discussions. The public participation meetings are conducted on a regular basis.

ENVIRONMENTAL EDUCATION

One of the major principles of the Group's Environmental Policy is to educate IRC staff and the population living in and around the Company's operations about the environment. IRC regularly organises environmental education to both the Group's and contractors' personnel, as well as to the local population. In accordance with the Environmental Protection Plan the following social and environmental activities have been successfully carried out in 2016:

- In accordance with a request from the Special Childcare Institution in Izvestkovy Administration, the Group conducted a tour for troubled students on K&S territory which highlighted areas of environmental interest and the wildlife living there.

- The Group organised central collection points with marked containers to collect used batteries from Group personnel and the local population. Following collection, the used batteries are transferred to the specialised organisation for recycling. The containers are placed in the areas of the Group's operations (both industrial and office spaces) with the most footfall, in the office of the Federal Service for Supervision of Natural Resource Usage on Jewish Autonomous Region, in Izvestkovy Administration, Obluchye City, schools in Izvestkovy and Dvurechye villages and "Brider" shop. Information stands at the collection points also provided information on the importance of collecting used batteries separately and why they should not be thrown out with other domestic waste, and also included an appeal to involve all family members and friends into the process of collection of batteries. The new batteries are handed out only if the used ones are returned.

SUPPORT INDIGENOUS PEOPLE

The Group strives to preserve the life-style of the indigenous population in the regions and also to contribute to their sustainable development. IRC has established good connections with the indigenous Evenk people where the Group operates.

The Group has funded the celebration of traditional Evenk's holidays and provides financial aid to village school and kindergarten. The Group also subsidised the indigenous to trips by the Evenk to cultural conferences and congresses devoted to indigenous groups' issues which promote the preservation and development of the Amur Region's indigenous traditions. The Group has also established good relations with the Association of Indigenous Minorities of the North of Amur Region.

Since 2003, IRC has contributed over RUB3.0 million to Evenk communities, all within the framework of Ust-Nyukzha Indigenous Minorities Development Plan. Since 2015, funding of indigenous peoples has been temporarily suspended due to financial difficulties at Kuranakh. However, if and when the financial situation of Kuranakh improves and stabilises, the support will be resumed.

Summary of IRC Environmental Statistics 2011–2016

Performance Indices	Unit	2011	2012	2013	2014	2015	2016
1. Air Pollutants & Emissions							
Mass of emitted hazardous pollutants:							
Total	t	3,753	4,473	5,143	5,321	5,440	**3,712**
Solid substances	t	2,757	3,091	3,364	3,604	3,855	**2,601**
Liquid and gaseous substances	t	997	1,382	1,779	1,717	1,585	**1,111**
Greenhouse gases emissions (CO_2):							
Gasoline combustion	t	487	439	467	566	555	**569**
Diesel fuel combustion	t	34,466	42,050	47,967	36,260	30,949	**7,609**
Kerosene combustion	t	1	0.14	0.89	1.02	0	**0.13**
Coal combustion	t	16,454	17,435	17,578	20,827	22,171	**25,013**
Total	t	51,408	59,924	66,013	57,654	53,675	**33,191**
Rate of permissible discharge:							
Permissible release of solids	%	100	92	86	90	78	**69**
Permissible release of liquid and gases	%	100	101	81	86	85	**69**
Pollutants removed by gas treatment:							
Total removed	t	2,957	3,036	3,020	3,667	3,990	**4,089**
Removed solid substance	t	2,658	2,510	2,418	2,884	3,147	**3,246**
Removed liquid and gaseous substances	t	299	526	602	783	843	**843**
2. Land Use & Reclamation							
Land lease:							
Total	ha	4,712	3,616	3,540	3,470	3,505	**2,898**
New surfaces disturbed in the reporting period	ha	279	46	137	173	82.7	**30.2**
Recultivated lands during year							
Reclaimed land	ha	0	1,670	0	0	0	**0**
Used topsoil	m^3	843	0	0	0	0	**0**
Preservation of topsoil							
Removed to stockpiles	m^3	585,200	143,900	42,000	0	0	**0**
Total topsoil stored at 31 December	m^3	1,249,800	1,393,700	1,434,853	1,306,853	1,306,856	**1,306,856**
Forest plantation							
Total	ha	0	0	0	0	0	**0**
3. Waste Management							
Formed Waste:							
Total	t	17,263,551	20,412,291	27,837,914	24,373,977	7,861,251	**1,220,067**
Wastes without notice of overburdens and tailings:	t	5,799	756	8,353	10,213	22,350	**25,493**
Class I	t	0.59	0.37	0.46	0.59	0.83	**0.231**
Class II	t	2.44	5.77	6.92	5.74	4.18	**0.26**
Class III	t	168.58	146.88	184.11	163.42	110.39	**27.39**
Class IV	t	257.09	269.09	236.30	180.10	10,052.07	**9,970.11**
Class V	t	5,370	7,142	7,925	9,863	12,182	**15,495**
Waste from operations:	t	17,251,954	20,397,162	27,821,209	24,353,551	7,838,902	**1,194,574**
Overburden rocks	t	15,188,563	18,222,979	25,188,323	22,101,404	5,602,431	**150,161**
Wet tailings	t	595,803	675,681	722,893	631,970	659,411	**489,588**
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Transferred to contractors	t	657	4,771	5,763	7,411	9,291	**14,074**
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Water disposal:	m^3						
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Volume of reused water:	m^3						
Total	m^3	78,497	177,064	44,878	34,900	38,466	**1,437,849**
5. Energy Consumption & Conservation							
Consumption:							
Coil	t	9,119	9,663	9,742	11,543	12,288	**13,863**
Diesel fuel	l	13,064,130	15,938,978	18,181,913	13,744,216	11,731,094	**2,883,972**
Gasoline	l	207,761	187,237	199,043	241,282	236,567	**242,854**
Kerosene	l	400	55	350	400	0	**50**

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Board of Directors (the "Board") of IRC is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. The Group believes that conducting its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders.

The Board as a whole is responsible for performing the corporate governance duties and ensuring compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the Corporate Governance Code (the "CG Code") as stated in Appendix 14 of the Listing Rules, and make appropriate changes if considered necessary.

BOARD OF DIRECTORS

The Board provides leadership and supervises the overall direction of the Group's businesses.

As at 31 December 2016, the Board comprised of nine Directors with two Executive Directors and seven Non-Executive Directors, of which four of them – representing more than one-third of the Board – are Independent Non-Executive Directors. The number of Independent Non-Executive Directors meets the requirements under Rule 3.10(A) of the Listing Rules. Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Non-Executive Directors (including the Independent Non-Executive Directors) are appointed for a specific term not exceeding three years and are subject to retirement by rotation. No Independent Non-Executive Director has served the Company for more than nine years. Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the Directors. An updated list of the directors identifying the Independent Non-Executive Directors and the roles and functions of the directors is maintained on the websites of the Company and the Stock Exchange. The roles of the chairman and the chief executive are separate and are performed by George Jay Hambro and Yury Makarov, respectively.

The current composition of the Board is characterised by significant diversity in terms of nationality, age, professional background and skills.

The Board believes that the balance between Executive and Non-Executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Non-Executive Directors provide the Group with diverse expertise and experience. Their views and participation in Board and committee meetings bring independent judgement and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, ensuring that the interests of all shareholders are taken into account. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

The Group provides briefings and other training to develop and refresh the directors' knowledge and skills. The Group, together with its legal counsel and external auditors, continuously update directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year, the Company organised a formal training session for the directors of the Company using training materials provided by an independent certified public accountant firm. The training session covered topics including updates on Listing Rules and risk management.

A summary of training received by the directors for the year ended 31 December 2016 is as follows:

Directors	Type of training
Executive Directors	
George Jay Hambro (relinquished executive responsibilities to become Non-Executive Chairman on 20 January 2016)	A,B
Yury Makarov	A,B
Danila Kotlyarov (appointed on 20 January 2016)	A,B
Non-Executive Directors	
Simon Murray (re-designated as Independent Non-Executive Director on 16 March 2016)	A,B
Raymond Woo	A,B
Cai Sui Xin	A,B
Benjamin Ng (alternate director to Cai Sui Xin from 28 June 2016)	A,B
Liu Qingchun (resigned on 28 June 2016)	B
Independent Non-Executive Directors	
Daniel Rochfort Bradshaw	A,B
Jonathan Eric Martin Smith	A,B
Chuang-fei Li	A,B

Notes:
A: attending briefing sessions and/or seminars

B: Reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

The Board meets regularly to review the Group's operational performance, financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All directors have access to board papers and related materials which are provided in a timely manner, and are able to include matters in the agenda for board meetings. For the year ended 31 December 2016, the Chairman of the Company held a number of meetings with the Non-Executive Directors (including the Independent Non-Executive Directors) without the presence of other Executive Directors.

Mr Benjamin Ng was appointed as the Alternate Director to Mr Cai Sui Xin, a Non-executive Director of the Company with effect from 28 June 2016. In accordance with the Articles of Association of the Company, as an Alternate Director, Mr Benjamin Ng is entitled to attend and vote as a Director and be counted in the quorum at any Board Meeting at which Mr Cai Sui Xin is not personally present and to perform all the functions as a Director as if he (instead of his appointor, Mr Cai Sui Xin) were a Director.

The Board held nine meetings in 2016 and the attendance of individual directors is set out in the table on page 57.

The Company Secretary supports the Chairman, the Board and the Board Committees by ensuring good information flow and that the policies and procedures of the Board are followed. The Company Secretary advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the Company and is appointed by the Board. All Directors may call upon the Company Secretary for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the Listing Rules.

The day-to-day management and operation of the Group are delegated to the Executive Committee ("EC"), which comprises the Executive Directors, the Company Secretary and other senior management members of the Group. The EC is the principal management decision making body on all day-to-day operations and business affairs of the Group. The EC operates under guidelines and delegated authorities from the Board and meets on a regular basis.

AUDIT COMMITTEE

The Audit Committee consists of three Independent Non-Executive Directors – Chuang-fei Li (Chairman), Daniel Rochfort Bradshaw and Jonathan Eric Martin Smith. The principal duties of the Committee include the review and supervision of the Group's financial reporting system and internal control procedures. During 2016, the Audit Committee reviewed the interim and annual reports and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence and reported to the Board. The terms of reference for the Audit Committee are maintained on the websites of the Company and the Stock Exchange.

The Committee met twice in 2016 and the attendance of Committee members is set out in the table on page 57.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Jonathan Eric Martin Smith and its other members are Chuang-fei Li and Daniel Rochfort Bradshaw, all of whom are independent non-executive directors. The principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management.

The Remuneration Committee meets regularly and reviews the structure of remuneration for the board of directors on an ongoing basis and has the responsibility for the determination, within agreed terms of reference, of specific remuneration packages for all directors and other members of the Executive Committee, including salaries, retirement benefits, bonuses, long-term incentives, benefits in kind and other compensation payments. The Remuneration Committee is committed to bringing independent thought and scrutiny to the development and review process of the Group with regards to remuneration.

The Company's remuneration policy is designed to attract, retain and motivate the highly talented individuals needed to deliver its business strategy and to maximise shareholder value. Consistent with previous years, the policy for 2016 and so far as practicable, for subsequent years, is framed around the following principles:

- remuneration arrangements will be designed to support the Company's business strategy and to align it with the interests of the Company's shareholders;

- total reward levels will be set at appropriate levels to reflect the competitive global market in which the Company operates, with the intention of positioning such levels within a peer group of global mining companies;

- a high proportion of the remuneration should be "at risk", with performance-related remuneration making up at least 50% of the total potential remuneration for Executive Committee members; and

- performance-related payments will be subject to the satisfaction of demanding and stretching performance targets over the short and long term, which are designed to promote the long-term success of the Group. These performance targets will be set in the context of the prospects of the Group, the prevailing economic environment in which it operates and the relative performance against that of competitor companies.

The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take into account future changes in the business environment and in remuneration practices. Consequently, the remuneration policy and the Remuneration Committee's terms of reference are reviewed annually to reflect matters such as changes to corporate governance best practice or changes to accounting standards or business practices among peer group mining companies. This will help ensure that the policy continues to provide the Company with a competitive reward strategy. In doing so, the Remuneration Committee will take into account the relevant Listing Rules, the guidance of independent consultants and best-practice on the design of performance-related remuneration.

The terms of reference for the Remuneration Committee are maintained on the websites of the Company and the Stock Exchange.

The Remuneration Committee is satisfied that the Company's pay and employment conditions for both directors and non-Board employees around the world are appropriate to the various markets in which the Group operates. Further details of the Group's remuneration policy and practices in 2016 are set out in a letter from the Remuneration Committee Chairman below.

The Remuneration Committee held two meetings in 2016 and the attendance of Committee members is set out in the table on page 57.

A letter from the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board and the Remuneration Committee, I present the IRC 2016 Remuneration Report.

We have maintained the 2015 format and content of the Remuneration Report to provide a clear explanation of our rationale for determining remuneration policy, annual awards and longer-term incentives, a format that we believe is:

— clear and transparent;
— conforms to Hong Kong requirements; and
— in line with best practice in the international markets.

Consistent with previous years, the Remuneration Committee has considered and determined all elements of remuneration solely in the context of assessing the Group's achievements and, where relevant, individual performance on a standalone basis during 2016.

Our remuneration policy continues to aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value. We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance. As a result, performance-related pay represents a significant portion of total pay for all managers.

For executive directors, "at risk" performance-related pay typically represents more than 50% of total available remuneration. We measure performance against a broad range of health and safety, sustainability, financial and operational criteria. We benchmark our remuneration against the global mining industry and our primary peer group, as well as global companies. Further details regarding our remuneration policy is set out in the following pages. It is the Remuneration Committee's intention to continue to apply this remuneration policy in the future for as long as IRC remains an independent, listed company.

During 2016, the iron ore markets and the mining sector as a whole continued to experience strong volatility, negative pricing movement and therefore heightened uncertainty. In response to these market conditions, in 2015 an aggressive cost saving approach was taken by reducing salaries and directors' fees (as applicable) for all Board members by 15%, which also applied to most of senior management of the Group. As the above market conditions continued into 2016, a further 10% reduction in salaries and directors' fees (as applicable) for Board members and most of senior management was implemented in January 2016. Although there was some recovery in the commodities market towards the end of 2016, the Group takes a prudent approach and these cost control measures continue to be in effect. No bonuses were paid in 2016.

During 2016, the Remuneration Committee also reviewed the vesting conditions of the employee share option scheme adopted on 20 November 2015. Share options which have been granted are subject to a vesting schedule which is conditional on the achievement of certain performance targets. As K&S had yet to commence commercial production in 2016, the grantees of the share options were not in the position to deliver certain performance targets in fulfilment of the vesting conditions. Accordingly, the Board has determined that 50% of the share options that were due for vesting in 2016 will now only vest in 2017.

Full details regarding the above activities during 2016 are set out below.

Members

The Remuneration Committee is chaired by Jonathan Eric Martin Smith and its other members are Chuang-fei Li and Daniel Rochfort Bradshaw, all of whom are independent non-executive directors. Details of the Remuneration Committee's role, meetings and activities can be found on page 50 under the heading "Remuneration Committee".

The Remuneration Committee receives advice on pay and conditions across the Group from the Chairman and Chief Executive of IRC although they do not attend all meetings of the Remuneration Committee. An independent certified public accountant firm provided independent advice to the Remuneration Committee on certain areas of executive remuneration. Norton Rose Fulbright provided legal advice on incentive plan rules (as well as providing legal advice to the Group).

Remuneration policy

Our remuneration policy and practices aim to attract, retain and motivate the high-performing individuals we rely on to deliver our business strategy and create long-term value. We believe that performance-related pay should incentivise exceptional performance and that rewards should be closely linked to and commensurate with performance. As a result, for 2016 the remuneration of individuals within the Group have been determined on the following basis:

1. Over 50% of the potential executive pay package is performance-related and therefore "at risk" (i.e. the contractual obligation to pay is dependent on satisfaction of performance criteria).

2. For exceptional performance, potential pay levels are positioned in the upper quartile in comparison to the global mining industry.

3. Performance is assessed on a holistic basis, taking into account a wide variety of factors that are aligned to the delivery of superior long-term returns to IRC's shareholders and continuous and sustainable improvements in the underlying operating and financial performance of IRC.

   — Individual performance criteria for annual bonus awards reflect health and safety, environment and sustainability performance; financial performance in both absolute and relative terms; and the effective delivery of strategic priorities including the project pipeline, and various lead performance indicators. The use of multiple factors ensures that bonuses cannot be earned on the basis of inappropriate or risky behaviour and avoids rewarding achievements against one or narrow objectives that come at the expense of performance in other areas.

   — The value of long-term incentives is dependent upon share price performance and vesting is subject to the satisfaction of stretching performance conditions. In the event that performance is below threshold, participants will receive no benefit from long-term incentives.

4. Pay arrangements are intended to remain in place, so far as is practicable, throughout the business cycle. We have therefore avoided making frequent changes to incentive arrangements or performance metrics. In determining policy and practice, the key factors we take into account include:

   — the Listing Rules;

   — the code provisions set out in the CG Code;

   — the competitive environment for experienced personnel in the global extractive industries sector;

   — the guidance provided by a number of institutional investor representative bodies; and

   — feedback received from shareholders.

We also take into account pay and employment conditions across IRC when setting the remuneration of the Chairman and the Executive Directors. We do not believe a ratio comparison between the Executive Directors and non-Board employees is appropriate. A ratio comparison does not provide a useful measure of fairness or balance due to the vastly different costs of living in the countries where we have operations and fluctuations in exchange rates. However, we regularly assess the fairness and balance of our remuneration policies and practices internally and also benchmark them against our competitors in the various regions in which we operate.

Base salary

Purpose

— Attract and retain talented and experienced executives from an industry in which there is competition for talent.

— Reflect the individual's capabilities and experience.

— Reward leadership and direction of IRC on behalf of shareholders.

Policy

— Reviewed annually.

— Set at a competitive level benchmarked against other global mining and major Hong Kong companies using independent external data.

— Consider the individual's skills, experience and influence over, and responsibility for, the success of the business.

— The impact of any salary increase awarded on the value of the total package is considered carefully prior to any change being made.

— Ensure that our approach to pay is consistent across the levels of management.

Link to strategy

— Protect and generate shareholder value through the retention and attraction of high-calibre individuals.

Risk management

— Enhance retention of key personnel to ensure business continuity.

— Structured and policy-driven approach to conducting salary reviews.

Salary review for 2016

A reduction in salary or directors' fees (as applicable) of 15% was implemented for all Directors in March 2015. A further 10% reduction was introduced in January 2016.

	For the year ended 31 December					
	2016			2015		
US$'000	Directors' fees	Salaries and other benefits	Total	Directors' fees	Salaries and other benefits	Total
Executive Directors						
George Jay Hambro (a)	–	39	39	–	783	783
Yury Makarov	–	612	612	–	696	696
Raymond Woo (b)	–	–	–	–	156	156
Danila Kotlyarov (c)	–	492	492	–	–	–
Non-Executive Directors						
George Jay Hambro (a)	166	–	166	–	–	–
Simon Murray (d)	17	–	17	91	–	91
Raymond Woo (b)	80	–	80	68	–	68
Cai Sui Xin (e)	–	–	–	–	–	–
Liu Qingchun (e)	–	–	–	–	–	–
Independent Non-Executive Directors						
Daniel Rochfort Bradshaw	111	–	111	126	–	126
Simon Murray (d)	63	–	63	–	–	–
Jonathan Eric Martin Smith	111	–	111	126	–	126
Chuang-fei Li	111	–	111	126	–	126
	659	1,143	1,802	537	1,635	2,172

(a) Relinquished his executive responsibilities to become Non-Executive Chairman on 20 January 2016. Certain amounts included in salaries and other benefits were paid to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the director.

(b) Re-designated as Non-Executive Director on 25 March 2015.

(c) Appointed as Executive Director on 20 January 2016.

(d) Re-designated as Independent Non-Executive Director on 16 March 2016.

(e) As Cai Sui Xin and Liu Qingchun are nominated directors of General Nice, they do not receive any remuneration to act as Non-Executive Directors. Benjamin Ng, alternate director to Cai Sui Xin with effect from 28 June 2016, does not receive any remuneration.

Executive Committee Bonus Plan

Purpose

— Align executives' interests with the short-term goals of IRC and the drivers of the Group's long-term success.

— Reward the delivery of shareholder value through the effective execution of strategy, the profits delivered to shareholders and lead indicators of future success including safety and environmental sustainability.

Policy

— Maximum bonus awarded for truly exceptional performance is 100% of salary.

— The overall bonus pool is determined according to budgeting analysis.

— Individual payments are determined with respect to a range of key financial and non-financial metrics. These metrics include health and safety, employee development, environment and sustainability, profit and cash generation, volume and project execution.

Link to strategy

— Provides alignment among the executives' interests, the short-term financial success of IRC and the creation of shareholder value.

— The Remuneration Committee takes a comprehensive view of an appropriate level of award for each individual to ensure that bonus awards truly reflect IRC's performance and management's impact on this (rather than purely resultant from external market and cyclical factors).

Risk management

— Bonus pool analysis alongside budgeting ensures affordability.

— Focus on a wide range of financial and non-financial metrics ensures that bonus awards reward sustainable, holistic performance.

— Bonus analysis alongside entire remuneration package, with particular reference to the "long-term incentive arrangements (further details below)", ensures a focus on long-term sustainable performance and aligns management interest with shareholders.

— Determination process takes account of the extent to which performance has been driven by management activity and planning as opposed to external market and cyclical factors and response to events that were not anticipated at the start of the year.

Bonus review for 2016

No bonuses were paid in 2016.

Long-term incentive arrangements

Purpose	—	Align the financial interests of executives with those of shareholders.
	—	Incentivise the creation of shareholder value through the absolute performance of the Company and its assets as well as the recognition of such value creation in the public markets.
	—	Provide a focus on long-term, sustainable performance.
Policy	—	Share options are granted to high-performing/high potential individuals.
	—	Vesting is dependent upon pre-determined targets that focus on "Operations", "Development", "Profitability" and "Health, Safety and Environment", normally over a three-year period, as set out below.
Link to strategy	—	Vesting conditions are aligned with strategic direction of shareholder value creation.
Risk management	—	Share based incentives ensure a focus on long-term sustainable performance and align management interests with shareholders.

The Company adopted a share option scheme pursuant to Chapter 17 of the Listing Rules on 20 November 2015 (the "Share Option Scheme") which is valid and effective for a period of 10 years from the date of adoption. Any employee, director and any person or entity acting in their capacities as consultants of the Group ("Eligible Persons") may be granted share options under the Share Option Scheme.

The Share Option Scheme is designed to incentivise, reward and retain key Eligible Persons in the Group by providing a reward for long term performance of the Eligible Person and of the Group, and which aligns the interests of the Eligible Persons with those of the Company's long term shareholders. The Eligible Persons will only benefit from the Share Option Scheme if they satisfy certain conditions, including remaining with the Group for a minimum number of years.

Under the Share Option Scheme, the Remuneration Committee will from time to time propose to the Board for approval the grant of share options and the number of share options to be granted to the relevant Eligible Persons. The subscription price shall be determined by the Board and notified to an Eligible Person. Performance targets, if any, will be determined by the Board and be stated in the offer. Whether such targets have been successfully achieved will be decided by the Board. The Board may also determine a minimum period of time for which an option must be held before it can be exercised (the "vesting period"). Further details of the Share Option Scheme are set out in note 34 to the Consolidated Financial Statements.

On 20 November 2015, 228,000,000 share options with an exercise price of HK$0.315 were granted to selected directors and employees of which 29,000,000 share options were granted to each of George Jay Hambro, Yury Makarov and Danila Kotlyarov. At the date of grant, the closing share price of the Company's shares was HK$0.246. To address the dilutive effect of the Company's share placement which completed on 30 December 2016 (please refer to note 31 to the consolidated Financial Statements for details of the placement), the exercise price and the aggregate number of share options granted on 20 November 2015 have been adjusted to HK$0.296 and 242,328,035 respectively. Accordingly, the number of share options granted to each of George Jay Hambro, Yury Makarov and Danila Kotlyarov has been adjusted to 30,822,425 share options with an exercise price of HK$0.296. These adjustments have been reviewed and endorsed by an independent certified public accountant and are considered equitable.

The share options granted to the above named directors have a validity period of 10 years from the date of grant and the vesting of the options is conditional upon the achievement of certain performance targets during the vesting period. 10,274,141 share options were due to vest to each of the three aforesaid directors in 2016. However, as K&S has yet to commence commercial production and consequently the directors were not in the position to deliver certain performance targets, the Board has determined that 50% of the share options that were due for vesting in 2016 (i.e. 5,137,071 share options for each of the three directors) shall now only vest in 2017. As such, for each of George Jay Hambro, Yury Makarov and Danila Kotlyarov, 5,137,070 share options vested in 2016 and are exercisable.

The Remuneration Committee has commissioned one of the leading firms of certified public accountants to conduct an independent review of the Share Option Scheme. It is considered that the Share Option Scheme motivates grantees to achieve challenging yet realistic targets, which are crucial in adding significant value to the Company and are in the best interest of IRC shareholders. The certified public accountants firm concluded that the Share Option Scheme is well designed to attract, retain and incentivise grantees.

Retirement benefits

The Executive Directors participate in plans which target a retirement benefit. IRC makes contributions which are assessed annually by the Remuneration Committee.

	For the year ended 31 December	
US$'000	**2016**	2015
George Jay Hambro (a)	**26**	98
Yury Makarov	**76**	87
Raymond Woo (b)	**–**	17
Danila Kotlyarov (c)	**2**	–
	104	202

(a) Relinquished his executive responsibilities to become Non-Executive Chairman on 20 January 2016. Certain amounts included in salaries and other benefits were paid to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the director.

(b) Re-designated from Executive Director to Non-Executive Director on 25 March 2015.

(c) Appointed as Executive Director on 20 January 2016.

Approved by the Board and issued on its behalf by
Jonathan Eric Martin Smith
Remuneration Committee Chairman

31 March 2017

NOMINATION COMMITTEE

The Nomination Committee is chaired by the Non-Executive Chairman of IRC, George Jay Hambro. Its other members are Daniel Rochfort Bradshaw and Jonathan Eric Martin Smith, both are Independent Non-Executive Directors. The Committee meets at least once a year.

The Nomination Committee is responsible for formulating policy and making recommendations to the Board on nominations and appointment of Directors as well as on the diversity and succession of the Board. The Committee develops selection procedures for candidates, and will consider different criteria including appropriate professional knowledge and industry experience, as well as consult external recruitment professionals when required. The Board, through the Nomination Committee, has also adopted a board diversity policy which sets out the approach taken to diversify the members of the Board. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all board appointments are based on merit and candidates are considered against objective criteria, but due regard is given for the benefits of a diverse Board.

The Committee also reviews the size, structure and composition of the Board and assesses the independence of the Independent Non-Executive Directors. The Committee is provided with sufficient resources enabling it to perform its duties and it can seek independent professional advice at the Company's expense if necessary. The terms of reference for the Nomination Committee are maintained on the websites of the Company and the Stock Exchange.

During 2016, the Committee met once and the attendance of Committee members is set out in the table on this page.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Health, Safety and Environmental Committee consists of three Independent Non-Executive Directors – Daniel Rochfort Bradshaw (Chairman), Jonathan Eric Martin Smith and Chuang-fei Li, and is responsible for evaluating the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operations and for ensuring compliance with health, safety and environmental regulatory requirements. The Committee also assesses the performance of the Group with regards to the impact of health, safety, environmental and community relations, decisions and actions.

The Committee provides the Board with regular updates to assist in overseeing matters relating to enhancing the Company's global reputation of responsible corporate stewardship, conscientious corporate social responsibility and product sustainability. In doing so, professional advice may be sought if considered necessary. The Committee also has the authority to invite key members of operational management to meetings to discuss the performance of the Group.

During 2016, the Committee met once and the attendance of Committee members is set out in the table below.

BOARD AND COMMITTEE MEETINGS AND ATTENDANCE

The number of meetings the Board and other Committees scheduled during 2016 are shown below together with attendance details:

	Meetings attended/held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety and Environment Committee
Executive Directors					
George Jay Hambro (a)	9/9	–	–	1/1	–
Yury Makarov	9/9	–	–	–	–
Danila Kotlyarov (b)	7/7	–	–	–	–
Non-Executive Directors					
Simon Murray (c)	9/9	–	–	–	–
Raymond Woo	9/9	–	–	–	–
Cai Sui Xin (d)	0/9	–	–	–	–
Liu Qingchun (e)	1/6	–	–	–	–
Independent Non-Executive Directors					
Daniel Rochfort Bradshaw	9/9	2/2	1/1	1/1	1/1
Jonathan Eric Martin Smith	9/9	2/2	1/1	1/1	1/1
Chuang-fei Li	9/9	2/2	1/1	–	1/1

(a) Relinquished his executive responsibilities to become Non-Executive Chairman on 20 January 2016.

(b) Appointed as Executive Director on 20 January 2016.

(c) Re-designated as Independent Non-Executive Director on 16 March 2016.

(d) All board meetings were attended by Benjamin Ng, who was appointed as the alternate director of Cai Sui Xin on 28 June 2016. Benjamin Ng's attendances were not counted as attendance by the director himself in accordance with the requirements of the CG Code.

(e) Resigned on 28 June 2016.

DIVIDEND POLICY

When setting the dividend, the Board looks at a range of factors, including the macro environment, the current balance sheet, future investment plans and capital requirements. The Company typically considers paying annual dividends on the basis of its results for the previous year. The dividend policy of the Company aims to provide for a regular and sizeable dividend flow to its shareholders whilst allowing the Company to maintain the financial flexibility to take advantage of attractive investment opportunities in the future.

AUDITORS' INDEPENDENCE AND REMUNERATION

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of the Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work) at a meeting of the Committee.

The Auditors' Report to the shareholders states the auditors' reporting responsibilities.

Fees for services rendered by the auditors to the Group for the year ended 31 December 2016 and the comparative figures for the year ended 31 December 2015 are set out below:

	For the year ended 31 December	
US$'000	**2016**	2015
Audit	**363**	363
Non-audit*	**93**	180
	456	543

* The fee for non-audit services for 2016 represent the fee for the review of the Group's 2016 Interim Results for the six months ended 30 June 2016 of US$93,000 (2015: US$93,000). 2015 fees for non-audit services include the fee of US$87,000 for services rendered in connection with the open offer carried out by the Company in August 2015. No such fee was incurred in 2016.

SHAREHOLDER RELATIONS

The Board has established a shareholders' communication policy which sets out the principles of the Company in relation to shareholders' communications, with the objective of ensuring that its communications with the shareholders are timely, transparent, accurate and open. Information is communicated to the shareholders mainly through the Company's corporate communications (such as quarterly trading updates, interim and annual reports, announcements and circulars), at the annual general meetings ("AGM") and other general meetings, as well as disclosure on the website of the Company.

Interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are also available on the website of the Company. The Company's website provides shareholders with corporate information, such as its principal business activities and major projects, the corporate governance practices of the Group and the corporate social responsibilities of the Group. For efficient communication with shareholders and in the interest of environmental protection, arrangements are in place which allow shareholders to elect to receive corporate communications of the Company by electronic means through the Company's website.

Shareholders are provided with contact details of the Company, such as telephone, fax number, email address and postal address, in all communications to shareholders and on the Company's website which enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means, ensuring that shareholders' views are communicated to the Board. The Company's AGM also allows the Directors to meet and communicate directly with shareholders.

In addition, shareholders can contact Tricor Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. For each separate issue to be considered at the AGM, separate resolutions are proposed by the chairman of the AGM. The chairman of the AGM exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website the next business day after the day of the AGM.

The most recent AGM was held on 28 June 2016. At the AGM, separate resolutions were proposed for each issue and were voted on by poll. All resolutions proposed at the AGM were passed. The matters discussed and the percentage of votes cast in favour of the resolutions were:

Matters being voted upon	% of affirmative votes
To receive and consider the audited consolidated financial statements and the reports of the Directors and Auditor for the year ended 31 December 2015.	99.99%
To re-appoint Messrs Deloitte Touche Tohmatsu as Auditor and authorise the Board of Directors to fix the remuneration of the Auditor.	99.99%
To elect Mr Danila Kotlyarov as Director.	99.99%
To re-elect Mr George Jay Hambro as Director.	99.99%
To re-elect Mr Raymond Kar Tung Woo as Director.	99.99%
To re-elect Mr Daniel Rochfort Bradshaw as Director.	99.99%
To re-elect Mr Cai Sui Xin as Director.	91.92%
To give a general mandate to the Directors to repurchase shares in the Company not exceeding 10% of the number of Shares of the Company in issue.	99.99%
To give a general mandate to the Directors to issue, allot and deal with additional shares in the Company not exceeding the sum of 20% of the number of Shares of the Company in issue.	91.92%
To add shares repurchased to the general mandate to issue new shares.	91.92%

An Extraordinary General Meeting was held on 29 December 2016 in which one resolution was proposed and voted on by poll. The resolution proposed was passed. The matters discussed and the percentage of vote cast in favour of the resolution were:

Matters being voted upon	% of affirmative votes
To: i) approve the subscription of new shares by Tiger Capital Fund SPC – Tiger Global SP (the "Investor") and grant of Share Options; ii) allot and issue the Subscription Shares and the Option Shares (if exercised) to the Investor (who had nominated that the Option Shares be assigned to Mr Cheng Chi Kin to exercise in his own name); and iii) authorise the directors of the Company to execute all other documents, do all other acts and things and take such action to give effect to the Subscription Agreement, the issue and allotment of the Subscription Shares and the Option Shares (if exercised) and any other transactions contemplated thereunder.	99.86%

SHAREHOLDERS' RIGHTS

Procedures for convening a general meeting

Shareholder(s) holding at least 5% of the total voting right of the Company of all the shareholders having a right to vote at general meetings may, in accordance with the requirements and procedures set out in Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), request the Board to convene a general meeting by requisition, by stating the general nature of the business to be dealt at a general meeting and depositing the signed requisition at the registered office of the Company for the attention of the Company Secretary in hard copy form.

Procedures for putting forward proposals at an annual general meeting

(a) Shareholder(s) holding at least 2.5% of the total voting rights or (b) at least 50 shareholders having a right to vote on the resolution at an annual general meeting may, in accordance with the requirements and procedures set out in Companies Ordinance, requisition for the circulation of resolutions to be moved at annual general meetings and circulation of statements of not more than 1,000 words with respect to the matter referred to in the proposed resolution. Such written request must (i) state the resolution and signed by all the requisitionists in one or more documents in like form; and (ii) be deposited in hard copy form at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the annual general meeting; or if later, the time at which notice is given of that annual general meeting.

The detailed procedures for shareholders to convene and put forward proposals at an AGM or other general meeting, including proposing a person other than a retiring director for election as a director, are set out in the Company's website. Shareholders may send their enquiries requiring the Board's attention to the Company at the registered address of the Company.

Constitutional documents

Rights of the shareholders are also provided under the Articles of Association. There have been no changes to the company's constitutional documents during the year.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE AND MODEL CODE

Throughout the year, the Company was in compliance with the provisions set out in the CG Code save that:

a) in respect of attending general meetings of the Company as provided for in CG Code provision A.6.7, due to their overseas engagements at the time, the Non-Executive Directors Mr Cai Sui Xin and Mr Liu Qingchun and the Independent Non-Executive Director Mr Simon Murray were unable to attend the annual general meeting of the Company held on 28 June 2016; and Mr Cai Sui Xin was unable to attend the extraordinary general meeting held on 29 December 2016. The attendance records of Mr Murray, Mr Cai and Mr Liu at board meetings during the year are also set out on page 57;

b) pursuant to Rule 3.10A of the Listing Rules, the Independent Non-Executive Directors of a listed issuer must represent at least one-third of the board of directors. The number of Independent Non-Executive Directors of the Company fell below the minimum number as required under Rule 3.10A following the appointment Mr Danila Kotlyarov as an Executive Director of the Company on 20 January 2016 until 16 March 2016 when Mr Simon Murray was re-designated from a Non-Executive Director to an Independent Non-Executive Director of the Company. The Board believes that, during that period, there was still a sufficient independent element on the Board which could effectively exercise independent judgment. Following the re-designation of Mr Simon Murray on 16 March 2016, the number of Independent Non-Executive Directors of the Company fulfilled the minimum number as required under Rule 3.10A of the Listing Rules; and

c) although the Company has set up an internal audit function as provided for in code provision C.2.5, the Company has not yet carried out an internal audit as the Group's only producing mine, Kuranakh, is under care and maintenance and does not currently have any operations which would justify the expense and management time required to complete such an internal audit. The Company confirms that it will carry out internal audits after K&S enters into commercial production.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the year and they have confirmed their full compliance with the required standard set out in the Model Code.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and holding companies, who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interests of shareholders. The Board is responsible for reviewing the internal control policies and has delegated the day-to-day management of operational risks to the Executive Committee. Independent consultants are hired where necessary to assist the Board to perform a high-level risk assessment of the Group, which entails identifying, analysing and assessing key risks faced by the Group. By reference to a globally recognised internal controls framework, the high-level risk assessment covered all key controls including financial, compliance and operational controls and risk management systems.

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. The Group's annual results and interim results are announced in a timely manner, and the consolidated financial statements of the Group and the Independent Auditor's Report is set out at page 74.

On behalf of the Board

George Jay Hambro
Chairman

31 March 2017

DIRECTORS' REPORT

The Directors present their Report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company was incorporated with limited liability in Hong Kong on 4 June 2010 under the Hong Kong Companies Ordinance. The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates and jointly controlled entity are the production and development of industrial commodities products.

The analysis of the principal activities and geographical locations of the operation of the Group for the year ended 31 December 2016 is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company is provided in the Chairman & CEO Review section on pages 3 to 4. Discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position and particulars of important events affecting the Group that have occurred since the end of the financial year are provided throughout this Annual Report, particularly in the CFO Statement & Results of Operations section on pages 5 to 13. Descriptions of the principal risks and uncertainties facing the Group can be found throughout this Annual Report, particularly in the Risk Factors section on page 160. The future development of the Company's business is discussed throughout this Annual Report including in the Chairman & CEO Review section on pages 3 to 4. An analysis of the Group's business and operations using financial key performance indicators can be found in the Key Performance Indicators section on pages 14 to 15 while an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company and on which the Company's success depends is provided throughout this Annual Report, particularly in the Remuneration Committee section of the Corporate Governance Report on pages 48 to 61 and the Directors' Report on pages 62 to 72. In addition, details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact to the Group, are provided in the Health Safety Environment Community section on pages 29 to 47.

DIVIDEND

The Board does not recommend the distribution of a dividend for the year ended 31 December 2016.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 20 to the consolidated financial statements.

SHARE CAPITAL

On 30 November 2016, the Company announced a proposal to raise finance for the K&S project by way of a share placing to an independent third party investor, Tiger Capital Fund SPC – Tiger Global SP ("Tiger"). After obtaining the approval of Shareholders, 937,500,000 ordinary shares were allotted and issued on 30 December 2016 to Tiger, and the Company received net proceeds of approximately US$25 million. The ordinary shares issued rank pari passu in all respects with the existing issued shares. As part of the consideration for the subscription, the Company has also granted to Tiger a right to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Shares") of the Company. None of the Option Shares was exercised in 2016.

The Company adopted an employees' share option scheme pursuant to Chapter 17 of the Listing Rules on 20 November 2015, details of which are set out on page 138 under the "Share Option Scheme". None of the employees' share options was exercised in 2016.

Save as described above, there were no changes in the share capital of the Company in 2016. Particulars of the changes in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

RESERVES

Details of reserves available for distribution and movements in reserves during the year are set out in the section "Consolidated Statement of Changes in Equity" of the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

George Jay Hambro*
Yury Makarov
Danila Kotlyarov**

Non-Executive Directors:

Simon Murray, *CBE, Chevalier de la Légion d'honneur* ***
Raymond Woo
Cai Sui Xin (Benjamin Ng as his alternate)
Patrick Chi Kin Cheng^
Liu Qingchun^^

Independent Non-Executive Directors:

Daniel Rochfort Bradshaw
Jonathan Eric Martin Smith
Chuang-fei Li

* George Jay Hambro relinquished his executive responsibilities to become Non-Executive Chairman with effect from 20 January 2016.

** Danila Kotlyarov was appointed as Executive Director on 20 January 2016.

*** Simon Murray, CBE, Chevalier de la Légion d'Honneur, was re-designated as an Independent Non-Executive Director on 16 March 2016 after the Nomination Committee of the Company reviewed and confirmed his independence, having considered that he satisfied all of the indicative criteria of independence set out under the Listing Rules.

^ As part of the terms of the share subscription (please refer to note 31 to the consolidated financial statements for details), the Company agreed to invite a director, who is a representative of Tiger, to become a Non-Executive director of the Company, subject to the approval of the Company's Nomination Committee. The Nomination Committee approved the appointment of Patrick Chi Kin Cheng to be a Non-Executive director on 3 February 2017.

^^ Liu Qingchun resigned as Non-Executive Director on 28 June 2016.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into letters of appointment with each of its Directors, pursuant to which each Director is appointed for a term of three years and is subject to termination in accordance with their respective terms.

DIRECTORS OF SUBSIDIARIES

The list of directors who have served on the board(s) of the subsidiaries of the Company during the year and up to the date of this report are shown on the Company's website.

PERMITTED INDEMNITY PROVISIONS

During the financial year and up to the date of this Report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the Directors of the Company or its associated companies. The permitted indemnity provisions are provided for in the Company's Articles of Association and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

DIRECTORS' INTERESTS

As at 31 December 2016, the interests or short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company

Name of director	Nature of interest	Number of shares in the Company	Percentage of issued shares in the Company as at 31 December 2016
George Jay Hambro	Interest of a controlled corporation*	445,866	0.01%
	Beneficial interest**	34,286,539	0.48%
	Contingent beneficial interest***	30,822,425	0.43%^
Yury Makarov	Beneficial interest	30,911,505	0.44%^
	Contingent beneficial interest***	30,822,425	0.43%^
Raymond Kar Tung Woo	Beneficial interest	7,435,360	0.10%
Danila Kotlyarov	Contingent beneficial interest***	30,822,425	0.43%^
Cai Sui Xin^^	Interest of a controlled corporation	1,516,226,000^^^	21.38%

* These shares are beneficially owned by a company which is wholly owned by George Jay Hambro.

** These shares are beneficially owned by an independent service company providing management services to IRC that is consequently classed as an affiliated company to the director.

*** The interest relates to the share options granted by the Company on 20 November 2015. Details of the share option scheme are set out on page 55 of the 2016 Annual Report of the Company under the heading "Long-term incentive arrangements".

^ These percentages are calculated on the basis of 7,093,386,381 Shares in issue as at 31 December 2016.

^^ These shares are beneficially owned by General Nice Development Limited ("GND") and Mr Cai Sui Xin is deemed to be interested in such shares under the SFO by virtue of the fact that General Nice Group Holdings Limited, which is wholly owned by Mr. Sui Xin Cai, holds 50% equity interest in GND. Mr Cai Sui Xin also directly holds 5% equity interest in GND.

^^^ Based on the Company's understanding, the number of Shares which are held by GND as at 31 December 2016 was 1,100,000,000 Shares (representing approximately 15.51% of the total issued shares of the Company as at 31 December 2016).

Long positions in shares of an associated corporation

Name of director	Nature of interest	Number of shares in Petropavlovsk PLC ("Petropavlovsk")	Percentage of issued shares in Petropavlovsk as at 31 December 2016
George Jay Hambro	Beneficial interest	404,441	0.01%
Yury Makarov	Beneficial interest	75,278	0.00%

Petropavlovsk PLC ("Petropavlovsk"), through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company, and accordingly an associated corporation of the Company.

George Jay Hambro is the son of Peter Hambro, the Chairman of Petropavlovsk; and Yury Makarov is the stepson of Dr Pavel Maslovskiy, the Chief Executive Officer of Petropavlovsk.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Except as described below, none of the Directors of the Company or their respective associates was interested in, apart from the Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Petropavlovsk, a substantial shareholder of the Company, and its subsidiaries (the "Petropavlovsk Group") are principally engaged in the exploration, development and production of precious metal deposits in Russia. The Directors do not consider Petropavlovsk to be a competitor of the Company because Petropavlovsk focuses on different commodities to the Company.

During the year and up to the date of this report, George Jay Hambro and Yury Makarov are shareholders of Petropavlovsk and are therefore considered to have interests in Petropavlovsk.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2016.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, the Company's shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company as under Section 336 of the SFO were as follows:

Name of director	Capacity	Number of shares in the Company	Percentage of issued shares in the Company as at 31 December 2016
Petropavlovsk PLC	Interest of a controlled corporation	2,205,900,000	31.10%
Cayiron Limited*	Beneficial interest	2,205,900,000*	31.10%
Ming Chi Tsoi**	Interest of a controlled corporation	1,516,226,000^	21.38%
General Nice Group Holdings Limited***	Interest of a controlled corporation	1,516,226,000^	21.38%
General Nice Development Limited	Beneficial interest	1,516,226,000^	21.38%
A Plus Capital Management Limited	Interest of a controlled corporation	937,500,000	13.22%
Tiger Capital Fund SPC-Tinger Global SP^^	Beneficial interest	937,500,000	13.22%
Avia Asset Management Limited^^^	Fund manager	937,500,000	13.22%

* Cayiron Limited is a wholly owned subsidiary of Petropavlovsk PLC. All 2,205,900,000 shares were pledged and please refer to the section "Guarantee" on page 72 for details.

** These shares are beneficially owned by General Nice Development Limited ("GND") and Ming Chi Tsoi is deemed to be interested in such shares under the SFO by virtue of the fact that he holds 35% equity interest in GND.

*** General Nice Group Holdings Limited holds 50% equity interest in GND.

^ Based on the Company's understanding, the number of Shares which are held by GND as at 31 December 2016 was 1,100,000,000 Shares (representing approximately 15.51% of the total issued shares of the Company as at 31 December 2016).

^^ A Plus Capital Management Limited is the beneficial owner of Tiger Capital Fund SPC – Tiger Global SP.

^^^ Avia Asset Management Limited is the investment advisor of Tiger Capital Fund SPC – Tiger Global SP.

Save as disclosed above and those disclosed under "Directors' Interests", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, apart from the share placement completed in December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 31 December 2016, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following non-exempt continuing connected transactions require disclosure in the annual report of the Company:

US$'000

Continuing connected transactions	Connected Persons	Cap for 2016	Actual amount for 2016
A Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	53
B Technical Services Agreement	Petropavlovsk and/or its subsidiaries	4,500	–
C Helicopter Lease Agreement	Petropavlovsk and/or its subsidiaries	1,000	273
D Helicopter Service Agreement	Petropavlovsk and/or its subsidiaries	2,000	–
E Equipment Leasing Framework Agreement	Petropavlovsk and/or its subsidiaries	3,500	1,626
		13,035	1,952

The actual amount of these transactions did not exceed the respective caps.

The connected transactions described in items A to E concern transactions between the Group and Petropavlovsk. Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company and therefore a connected person pursuant to Listing Rule 14A.11(1). Furthermore, Petropavlovsk's subsidiaries are also connected persons of the Company as they are associates of Petropavlovsk. Accordingly, transactions between the Group and Petropavlovsk, and between the Group and Petropavlovsk's subsidiaries, are connected transactions for the purpose of Chapter 14A of the Listing Rules.

A. Shared Services Agreement

The Group procures certain services from Petropavlovsk, and provides certain services to Petropavlovsk ("Shared Services"). On 29 September 2010, the Company and Petropavlovsk entered into an agreement in respect of Shared Services (the "Shared Services Agreement") for a term of three years. The Shared Services Agreement is intended to provide an overarching framework for provision of the shared services. The Shared Services comprise: (i) shared office space; (ii) legal services; (iii) management and information technology services; (iv) administrative services and (v) an equipment lease. Except for (v) an equipment lease, which is charged on arm's length terms, all other services are recharged on a "cost plus a markup of 10%" basis.

On 21 December 2012, the Shared Services Agreement was renewed for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "Renewed Shared Services Agreement"). On 5 February 2016, the Shared Services Agreement was renewed for a further term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Further Renewed Shared Services Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Shared Services Agreement remain the same.

The annual cap under the Further Renewed Shared Services Agreement for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 is US$2,035,000 respectively, which is the same annual cap for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 under the Renewed Shared Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's planned operations over the next three years, with a buffer to provide flexibility for any increase in shared services required by the Group or any increase in the base cost of providing such services.

B. Technical Services Agreement

On 29 September 2010, the Group and Petropavlovsk entered into a technical services agreement (the "Technical Services Agreement") for a term of three years. The Technical Services Agreement provides an overarching agreement which governs Petropavlovsk's provision of technical services to the Group. The technical services comprise: (i) construction services; (ii) engineering & design services and (iii) exploration & geological services. The technical services were recharged on a "cost plus 10% markup" basis.

On 21 December 2012, the Technical Services Agreement was renewed for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "Renewed Technical Services Agreement"). On 5 February 2016, the Technical Services Agreement was renewed for a further term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Further Renewed Technical Services Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Technical Services Agreement remain the same.

The annual cap under the Further Renewed Technical Services Agreement for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 is US$4,500,000 respectively, which is less than the annual cap for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 under the Renewed Technical Services Agreement. The reduction in the annual cap amounts under the Further Renewed Technical Services Agreement has been determined based on historical transaction figures and the Group's planned operations over the three-year period. As the Kuranakh Project has been moved to a care and maintenance status and the K&S Project will be fully commissioned soon, the Group is of the view that the reduced annual cap amounts will be sufficient. The annual cap amounts, however, include a buffer to provide flexibility for any increase in technical services required by the Group or any increase in the base cost of providing such services.

C. Helicopter Lease Agreement

LLC GMMC, a subsidiary of the Company, provides MC Petropavlovsk with helicopter services pursuant to a helicopter lease agreement ("Helicopter Lease Agreement") dated 29 September 2010. Under the Helicopter Lease Agreement, LLC GMMC leases its helicopter to MC Petropavlovsk for use in Petropavlovsk's operations. MC Petropavlovsk is a subsidiary of Petropavlovsk and therefore is a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. Although the Petropavlovsk Group has its own helicopters, it is still necessary to lease helicopter from the Group because at various times its helicopters may be under repair and maintenance. This arrangement provides the Petropavlovsk Group with continuous access to a helicopter service. The terms and conditions of the Helicopter Lease Agreement are no more favourable to MC Petropavlovsk than those that would be offered to independent third parties. The Helicopter Lease Agreement has been amended and varied pursuant to a deed of variation to ensure compliance with Chapter 14A of the Listing Rules and, under the terms of the amended agreement, the amount charged to MC Petropavlovsk is calculated on the total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

Before the expiry of the Helicopter Lease Agreement on 8 October 2013, on 16 January 2013, the Helicopter Lease Agreement was renewed for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "Renewed Helicopter Lease Agreement"). On 5 February 2016, the Helicopter Lease Agreement was renewed for a further term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Further Renewed Helicopter Lease Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Helicopter Lease Agreement remain the same.

The annual cap under the Further Renewed Helicopter Lease Agreement for the years ended 31 December 2016, 31 December 2017, and 31 December 2018 is US$1,000,000 respectively, which is the same annual cap for the three years ended 31 December 2013, 31 December 2014, and 31 December 2015 under the Renewed Helicopter Lease Agreement. The annual cap amounts have been determined based on historical transaction figures and MC Petropavlovsk's expected demand for helicopter services for the next three years, as advised to the Company by MC Petropavlovsk.

D. Helicopter Services Agreement

On 29 September 2010, the Group and MC Petropavlovsk entered into an agreement relating to the provision of helicopter services ("Helicopter Services Agreement"). Under the agreement, MC Petropavlovsk provides the Group with the use of its helicopter, which is critical for the Group's business due to the distances between the Group's assets and offices. The reason the Group procures a helicopter service from MC Petropavlovsk is to ensure that it has continuous access to a helicopter service. This will be relevant where the Group's own helicopter is under repair and maintenance, or where the Group's personnel require an extended service. MC Petropavlovsk recharges the Group for total cost, including amortisation and overheads plus a margin of 10%, attributable to actual flight time.

Before the expiry of the Helicopter Services Agreement on 8 October 2013, on 16 January 2013, the Helicopter Services Agreement was renewed for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (the "Renewed Helicopter Services Agreement"). On 5 February 2016, the Helicopter Services Agreement was renewed for a further term of three years commencing from 1 January 2016 and ending on 31 December 2018 (the "Further Renewed Helicopter Services Agreement"). Apart from changes made to update the effective period of renewal, all other terms and conditions of the Helicopter Services Agreement remain the same.

The annual cap under the Further Renewed Helicopter Services Agreement for the years ended 31 December 2016 and 31 December 2017 and 31 December 2018 is US$2,000,000 respectively, which is the same annual cap for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 under the Renewed Helicopter Services Agreement. The annual cap amounts have been determined based on historical transaction figures and the Group's expected requirements for helicopter services over the next three years, having regard to the Group's planned activities in areas that are only accessible by helicopter.

E. Equipment Leasing Framework Agreement

On 20 November 2015, IRC entered into the Equipment Leasing Framework Agreement with Petropavlovsk to lease certain mining equipment owned by the Group to the Petropavlovsk Group, under which the relevant Group Company and the relevant Petropavlovsk Group Company will enter into separate leasing agreements for the relevant equipment in accordance with the principal terms set out in the Equipment Leasing Framework Agreement. With the Kuranakh mine having been moved to care and maintenance, and the K&S mine appointing an external mining contractor, certain mining equipment owned by the Group are currently underutilised and certain subsidiaries of IRC have leased mining equipment to certain subsidiaries of Petropavlovsk. Petropavlovsk wishes to lease equipment from the Group due to the proximity of the Group's operations with certain of Petropavlovsk's operations. As compared to other potential lessors of equipment, leasing equipment from the Group would result in a faster delivery time to site of the leased equipment for Petropavlovsk. The Equipment Leasing Framework Agreement represents an additional source of revenue for the Group through the leasing of underutilised equipment, and will improve the Group's cash flows.

The leasing fees payable by the relevant Petropavlovsk Group Company under each leasing agreement shall be determined by arm's length negotiations between the relevant Group Company and the relevant Petropavlovsk Group Company and (a) if a prevailing market price is available for the relevant mining equipment, the leasing fee shall be the prevailing market price. The prevailing market price of the comparable mining equipment will be determined based on information available to the Group and the Petropavlovsk Group after enquiries with third party mining equipment leasing companies with reference to availability in the location required by the relevant Petropavlovsk Group Company and the type, age and condition of the mining equipment; and (b) if a prevailing market price for the relevant mining equipment is not available, the leasing fee shall be the total cost of the mining equipment attributable to the Group, including depreciation, amortisation and overheads, plus a margin of approximately 10 per cent. The amount of margin will be determined with reference to the type, age and condition of the mining equipment.

The Group and Petropavlovsk have agreed that the aggregate leasing fees payable by Petropavlovsk to the Group under all leasing agreements entered into pursuant to the Equipment Leasing Framework Agreement will not exceed US$875,000 for the period 1 October 2015 to 31 December 2015; US$3,500,000 for each of the two years ending 31 December 2016 and 31 December 2017 respectively; and US$2,625,000 for the period 1 January 2018 to 30 September 2018. The Annual Caps have been calculated based on the historical equipment leasing needs of the Petropavlovsk Group and its anticipated needs over the term of the Equipment Leasing Framework Agreements; the anticipated needs of the Group for mining equipment and availability of mining equipment for leasing to the Petropavlovsk Group; and a buffer amount to cater for unexpected leasing needs and foreign exchange movements between the Rouble and US dollars.

Each Continuing Connected Transaction has been reviewed by the Directors, including the Independent Non-executive Directors. The Directors confirm that the Continuing Connected Transactions set out above have been entered into:

— in the ordinary and usual course of business of the Group;

— on normal commercial terms or better; and

— according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The auditor has provided a letter to the board of directors of the Company and confirmed that for the year ended 31 December 2016 the Continuing Connected Transactions (i) have received the approval of the board of directors of the Company; (ii) are in accordance with the pricing policies of the Company for those Transactions that involve provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreement governing the transactions and (iv) have not exceeded their respective annual caps.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Petropavlovsk and General Nice are connected parties of the Group and transactions with these entities during the year ended 31 December 2016 are set out in note 37, Related Party Disclosures, to the consolidated financial statements.

EMOLUMENT POLICY

Details of the Directors' emoluments and of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements. The emolument policy of the employees of the Group is set up by the Remuneration and/or Executive Committees on the basis of their merit, qualifications and competence.

The emoluments payable to Directors depend on their respective contractual terms under their employment contracts or service contracts as approved by the board of directors of the Company on the recommendation of the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Detailed remuneration policy and practices of IRC in 2016 are set out in the Corporate Governance Report on page 48 under the heading "Remuneration Committee".

The key element of senior management remuneration is the Share Option Scheme, which is designed to align the interests of management with those of shareholders, and to incentivise performance. Please refer to the paragraph "Remuneration Committee" in the Corporate Governance Report on page 50 and Note 34 to the consolidated financial statements under "Share-Based Payments" for more details.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for 95% of the total revenue for the year. The largest of them accounted for 40% of the total revenue. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together represented 30% of the Group's total purchases for the year. The largest supplier represented 8% of the Group's total purchases for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers.

GUARANTEE

The Group obtained a banking facility of US$340,000,000 from ICBC which is guaranteed by Petropavlovsk, the substantial shareholder of the Company. The project finance facility agreement contains certain covenants on Petropavlovsk, the details of which are set out in Note 37 to the consolidated financial statements. ICBC has agreed to waive the obligations of the Group and Petropavlovsk to comply with certain financial covenants and to waive the Group's obligations to maintain certain cash deposits with ICBC. In consideration for the waivers, Cayiron Limited (a wholly-owned subsidiary of Petropavlovsk PLC) pledged all of its 2,205,900,000 ordinary shares (approximately 31.10% of the total issued share capital of the Company as at 31 December 2016) in the issued capital of the Company to ICBC as security for its obligations as guarantor under the ICBC project finance facility for so long as the waivers remain in place.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on page 48 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules.

AUDITOR

During the year, Messrs. Deloitte Touche Tohmatsu was appointed as the auditor of the Company. A resolution to appoint the auditor of the Company will be proposed at the forthcoming Annual General Meeting. There has been no change in auditor in the preceding 3 years.

REVIEW BY THE AUDIT COMMITTEE

The audited financial statements have been reviewed by the Audit Committee of the Company, which comprises three Independent Non-executive Directors: Chuang-fei Li, Daniel Rochfort Bradshaw and Jonathan Eric Martin Smith. Chuang-fei Li is the Chairman of the Audit Committee.

On behalf of the Board

George Jay Hambro
Chairman

31 March 2017

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

As at the date of this report, the Board composes of the following directors with a collective expertise covering the resource sector and complementary industries, in addition to deep experience in the geographical regions where IRC operated. The Board formally meets at least four times a year. In addition numerous sub-committee meetings, information events and director training sessions are held, including site visits to IRC's operations and regional offices. The strategic leadership of IRC is the responsibility of a unitary and balanced board, which comprises a healthy composition of Executive Directors, Non-Executive Directors and independent Non-Executive Directors.

NON-EXECUTIVE CHAIRMAN

Jay Hambro
Chairman

Mr Jay Hambro, 42, is the Chairman and Non-Executive Director. In his early career, he was a metals and mining banker and adviser at NM Rothschild and HSBC. Subsequently he joined the Petropavlovsk Group where he was CEO of Aricom and later the CIO of Petropavlovsk, a role he relinquished in 2010 to head IRC as the Executive Chairman. In January 2016, he was redesignated as the Chairman and NED of the Group. Mr Hambro is a Fellow of the Institute of Materials, Minerals and Mining and an Independent Non-Executive Director of Winsway. He holds a BA in Business Management from Newcastle University.

EXECUTIVE DIRECTORS

Yury Makarov
Chief Executive Officer

Mr Yury Makarov, 42, is the Chief Executive Officer and Executive Director. He began his career at NT Computers as an engineer, and later Commercial Director, with responsibility for sales, service and support. In 2002, he joined Aricom as COO and subsequently Petropavlovsk as the Group Head of Industrial Commodity Operations, before taking up his current role at IRC in 2010. Mr Makarov is a qualified systems engineer with an MA in Avionics from the Moscow State Aircraft Technology Institute.

Danila Kotlyarov
Chief Financial Officer

Mr Danila Kotlyarov, 38, is the Chief Financial Offier and Executive Director. Mr Kotlyarov joined the Group in 2005 responsible over Russian and China operations, and was promoted to Deputy CEO in 2010 and redesignated as CFO in January 2016. Before joining IRC, he gained extensive financial management work experience in various international listed companies. He holds a BA in Management and an MA in International Economics from the Moscow State Institute of International Relations. He is a fellow member of the Association of Chartered Certified Accountants and has professional diploma in civil and industrial construction.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Daniel Rochfort Bradshaw

Mr Bradshaw, 70, is the Senior Independent Non-Executive Director and Chairman of the Health, Safety and Environment Committee. A Hong Kong lawyer with a specialist shipping practice, he has worked for most of his career as a solicitor at Mayer Brown JSM. Mr Bradshaw holds an LLB and LLM in Law. He is a Non-Executive director of Euronav NV and an independent non-executive director of GasLog MLP and Pacific Basin Shipping Ltd., a Director of the Kadoorie Farm and an Executive Council Member of the Hong Kong World Wide Fund for Nature.

Jonathan Martin Smith

Mr Jonathan Martin Smith, 58, is an Independent Non-Executive Director and Chairman of the Remuneration Committee. He was the founder of London based Smith's Corporate Advisory, which he sold to UK stockbroker Westhouse Holdings in 2010, where he subsequently headed the mining practice. Prior to establishing his own firm, he worked at UBS, Credit Suisse and Williams de Broë. He is a graduate from the Royal Military Academy Sandhurst where he served as an officer until 1982.

Chuang-fei Li

Mr Chuang-fei Li, 70, is an Independent Non-Executive Director and Chairman of the Audit Committee. Mr Li worked for Bank of China in London as the Deputy General Manager and the Chief Lending Officer with wide responsibilities, including investment and corporate banking, treasury and capital markets, financial institutions coverage, structured finance, aircraft and shipping finance, syndications, retail banking and auditing. Mr Li is a past Fellow of the Asia Centre at Harvard University.

Simon Murray
CBE, Chevalier de la Légion d'honneur

Mr Murray, 77, is an Independent Non-Executive Director of IRC. Mr Murray brings considerable Hong Kong and Asia based experience to the Board, from a career spanning Jardine Matheson, Hutchison Whampoa as the Group Managing Director, Executive Chairman, Asia Pacific of the Deutsche Bank Group and his current position as Chairman of GEMS Limited. Mr Murray is currently a Director of Cheung Kong Property Holdings Ltd., Orient Overseas International Ltd., Wing Tai Properties, Greenheart Group Ltd., Spring Asset Management Limited (the manager of Spring REIT), and China LNG Group Ltd., all are companies listed in Hong Kong. He is also the Non-Executive Director of Compagnie Financiere Richemont SA, a company listed overseas. He is redesignated as IRC's INED from 16 March 2016.

NON-EXECUTIVE DIRECTORS

Raymond Woo

Mr Raymond Woo, 47, is a Non-Executive Director of IRC. Mr Woo began his career at Arthur Andersen, then an investment banker at ING, CITIC Securities and Credit Suisse. He holds a BCom from The University of New South Wales and is a member of the Australian Society of Certified Practising Accountants and a fellow of the HKICPA. He is currently the CFO and Executive Director of TUS International, INED of Yuanda China and SMIT Holdings. Before being redesignated as NED on 25 March 2015, he was the Executive Director, CFO and Company Secretary of IRC.

Cai Sui Xin

Mr Cai Sui Xin, 55, is a Non-Executive Director. He is the Founder and Chairman of General Nice, a metallurgical coke producer and large private Chinese trader of steel raw commodities. General Nice is also a substantial shareholder of IRC. Mr Cai is also the Executive Chairman of Singapore quoted Abterra Ltd.

Benjamin Ng
(Alternate Director)

Mr Benjamin Ng, 55, is the Alternate Director of Mr Cai Sui Xin, the Non-Executive Director of IRC. Mr Ng is currently the Executive Director of Hong Kong quoted Loudong General Nice Resources (China) Holdings Ltd. He is also the Finance Director of General Nice Development Ltd.

Cheng Chi Kin

Mr Cheng Chi Kin, 48, is the CEO of an investment management company. He is a certified public account and a fellow member of the AIA. He has 25 years of experience in corporate finance, accountancy and investment banking, especially in real estate, infrastructure and natural resources industries.

EMERITUS DIRECTOR

Dr Pavel Maslovskiy

Dr Pavel Maslovskiy, 60, is the Co-Founder and CEO of Petropavlovsk. Prior to embarking on his business career, Dr Maslovskiy was a professor at the Moscow Aircraft Technology Institute, specialising in engineering applications of the theory of plasticity, teaching metallurgy and plasticity. Dr Maslovskiy was a Senator of the Federation Council of Russia (the Upper House of the Russian Parliament) from December 2011 until October 2014 when he returned to Petropavlovsk and his role as CEO.

SENIOR MANAGEMENT

Johnny Yuen

Mr Johnny Yuen, 44, is the Company Secretary, Corporate Controller, and Authorised Representative of the Company. Mr Yuen began his career in KPMG and has over 20 years of financial management, accounting, auditing and administration experiences, including working in various senior positions of listed companies in Hong Kong. He is a fellow member of the HKICPA and a member of the ACCA. He holds a MBA from the Manchester Business School of University of Manchester.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE MEMBERS OF IRC LIMITED
鐵江現貨有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of IRC Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 79 to 154, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Going Concern Basis of Accounting	
We identified the going concern basis of accounting as a key audit matter as it is dependent on the positive cash flows generated from the Group's mining operations for the 12 months following the approval of the annual financial statements. The management of the Group has prepared a cash flow forecast which involves inherent complex and subjective management judgements and estimates based on management's input of key variables and market conditions. As set out in note 2 to the consolidated financial statements, notwithstanding the fact that the Group, with benefit of recent and forecast improvements in commodity prices, expects to generate positive operating cash flows mainly from the sales of the iron ore products from the commercial production of the Group's mining operation for the 12 months following the approval of the annual financial statements for issuance, the Group has debts with an aggregate principal amount of US$65 million due for repayment within the next 12 months. If the Group were unable to successfully implement the measures described in note 2 to the consolidated financial statements or the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and its financial liquidity may be adversely impacted. Should the Group experience a further delay of the full-scale operations of the Kimkan and Sutara ("K&S") Project beyond the Group's expectation and/or if the conditions described above turn out to be significantly more unfavourable than forecasted by the Group, the Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.	Our audit procedures in relation to the going concern basis of accounting included: • challenging the key assumptions including the forecast iron ore price, foreign exchange rate, adjusted iron ore price for ore purity differentials and mining and processing costs in management's forecast cash flows for the next 12 months (base case and downside scenarios); • assessing consistency between the forecasts used to test the Group's going concern basis and those used in the asset impairment assessment including commodity prices and third party forecast data; • agreeing the Group's committed debt facilities to supporting documentation; • obtaining and reading the waiver letter from its lender for the rearrangement of repayment schedule; and • evaluating stress tests for a range of reasonably possible scenarios (including commodity prices) on management's cash flow following the approval of the annual financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment	
We identified the impairment of property, plant and equipment as a key audit matter as the impairment model involves significant management estimation on the probability, timing and value of underlying cash flows and in selecting appropriate discount rates to be applied. As at 31 December 2016, the K&S Project contains property, plant and equipment of approximately US$323.5 million. Due to certain issues identified in the K&S Project which hindered the mine from ramping up its production capacity, there is a further delay in the full-scale operations of the K&S mine beyond management expectation, and hence, the management conducted an impairment assessment of the related property, plant and equipment of the K&S Project as at 31 December 2016 for which the recoverable amount of the project has been determined based on value in use. No impairment was recognised during the year. Details relating to the impairment assessment are set out in note 11 to the consolidated financial statements.	Our audit procedures in relation to the impairment of the property, plant and equipment included: • making inquiries with management on their long-term mining plans and the basis of assumptions for the preparation of the discounted cash flow; • evaluating management's future cash flow forecasts, and the process by which they were drawn up, including checking the mathematical accuracy of the cash flow models and agreeing future capital and operating expenditure to the latest budget approved by the board of directors of the Company; • checking the discount rates calculations and the long-term iron ore prices used and assumed by management with external forecasts; • assessing whether headroom identified at the Group's cash generating units, and based on facts and circumstances, is indicative that a reversal of a previously recognised impairment is required; and • evaluating the sensitivity analysis performed by the management on the sales volume, iron ore price and the foreign currency exchange rates to evaluate the extent of impact on the discounted cash flows.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2016

	NOTES	2016 US$'000	2015 US$'000
Revenue	7	**16,467**	81,910
Operating expenses	8	**(35,192)**	(106,676)
Impairment charges	11	**(47)**	(480,050)
		(18,772)	(504,816)
Share of results of a joint venture		**47**	1
		(18,725)	(504,815)
Other income, gains and losses	12	**689**	(3,769)
Financial income	13	**413**	1,458
Financial expenses	14	**(1,189)**	(1,872)
Loss before taxation		**(18,812)**	(508,998)
Income tax expense	15	**(315)**	(247)
Loss for the year		**(19,127)**	(509,245)
Loss for the year attributable to:			
Owners of the Company		**(18,226)**	(508,969)
Non-controlling interests		**(901)**	(276)
		(19,127)	(509,245)
loss per share (US cents)	17		
Basic		**(0.30)**	(9.48)
Diluted		**(0.30)**	(9.48)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

	2016 US$'000	2015 US$'000
Loss for the year	(19,127)	(509,245)
Other comprehensive expenses for the year:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	1,555	(2,345)
Total comprehensive expenses for the year	(17,572)	(511,590)
Total comprehensive expenses attributable to:		
Owners of the Company	(17,025)	(510,730)
Non-controlling interests	(547)	(860)
	(17,572)	(511,590)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 US$'000	2015 US$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets	19	**18,856**	18,603
Property, plant and equipment	20	**333,690**	199,714
Interest in a joint venture	21	**–**	–
Other non-current assets	22	**76**	89,017
Restricted bank deposit	29	**1,977**	2,119
Value-added tax recoverable	20	**2,720**	–
		357,319	309,453
CURRENT ASSETS			
Inventories	23	**20,371**	29,575
Trade and other receivables	24	**23,813**	25,463
Time deposits	25	**–**	6,960
Cash and cash equivalents	26	**31,342**	49,184
		75,526	111,182
TOTAL ASSETS		**432,845**	420,635
CURRENT LIABILITIES			
Trade and other payables	27	**(21,471)**	(18,032)
Current income tax payable		**(346)**	(366)
Borrowings – due within one year	29	**(65,744)**	(53,050)
		(87,561)	(71,448)
NET CURRENT (LIABILITIES) ASSETS		**(12,035)**	39,734
TOTAL ASSETS LESS CURRENT LIABILITIES		**345,284**	349,187
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**(6,486)**	(6,324)
Provision for close down and restoration costs	30	**(10,115)**	(6,449)
Construction costs payable	20	**(17,830)**	–
Borrowings – due more than one year	29	**(177,239)**	(215,238)
		(211,670)	(228,011)
TOTAL LIABILITIES		**(299,231)**	(299,459)
NET ASSETS		**133,614**	121,176

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED...)

At 31 December 2016

	NOTES	**2016** **US$'000**	2015 US$'000
CAPITAL AND RESERVES			
Share capital	31	**1,285,158**	1,260,665
Capital reserve		**17,984**	17,984
Reserves		**9,680**	1,967
Accumulated losses		**(1,179,141)**	(1,160,915)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**133,681**	119,701
NON-CONTROLLING INTERESTS		**(67)**	1,475
TOTAL EQUITY		**133,614**	121,176

The consolidated financial statements on pages 79 to 154 were approved and authorised for issue by the Board of Directors on 31 March 2017 and are signed on its behalf by:

George Jay Hambro
DIRECTOR

Danila Kotlyarov
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2016

	Total attributable to owners of the Company									
	Share capital US$'000	Treasury shares US$'000	Capital reserve[a] US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Other reserve[b] US$'000	Accumulated losses US$'000	Sub-total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2015	1,211,231	(11,986)	17,984	14,698	(21,639)	18,693	(651,946)	577,035	2,870	579,905
Loss for the year	–	–	–	–	–	–	(508,969)	(508,969)	(276)	(509,245)
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	–	–	–	–	(1,761)	–	–	(1,761)	(584)	(2,345)
Total comprehensive expenses for the year	–	–	–	–	(1,761)	–	(508,969)	(510,730)	(860)	(511,590)
Share-based payments	–	–	–	147	–	–	–	147	–	147
Vesting of share-based awards	–	11,986	–	(3,300)	–	(8,686)	–	–	–	–
Issue of new shares (note 31)	52,656	–	–	–	–	–	–	52,656	–	52,656
Transaction costs attributable to issue of new shares (note 31)	(3,222)	–	–	–	–	–	–	(3,222)	–	(3,222)
Deemed contribution from a shareholder	–	–	–	–	–	3,815	–	3,815	–	3,815
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(535)	(535)
Balance at 31 December 2015	1,260,665	–	17,984	11,545	(23,400)	13,822	(1,160,915)	119,701	1,475	121,176
Loss for the year	–	–	–	–	–	–	(18,226)	(18,226)	(901)	(19,127)
Other comprehensive expenses for the year										
Exchange differences on translation of foreign operations	–	–	–	–	1,201	–	–	1,201	354	1,555
Total comprehensive expenses for the year	–	–	–	–	1,201	–	(18,226)	(17,025)	(547)	(17,572)
Share-based payments	–	–	–	1,130	–	–	–	1,130	–	1,130
Issue of new shares (note 31)	24,589	–	–	–	–	–	–	24,589	–	24,589
Transaction costs attributable to issue of new shares (note 31)	(96)	–	–	–	–	–	–	(96)	–	(96)
Grant of share options (note 31)	–	–	–	–	–	802	–	802	–	802
Transaction costs attributable to grant of share options (note 31)	–	–	–	–	–	(3)	–	(3)	–	(3)
Deemed contribution from a shareholder	–	–	–	–	–	4,583	–	4,583	–	4,583
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(995)	(995)
Balance at 31 December 2016	1,285,158	–	17,984	12,675	(22,199)	19,204	(1,179,141)	133,681	(67)	133,614

(a) The amounts represent deemed contribution from the then ultimate holding company of the Company for 1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company of the Company in prior years and 2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of the then ultimate holding company of the Company.

(b) The amounts arose from 1) acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 2) transfer of share-based payment reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares, 3) deemed contribution from General Nice Development Limited ("General Nice"), a shareholder of the Company, for accrued interests on outstanding capital contribution (note 31), and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund (as defined in note 31).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2016

	NOTES	2016 US$'000	2015 US$'000
OPERATING ACTIVITIES			
Net cash generated from (used in) operations	33	**1,006**	(799)
Interest expenses paid		**(10,150)**	(11,022)
Loan guarantee fee paid		**(1,126)**	(2,169)
Income tax paid		**(268)**	(458)
NET CASH USED IN OPERATING ACTIVITIES		**(10,538)**	(14,448)
INVESTING ACTIVITIES			
Restricted bank deposits placed		**(26,131)**	(1,000)
Purchases of property, plant and equipment and exploration and evaluation assets		**(14,734)**	(52,599)
Time deposits placed	25	**(2,990)**	(11,293)
Restricted bank deposits withdrawn		**26,273**	26,131
Time deposits withdrawn	25	**9,950**	7,033
Proceeds from a constructor for compensation on remedial and associated works	20	**4,508**	–
Proceeds on disposal of property, plant and equipment		**1,696**	118
Interest received		**413**	1,458
Dividend received from joint venture	21	**–**	917
NET CASH USED IN INVESTING ACTIVITIES		**(1,015)**	(29,235)
FINANCING ACTIVITIES			
Repayment of borrowings		**(60,425)**	(65,820)
Dividends paid		**(995)**	(535)
Transaction costs attributable to issuance of new shares and share options		**(99)**	(3,222)
Proceeds from borrowings		**30,619**	64,894
Proceeds on issuance of new shares and share options	31	**25,391**	52,656
Loan commitment fees paid		**–**	(72)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(5,509)**	47,901
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**(17,062)**	4,218
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**49,184**	45,040
Effect of foreign exchange rate changes		**(780)**	(74)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**31,342**	49,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

1. GENERAL

IRC Limited ("the Company") is a public limited company incorporated in Hong Kong and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 21 October 2010. The Company together with its subsidiaries are hereinafter referred to as the "Group".

The address of the registered office and principal place of business of the Company is 6H, 9 Queen's Road Central, Hong Kong. The consolidated financial statements are presented in United States Dollars ("US$"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The Group is principally engaged in the production and development of industrial commodities products including iron ore that are used in industry across the world. The main activities of the Group are in Russia and China and the Group predominantly serves the Russian and Chinese markets. The activities of the Company's principal subsidiaries are set out in note 38.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance.

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group's loss for the year, and the Group had outstanding bank borrowings due for repayment in 2017, against the cash and cash equivalents and the credit facilities maintained by the Group. The full ramp up and commercial production of K&S mine project ("K&S Project"), a magnetite development project in the Group's portfolio consisting of the Kimkan deposit and Sutara deposit situated in the Evreyskaya Avtonomnaya Oblast or the Jewish Autonomous Region in the Russian Far East of the Russian Federation, has been delayed and the Group's ability to continue as a going concern is dependent on the anticipated cash flows from the sales of the iron ore products from the commercial production of K&S Project. If there is a further delay in the commercial production of K&S Project beyond management's expectation, the Group would be unable to meet its financial obligations as and when they fall due in the foreseeable future.

As part of this consideration, the directors of the Company have performed an assessment of the Group's future liquidity and cash flows, taking into account the following relevant matters:

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(i) In March 2016, the Group entered into an agreement with its construction contractor of the K&S Project, in respect of, among others, new deferred payment terms for the Group's remaining obligations under the EPC Contract (as defined in note 29) in three equal instalments within 30 days of 31 December 2017, 31 December 2018 and 31 December 2019, respectively. In December 2016, the Group further entered into an additional agreement with the construction contractor, among others, to reduce the value of the aforesaid deferred payment sum by US$3.9 million and to receive from the construction contractor a compensation of approximately US$4.5 million for the remedial and associated costs that the Group will incur in remedying certain defects of the K&S Project;

(ii) In April 2016, the Group obtained waivers from Industrial and Commercial Bank of China ("ICBC") in respect of the ICBC Facility Agreement (as defined in note 29), including obligations to maintain certain cash deposits with ICBC and obligations of the Group and its guarantor, Petropavlovsk PLC, to comply with certain financial covenants, subject to the fulfillment of certain conditions precedent which were satisfied on 21 June 2016. Details of these waivers are set out in notes 29 and 37;

(iii) The Group is implementing active cost-saving measures to improve operating cash flows and its financial position;

(iv) With the completion of the replacement and remedial works at the ball mills of the processing plant of the K&S Project in late March 2017, the ball mills has resumed running at full scale of its designed processing scheme with the whole plant managed to operate at production capacity 75% of its designed capacity. The Group is anticipating full commercial production of the K&S Project in the first half of 2017 in line with its ramping-up process. It is expected that the project will contribute significantly positively to the Group's cash flows from the start of its commercial operation as all material capital expenditure for mining, processing and production of the Kimkan deposit has been incurred;

(v) The Group has been in discussion with ICBC regarding further proposals for a restructuring, amendment or waiver under the ICBC Facility Agreement (as defined in note 29) and on 27 February 2017, the Group has been informed that ICBC has agreed to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which are originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US$42,500,000 evenly into five subsequent semi-annual repayment instalments as such each of the repayment instalment due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020, respectively, is increased by US$8,500,000 to an amount equal to US$29,750,000. The restructuring of the repayments was subject to the fulfillment of certain conditions precedent which were satisfied in March 2017. Details of this waiver notice are set out in note 29;

(vi) The substantial volatility in the Russian Rouble/US Dollar exchange rate which may continue in the coming twelve months, given that a significant percentage of the Group's costs are denominated in Russian Roubles, whilst a substantial portion of the Group's sales are denominated in US Dollars; and

(vii) The substantial volatility in the iron ore price may continue to have an impact on the Group as the Group's financial position is materially dependent on the price at which it can sell its iron ore production.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In respect of the measures described in (iii) and (iv) above, after making enquiries and based on progress to date, the directors of the Company expect that each will be concluded successfully within the designated time frame.

In respect of the assumptions referred to in (vi) and (vii) above, the directors of the Company have performed sensitivity analyses taking into account what they consider to be reasonably possible adverse fluctuations in the Russian Rouble/US Dollar exchange rate and iron ore price in the foreseeable future.

The directors of the Company consider that after taking into account the above, the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future. Accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

However, if the Group were unable to successfully implement the measures described above or the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and its financial liquidity may be adversely impacted. Should the Group experience a further delay of the full-scale operations of the K&S Project beyond the Group's expectation and/or if the conditions described above turn out to be significantly more unfavourable than forecasted by the Group, the Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 Financial Instruments (continued)

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs in issue but not yet effective will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of cash reporting period, as explained in the amounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities including structured entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates, i.e. United States dollars) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets

On the disposal of a foreign operation all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to 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, is capitalised and recorded on the consolidated statement of financial position within exploration and evaluation assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made. Exploration and evaluation expenditure capitalised and mining rights within exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

Property, plant and equipment

Non-mining assets

On initial recognition, non-mining assets are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group.

Mine development costs and mining assets

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as “mine development costs”, this includes any property, plant and equipment acquired to undertake mining activities. Mine development costs are reclassified as “mining assets” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. Depreciation policy for mining assets are set out below under “*Depreciation*”. Mine development costs are tested for impairment as stated in ‘impairment losses of tangible assets’ section.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Deferred stripping cost in development phase

In open pit operations the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Such costs when incurred during the development of the mine are deferred in the statement of financial position as part of mine development costs, and charged to the profit or loss over the life of the mine on a unit of production basis.

Deferred stripping costs in production phase

During production phase, cost incurred in relation to stripping activity is capitalised and recorded on the consolidated statement of financial position to the extent the stripping activity improved access to ore, which is when the following conditions are satisfied:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the Group accounts for the costs of that stripping activity in accordance with the accounting policy of inventories (see accounting policy of inventories for details).

When the costs relating to improved access to ore (i.e. a stripping activity asset) and the costs of the inventory produced are not separately identifiable, production stripping costs are allocated between the stripping activity asset and inventory using a relevant production measure (i.e. actual vs. expected volume of waste extracted).

Production stripping costs capitalised as Mine development costs are subsequently carried at cost and depreciated on a unit of production basis over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, less any impairment losses.

Depreciation

Property, plant and equipment are depreciated using a units of production method or straight-line basis as set out below.

Mining assets which are plant and machineries acquired to undertake mining activities are depreciated on a straight-line basis based on estimated useful lives of 2 to 20 years. Other mining assets for which economic benefits from the asset are consumed in a pattern linked to the production level, are depreciated using a units of production method based on ore reserves, which in turn results in a depreciation charge proportional to the depletion of reserves.

Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Mine development costs and construction in progress are not depreciated, except for that property, plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation (continued)

Estimated useful lives of non-mining assets normally vary as set out below.

	Estimated useful life Number of years
Buildings	15 – 50
Plant and machinery	2 – 20
Vehicles	5 – 7
Leasehold improvements	2
Fixtures and equipment	2
Office equipment	2 – 10
Computer equipment	3 – 5

Impairment losses of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual assets, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Details of the assumptions used when assessing the impairment of the Group's tangible assets, and the effect of those assumptions, can be found in note 11.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provision for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provision is charged to profit or loss for the year. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provision for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at the end of each reporting period. All costs of continuous rehabilitation are charged to profit or loss as incurred.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or if appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, cash and cash equivalents, restricted bank deposits and time deposits are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade and other payables and construction costs payable are subsequently measured at amortised cost, using the effective interest method.

Transaction costs on borrowings

Transaction costs that are directly attributable to the raising of borrowings are recognised on the statement of financial position on an accrual basis. Such costs will be deducted from the fair value of the borrowings on initial recognition (that is, when the relevant borrowings are drawn). They form part of the borrowings and will be accounted for using an effective interest method over the loan period as discussed above.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials and consumables is determined on a first-in-first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales-related taxes.

Revenue from sale of goods is recognised when the goods are delivered and titles have passed.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's policy for the recognition of revenue from engineering contracts is described in the accounting policy on engineering contracts below.

Engineering contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. The stage of completion is measured by reference to estimates of work performed to date.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Floor space of buildings and other assets may be leased to contractors under an operating lease, for use in the construction of mining properties. Income from lessees under these operating leases are set off against the cost of construction in the period to which they relate.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Share options granted to shareholder

Where share options are granted to shareholder as part of a subscription of the Company's shares, the components amount is recognised in other reserve in the equity of the Company on a pro-rata basis based on the fair values of the components on the proceeds from the share subscription.

Taxation

Taxation expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the amount as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. deferred tax assets are generally recognised for all deductible differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

When a group entity's taxable profit or tax loss is determined in a currency other than its functional currency, and consequently, the tax base of its non-monetary assets and liabilities changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or asset subject to the general recognition criteria. The resulting deferred tax is recognised in profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Share-based payment arrangements

Certain employees of the Group receive equity-settled share-based payments. Equity-settled share-based payments are measured at fair value at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of awarded shares or options that will eventually vest, adjusted for the effect of non market-based vesting conditions, with a corresponding increase in equity (share-based payment reserve).

At the end of the reporting period, the Group revises its estimates of the number of awarded shares or options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

When share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses.

Employee benefit trust ("EBT")

The carrying value of shares held by the EBT are recorded as treasury shares, shown as a deduction to shareholders' equity.

Retirement benefit costs

The Group does not operate a pension scheme. However, payments are made to defined contribution retirement benefit arrangements for certain employees and these are charged as an expense as they fall due.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management has made the following key assumptions concerning future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of assets and assessment of cash generating units

The Group reviews the carrying value of its property, plant and equipment and exploration and evaluation assets 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 CGU. The recoverable amount of those assets, or CGU, is measured at the higher of their fair value less costs of disposal and value in use.

Management necessarily applies its judgement 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.

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, any 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.

Ore reserve estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the "JORC Code") or Canadian Institute of Mining, Metallurgy and Petroleum) valuation standards ("CIM"). The JORC Code and CIM require 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 closedown 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 statement of profit or loss 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.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in such expenditure being capitalised for those projects for which such expenditure is considered likely to be recoverable through future extraction activity or sale, or for which 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 profit or loss.

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. Management uses its judgement 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.

Tax provisions and tax legislation

The Group is subject to income tax in Hong Kong, the People's Republic of China ("PRC"), United Kingdom ("UK"), Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group is subject to a broad range of tax payables at federal, regional and local levels in Russia. The various tax laws and regulations is subject to varying interpretations by the tax authorities and courts of Russia. Fines and penalties for any errors and omissions could be significant. The directors of the Company believe that there have been no material breaches of Russian tax regulations and that these financial statements contain all necessary provisions in respect of the Group's tax liabilities in Russia.

Deferred tax

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

6. SEGMENT INFORMATION

HKFRS 8 *Operating Segments* requires the Group to disclose reportable segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its Executive Committee to be the chief operating decision maker. For management purposes, the Group is organised into four operating segments, Mines in Production, Mines in Development, Engineering, and Other. These operating segments form the basis on which the Group's Executive Committee makes decisions about resource allocation and performance assessment. No operating segments identified by the Group's Executive Committee have been aggregated in arriving at the reportable segments of the Group. The Group has four operating and reportable segments under HKFRS 8:

- Mines in Production segment ("Mines in Production"), comprises iron ore projects in production phase. This segment includes the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation ("EAO Region").

- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the K&S Project, the Garinskoye project, the Bolshoi Seym project as well as the Kostenginskoye and Garinskoye Flanks project which are all located in the Russia Far East region.

- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to Giproruda, which is located in Russia.

- Other segment ("Other") primarily includes the Group's interests in a joint venture for the production of vanadium pentoxides and related products in the PRC.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the results generated by each segment without the allocation of central administration expenses, central depreciation, other income, gains and losses, financial income and financial expenses.

Segment results represents the loss incurred by each segment for the purpose of monitoring segment performance.

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than central cash and cash equivalents; and

- all liabilities are allocated to reportable segments other than deferred tax and borrowings.

6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2016

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	15,580	–	887	–	16,467
Segment revenue	15,580	–	887	–	16,467
Site operating expenses and service costs	(22,113)	(355)	(2,316)	(11)	(24,795)
Site operating expenses and service costs include:					
Depreciation	–	(7,813)	(152)	–	(7,965)
Inventory written down	(2,346)	–	–	–	(2,346)
Impairment charges	–	–	–	(47)	(47)
Share of results of a joint venture	–	–	–	47	47
Segment loss	(6,533)	(355)	(1,429)	(11)	(8,328)
Central administrative expenses					(10,353)
Central depreciation					(44)
Other income, gains and losses					689
Financial income					413
Financial expenses					(1,189)
Loss before taxation					(18,812)
Other segment information					
Additions to non-current assets:					
Capital expenditure	2	141,301	3	–	141,306
Exploration and evaluation expenditure capitalised	–	253	–	–	253
Segment assets	6,081	399,524	5,796	–	411,401
Central cash and cash equivalents					21,444
Consolidated assets					432,845
Segment liabilities	(8,013)	(29,856)	(507)	(11,386)	(49,762)
Borrowings					(242,983)
Deferred tax liabilities					(6,486)
Consolidated liabilities					(299,231)

6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2015

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	80,351	–	1,559	–	81,910
Segment revenue	80,351	–	1,559	–	81,910
Site operating expenses and service costs	(93,061)	(520)	(2,887)	(48)	(96,516)
Site operating expenses and service costs include:					
Depreciation	–	(5,836)	(182)	–	(6,018)
Inventory written down	(7,148)	–	–	–	(7,148)
Impairment charges	(250)	(473,905)	–	(5,895)	(480,050)
Share of results of a joint venture	–	–	–	1	1
Segment loss	(12,960)	(474,425)	(1,328)	(5,942)	(494,655)
Central administrative expenses					(10,073)
Central depreciation					(87)
Other income, gains and losses					(3,769)
Financial income					1,458
Financial expenses					(1,872)
Loss before taxation					(508,998)
Other segment information					
Additions to non-current assets:					
Capital expenditure	121	40,789	1	1	40,912
Exploration and evaluation expenditure capitalised	–	375	–	–	375
Segment assets	26,561	366,784	8,584	1,426	403,355
Central cash and cash equivalents					17,280
Consolidated assets					420,635
Segment liabilities	(11,009)	(5,928)	(570)	(7,340)	(24,847)
Borrowings					(268,288)
Deferred tax liabilities					(6,324)
Consolidated liabilities					(299,459)

6. SEGMENT INFORMATION (CONTINUED)

Revenue by geographical location[(a)]

	2016 US$'000	2015 US$'000
PRC	**14,518**	80,334
Japan	**1,047**	17
Russia and the Commonwealth of Independent States	**902**	1,559
	16,467	81,910

(a) Based on the location to which the product was shipped to or in which the services were provided.

Non-current assets by location of asset[(b)]

	2016 US$'000	2015 US$'000
Russia	**355,342**	306,361
Hong Kong	**—**	973
	355,342	307,334

(b) Excluding financial assets.

Information about major customers

The Group's revenue included revenue arising from sales of iron ore concentrate and ilmenite and rendering engineering services to a number of independent third party customers during the years ended 31 December 2016 and 2015. Revenue from customers of the corresponding years contributing over 10% are described below.

For the year ended 31 December 2016, sales were made to Heilongjiang Jianlong Steel Company Limited amounted to US$8,622,000 (2015: US$55,906,000) and Ningbo Xinfu Titanium Dioxide Co., Ltd. amounted to US$4,776,000 (2015: US$10,579,000) attributable to the Mines in Production segment comprising 52% and 29% (2015: 68% and 13%) of the total revenue respectively. There were no other customers that contributed over 10% on the total revenue of the Group during the years ended 31 December 2016 and 2015.

7. REVENUE

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2016 US$'000	2015 US$'000
Revenue		
Sale of iron ore concentrate	**8,637**	55,906
Sale of ilmenite	**6,943**	24,445
Engineering services	**887**	1,559
	16,467	81,910

8. OPERATING EXPENSES

	2016 US$'000	2015 US$'000
Operating expenses		
Site operating expenses and service costs[(a)]	**24,795**	95,896
Central administration expenses[(b)]	**10,397**	10,780
	35,192	106,676

(a) Site operating expenses and service costs

	2016 US$'000	2015 US$'000
Staff costs	**12,932**	19,625
Railway tariff	**9,241**	33,076
Depreciation	**7,965**	6,018
Movement in finished goods and work in progress	**4,929**	4,149
Materials	**4,196**	16,194
Property tax	**4,162**	2,093
Inventory written down	**2,368**	7,148
Fuel	**1,779**	7,949
Electricity	**1,642**	1,691
Subcontracted mining costs and engineering services	**1,457**	9,257
Net other expenses (Note)	**555**	3,691
Office costs	**379**	397
Office rent	**310**	329
Bank charges	**117**	215
Professional fees*	**112**	226
Business travel expenses	**61**	60
Royalties	**56**	534
Insurance	**19**	42
Allowance for bad debts	**–**	43
Mine development costs capitalised in property, plant and equipment	**(27,485)**	(16,841)
	24,795	95,896

Note: Other expenses for the year ended 31 December 2015 included a US$2.8 million provision for withholding tax in consequence of a negative tax ruling from Russia tax authorities requiring the payment by a Russian subsidiary of the Group in respect of withholding tax which the Russia tax authorities claim was payable on the payment of interest on intra-group loans from its Russian subsidiaries to other subsidiaries outside of Russia. The Group's position was that at the time of the payment of such interest, the recipient group entity was resident in the UK and the payment was therefore not subject to any withholding tax due to the double tax treaty between the UK and Russia. This was disputed by the Russia tax authorities and the Group had made an appeal against the negative ruling by the Russia tax authority but the appeal had been rejected.

During the year ended 31 December 2016, the Group settled such withholding tax of US$2.8 million to the Russian tax authorities.

8. OPERATING EXPENSES (CONTINUED)

(b) Central administration expenses

	2016 US$'000	2015 US$'000
Staff costs	**4,825**	6,917
Share-based payments	**1,130**	147
Professional fees*	**1,116**	964
Rental fee	**996**	360
Utilities and other expenses	**973**	659
Business travel expenses	**413**	505
Office costs	**281**	281
Write-off of bad debts	**177**	1
Insurance	**156**	310
Net other expenses	**153**	454
Bank charges	**132**	89
Depreciation	**44**	87
Property tax	**1**	5
Write-off of bad debts	**–**	1
	10,397	10,780

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees.

9. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2016 US$'000	2015 US$'000
Audit fees		
Fees payable to Group's auditors and their associates for the annual audit of the Group's consolidated financial statements	**363**	363
Non-audit fees		
Other services	**93**	93
Total	**456**	456

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The aggregate remuneration of employees (including directors) comprised:

	2016 US$'000	2015 US$'000
Wages and salaries	13,820	19,817
Social security and other benefits	3,793	6,478
Retirement benefit contribution	144	247
Share-based payments	1,130	147
	18,887	26,689

	2016 US$'000	2015 US$'000
Directors' emoluments		
Emoluments for executive directors:		
– salaries	1,143	1,635
– retirement benefit contribution	83	202
– share-based payments	295	34
Emoluments for non-executive directors:		
– directors' fees	659	537
– retirement benefit contribution	21	–
– share-based payments	136	–
	2,337	2,408

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

	2016				
	Directors' fees	Salaries and other benefits	Retirement benefit contribution	Share-based payments[g]	Total
Executive directors:					
George Jay Hambro[a]	–	39[h]	5	7	51
Yury Makarov	–	612[i]	76	144	832
Danila Kotlyarov[b]	–	492	2	144	638
Non-executive directors:					
Non independent non-executive directors					
George Jay Hambro[a]	166[h]	–	21	136	323
Simon Murray[c]	17	–	–	–	17
Cai Sui Xin[e]	–	–	–	–	–
Ng Tze For[e]	–	–	–	–	–
Liu Qingchun[d]	–	–	–	–	–
Raymond Woo	80	–	–	–	80
Independent non-executive directors					
Daniel Bradshaw	111	–	–	–	111
Jonathan Martin Smith	111	–	–	–	111
Chuang-fei Li	111	–	–	–	111
Simon Murray[c]	63	–	–	–	63
	659	1,143	104	431	2,337

Notes:

(a) Re-designated as non-executive director on 20 January 2016

(b) Appointed as executive director on 20 January 2016

(c) Re-designated as independent non-executive director on 16 March 2016

(d) Resigned as non-independent non-executive director on 28 June 2016

(e) Mr. Ng Tze For is appointed as an alternate director of Mr. Cai Sui Xin on 28 June 2016

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

	2015				
	Directors' fees US$'000	Salaries US$'000	Retirement benefit contribution US$'000	Share-based payments[g] US$'000	Total US$'000
Executive directors:					
George Jay Hambro	–	783[h]	98	17	898
Yury Makarov	–	696[i]	87	17	800
Raymond Woo[f]	–	156	17	–	173
Non-executive directors:					
Non independent non-executive directors					
Simon Murray	91	–	–	–	91
Cai Sui Xin	–	–	–	–	–
Liu Qingchun	–	–	–	–	–
Raymond Woo[f]	68	–	–	–	68
Independent non-executive directors					
Daniel Bradshaw	126	–	–	–	126
Jonathan Martin Smith	126	–	–	–	126
Chuang-fei Li	126	–	–	–	126
	537	1,635	202	34	2,408

Note:

(f) Re-designated as non-executive director on 25 March 2015.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

(g) The share-based payments were recognised in accordance with the accounting policies set out in note 4 and for further details, please refer to note 34.

(h) Included in directors' fees and salaries was US$86,000 (2015: US$680,260) and retirement benefit contribution of US$25,000 (2015: US$85,000) paid to a service company which is an affiliated company of the director.

(i) Included in salaries was US$32,000 (2015: US$35,000) paid by subsidiaries.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEE'S EMOLUMENTS (CONTINUED)

Following discussions with the underwriters of the August 2015 Open Offer (as defined in note 31), there was a requirement for certain members of the senior management team to be fully exercising their rights to acquire the offer shares (as defined in note 31). The Remuneration Committee met and discussed this requirement and offered specific support for this event. The Remuneration Committee allowed a specific payment to three senior managers, including a service company which is an affiliated company of Mr. George Jay Hambro for US$255,000 and Mr. Yury Makarov for US$223,000, specifically for the purpose of exercising their rights in the open offer and these amounts are not included as emoluments of the directors in the table. This payment was made under the condition that the funds had been used to participate accordingly in the open offer and that the shares acquired would not be sold for a period of 24 months. During the year ended 31 December 2015, the funds were used in full by the respective senior managers to subscribe for their Offer Shares.

Other than as disclosed above, no remuneration was paid or payable by the Group to the executive, non-executive and independent non-executive directors during the year.

Mr. Yury Makarov is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Five highest paid individuals

For the year ended 31 December 2016, the five highest paid individuals included three directors of the Company (2015: three directors of the Company). The emoluments of the remaining highest paid individuals for the years ended 31 December 2016 and 2015 are as follows:

	2016 US$'000	2015 US$'000
Employees		
– salaries and other benefits	**440**	581
– share-based payments	**109**	25
	549	606
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000 (equivalent to approximately US$192,307 to US$256,410)	**1**	1
HK$2,00,001 to HK$2,500,000 (equivalent to approximately US$256,411 to US$320,513)	**1**	–
HK$3,000,001 to HK$3,500,000 (equivalent to approximately US$384,616 to US$448,718)	**–**	1
	2	2

In both years, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group. None of the directors has waived any emoluments and no other amounts were paid by the Group to the directors, or the five highest paid individuals, as compensation for loss of office.

11. IMPAIRMENT CHARGES

As at 31 December 2015, the Group had been participating in the Kuranakh Project located in the Amur Region of the Russian Federation and the K&S Project located in the EAO Region which was at the developing stage.

Kuranakh Project

As disclosed in the Group's consolidated financial statements for the year ended 31 December 2015, the Group decided to move the operation of the Kuranakh mine to care and maintenance since March 2016 as the mine had been rendered uneconomic. Accordingly, the related property, plant and equipment of the Kuranakh Project was fully impaired as at 31 December 2015 with additional impairment of approximately US$250,000 on its remaining carrying value during the year ended 31 December 2015. For the purpose of the impairment testing of the Kuranakh Project, the recoverable amount of the project as at 31 December 2015 had been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0%.

K&S Project

Due to the spot iron ore prices falling beyond management's estimate made as at 31 December 2014, the carrying value of the K&S Project had been additionally impaired by approximately US$437,343,000 during the year ended 31 December 2015. This impairment charge was allocated against property, plant and equipment amounting to US$140,839,000.

Due to certain issues identified in the K&S mine which hindered the mine from ramping up its production capacity, there is a further delay in the full-scale operations of the K&S mine beyond management's expectation as at 31 December 2016. The management hence conducted an impairment assessment of the related property, plant and equipment of the K&S Project as at 31 December 2016. For the purpose of the impairment testing of the K&S Project, the recoverable amount of the project has been determined based on value in use, being estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2015: 12.0%). Management concluded that no impairment charge was necessary for the K&S Project as at 31 December 2016 as its recoverable value was higher than its carrying value. The Group has been performing remedial work on the K&S Project and a number of the bottleneck issues have been resolved as at the date of approval of these consolidated financial statements for issuance. The directors of the Company will continue to monitor the project and assess impairment on an ongoing basis.

The key assumptions and considerations used for the purpose of impairment test for the K&S Project take into account the recent USD/RUR exchange rate, the inflation rate over the expected life of the mine and iron ore prices over the expected life of the mine.

Forecast inflation rates and sales prices for iron ore were based on external sources and adjustments to these were made for the expected quality of the forecast production. In addition, management has estimated the long term forecast sales prices for iron ore concentrate prices which take into account their views of the market, recent volatility and other external sources of information. Judgment has then been applied by management in determining a long-term price of iron ore concentrate for the purpose of assessing impairments.

During the year ended 31 December 2016, full impairment was made on the interest in a joint venture amounting to US$47,000 (2015: US$5,895,000) as a result of the Kuranakh Project being put under care and maintenance since March 2016 which led to a halt in supply of raw materials from the Kuranakh Project to the joint venture for its further production of vanadium for sale. The directors of the Company consider that there is no future cash inflow to substantiate the going concern of the joint venture in the foreseeable future.

11. IMPAIRMENT CHARGES (CONTINUED)

Exploration and evaluation assets

As disclosed in the Group's consolidated financial statements for the year ended 31 December 2015, exploration and evaluation assets amounting to US$36,562,000 had been fully impaired due to the substantial drop in the iron ore price over the years and no impairment was noted for the year ended 31 December 2016.

12. OTHER INCOME, GAINS AND LOSSES

	2016	2015
	US$'000	US$'000
Net foreign exchange loss	**(3,440)**	(4,361)
Net gain (loss) on disposal of property, plant and equipment	**2,743**	(28)
Rental income	**1,386**	620
	689	(3,769)

13. FINANCIAL INCOME

	2016	2015
	US$'000	US$'000
Interest income on cash and cash equivalents	**208**	1,038
Interest income on time deposits	**199**	408
Others	**6**	12
	413	1,458

14. FINANCIAL EXPENSES

	2016	2015
	US$'000	US$'000
Interest expenses on borrowings	**14,828**	19,221
Less: Interest expenses capitalised to property, plant and equipment	**(14,371)**	(17,827)
	457	1,394
Unwinding of discount on environmental obligation	**732**	478
	1,189	1,872

For the Year Ended 31 December 2016

15. INCOME TAX EXPENSE

	2016 **US$'000**	2015 US$'000
Russia Corporate tax	**(19)**	(187)
Cyprus Corporate tax	**(102)**	–
Hong Kong Profits tax	**(38)**	–
	(159)	(187)
Underprovision in prior years		
Cyprus Corporate tax	**(131)**	–
	(290)	(187)
Deferred tax credit (expense) (note 28)	**(25)**	(60)
	(315)	(247)

Russia Corporate tax is calculated at a rate of 20% of the estimated assessable profit for both years.

Based on the approved federal and regional laws in Russia, K&S Project is considered as an investment project and is eligible to income tax relief over 10 years starting from August 2015. Russian Corporate tax at the K&S Project will be exempted from August 2015 to August 2020 and then will be taxed at a reduced rate of 10% in the following 5 years compared to 20% payable in ordinary course of business.

Cyprus Corporate tax is calculated at a rate of 12.5% of the estimated assessable profit for the years ended 31 December 2016 and 2015.

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for the years ended 31 December 2016 and 2015.

15. INCOME TAX EXPENSE (CONTINUED)

No UK Corporate tax and PRC Enterprise Income tax was provided for as the Group had no assessable profit arising in or derived from these jurisdictions during both years ended 31 December 2016 and 2015. The charge for the year can be reconciled to loss before taxation per the consolidated statement of profit or loss as follows.

	2016 US$'000	2015 US$'000
Loss before taxation	**(18,812)**	(508,998)
Tax at the Russian corporation tax rate of 20%[a]	**(3,763)**	(101,800)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	**1,601**	1,894
Tax effect of share of results of a joint venture	**(9)**	(1)
Tax effect of tax losses not recognised	**1,738**	21,668
Tax effect of utilisation of tax losses previously not recognised	**(5,543)**	(55,618)
Tax effect arising from exchange adjustments on non-monetary assets	**5,293**	15,343
Tax effect of expenses that are not deductible in determining taxable profit[b]	**955**	119,053
Underprovision in prior years	**131**	–
Tax effect of income that is not taxable in determining taxable profit	**(88)**	(292)
Income tax expense for the year	**315**	247

(a) The Group's major operating subsidiaries are all located in Russia and subject to Russia Corporate tax. Accordingly, Russia Corporate tax rate is applied for tax reconciliation purpose.

(b) Amounts in 2015 was mainly related to impairment charges (see note 11).

16. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

17. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

Loss

	2016 **US$'000**	2015 US$'000
Loss for the purposes of basic and diluted loss per ordinary share being loss attributable to owners of the Company	**(18,226)**	(508,969)

Number of shares

	2016 **Number** **'000**	2015 Number '000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per ordinary share	**6,175,320**	5,366,261

The computation of weighted average number of ordinary shares for the purposes of basic and diluted loss per ordinary share for the year ended 31 December 2015 had been adjusted for the Open Offer (as defined in note 31) to qualifying shareholders on the basis of 4 Offer Shares for every 15 existing shares held by the qualifying shareholders that was completed on 7 August 2015.

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 does not (i) take into account of the Company's outstanding shares awarded under the Group's Long-term Incentive Plan ("LTIP") since assuming their issuance would result in a decrease in loss per share, and does not (ii) assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Group shares.

18. OPERATING LEASE

The Group as a lessee

	2016 US$'000	2015 US$'000
Minimum lease payments paid under operating leases during the year	1,306	909

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 US$'000	2015 US$'000
Within one year	–	53

Operating lease payments as at 31 December 2015 represent rentals payable by the Group for certain of its office properties and transport equipment. Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

At 31 December 2016, the Group had no commitments under operating leases.

The Group as a lessor

The Group earned property rental income of approximately US$1,386,000 during the year ended 31 December 2016 (2015: US$620,000), relating to the sub-let of part of the floor spaces of buildings owned by OJSC Giproruda and wagons subleased by LLC KS GOK, subsidiaries of the Group. The lease contracts are at fixed rates for a period not exceeding eleven months as at 31 December 2015 and not exceeding four years as at 2016. At 31 December 2016 and 2015, the Group had contracted with tenants for minimum lease payments due within four years and eleven months respectively. The total minimum lease payment is approximately US$976,000 and US$441,000 as at 31 December 2016 and 2015 respectively.

	2016 US$'000	2015 US$'000
Within one year	431	441
In the second to fifth years inclusive	545	–
	976	441

19. EXPLORATION AND EVALUATION ASSETS

	2016 US$'000	2015 US$'000
At the beginning of the year	**18,603**	54,790
Additions	**253**	375
Impairment loss recognised (note 11)	**–**	(36,562)
At the end of the year	**18,856**	18,603

Garinskoye, the Kostengiskoye Flanks, and Bolshoi Seym Deposit are classified as exploration and evaluation assets. Additions in both years 2016 and 2015 mainly related to exploration and evaluation expenses capitalised in exploration and evaluation assets. The Kostengiskoye Flanks was fully impaired in 2015 as disclosed in note 11.

20. PROPERTY, PLANT AND EQUIPMENT

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2015	1,066,233	120,875	53,832	15,511	1,256,451
Additions	40,840	–	21	51	40,912
Transfers	(400)	407	2	(9)	–
Disposals	(990)	–	(1,465)	–	(2,455)
Exchange adjustments	–	–	(1,410)	–	(1,410)
At 31 December 2015	1,105,683	121,282	50,980	15,553	1,293,498
Additions	39,005	–	10	102,291	141,306
Transfers	(24)	–	24	–	–
Disposals	(18)	(2,062)	(63)	–	(2,143)
Exchange adjustments	–	–	955	–	955
At 31 December 2016	1,144,646	119,220	51,906	117,844	1,433,616
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	(622,343)	(120,875)	(34,932)	(15,441)	(793,591)
Depreciation charge for the year	(5,388)	–	(717)	–	(6,105)
Impairment charge (note 11)	(296,286)	(407)	(1)	(60)	(296,754)
Eliminated on disposals	906	–	1,388	–	2,294
Exchange adjustments	–	–	372	–	372
At 31 December 2015	(923,111)	(121,282)	(33,890)	(15,501)	(1,093,784)
Depreciation charge for the year	(7,394)	–	(615)	–	(8,009)
Eliminated on disposals	17	2,062	57	–	2,136
Exchange adjustments	–	–	(269)	–	(269)
At 31 December 2016	(930,488)	(119,220)	(34,717)	(15,501)	(1,099,926)
CARRYING AMOUNTS					
At 31 December 2016	214,158	–	17,189	102,343	333,690
At 31 December 2015	182,572	–	17,090	52	199,714

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2016, cumulative capitalised borrowing costs of US$56,431,000 (2015: US$42,060,000) were included within mine development costs in the above table. Depreciation of US$3,643,000 relating primarily to assets used in the construction of plant in LLC KS GOK was capitalised during the year ended 31 December 2016 (2015: US$5,390,000).

During the years ended 31 December 2016 and 2015, there were no deferred stripping costs incurred in the development of the mine included in the additions to mine development costs relating to the removal of overburden at the Kuranakh mine.

Property, plant and equipment with a net book value of US$5,825,000 (2015: US$5,930,000) have been pledged to secure the bank borrowings of the Group.

At 31 December 2016, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment (2015: US$23,133,000).

The Group and CNEEC (as defined in note 29) entered into an EPC Contract (as defined in note 29) on 6 December 2010 for the K&S Project. The EPC Contract was amended on 14 March 2016 such that LLC KS GOK shall issue a taking-over certificate for the process plant works ("Taking-Over Certificate") on 30 June 2016 to confirm the status of completion of the processing plant.

Under the EPC Contract, CNEEC is subject to delay penalties on demand basis for the period between the completion date of the infrastructure works and the date of the issuance of the Taking-Over Certificate for the process plant works at US$150,000 per day and the Group may recover the same from CNEEC as a debt.

On 27 December 2016, the Group and CNEEC entered into an additional agreement (the "Additional Agreement") to the EPC Contract that the Taking-Over Certificate would be issued on 31 December 2016, notwithstanding that the Group would complete certain works itself, and that the time for completion of the K&S Project would be extended from 30 June 2016 to 26 July 2016. On this basis, a delay penalty amounting to US$3.9 million has been charged to CNEEC (the "Delay Penalty") in respect of the delay of completion of the processing plant from 30 June 2016 to 26 July 2016. Nonetheless, the Group has reserved its rights to pursue all and any claims under the EPC Contract. In particular, the Group may still pursue its claim for delay penalties in respect of the period from 26 July 2016 until 31 December 2016, amounting to approximately US$23.7 million.

On the other hand, the Group is obliged to give CNEEC a final payment of the construction costs of US$26.6 million for which CNEEC agreed to receive the payment in tranches at approximately US$8.4 million, US$9.1 million and US$9.1 million in 2018, 2019 and 2020, respectively. Whilst US$3.9 million out of the US$26.6 million final payment of the construction costs has been offset with the Delay Penalty, the remaining US$22.7 million is measured at amortised cost determined using the effective interest method with an interest rate of 7.88% per annum.

20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Hence, construction costs payable amounting to approximately US$17,830,000 have been recorded as non-current liabilities. The estimated construction costs of approximately US$15,110,000 have been capitalized as "Mine development costs" of the "Property, plant and equipment" line item while the related value-added tax recoverable of US$2,720,000 calculated at the value-added tax rate of 18% have been recorded as non-current assets.

Apart from this, CNEEC agreed to contribute towards the remedial and associated costs for the remediation of certain defects. Within 2 days of signing the Additional Agreement, CNEEC paid to the Group an amount of US$4,508,000 in relation to the estimated remedial and associated costs. The amount was deducted to the carrying amount of property, plant and equipment.

21. INTEREST IN A JOINT VENTURE

	2016	2015
	US$'000	US$'000
At the beginning of the year	**–**	7,294
Share of result of a joint venture	**47**	1
Impairment loss recognised (note 11)	**(47)**	(5,895)
Exchange adjustments	**–**	(483)
Dividends received	**–**	(917)
At the end of the year	**–**	–

On 19 February 2009, the Group signed an agreement with Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited to establish a Chinese Vanadium Production Joint Venture project (the "Vanadium Joint Venture"), Heilongjiang Jianlong Vanadium Industries Co. Limited, which was established in the PRC. The Group holds 46% of the joint venture and the remaining 49% and 5% are held by Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited respectively, with the parties exercising joint control as the relevant activities relating to the Vanadium Joint Venture require the unanimous consent from the three parties.

According to the legal form and terms of the contractual agreements, each of the three joint venturers that have joint control of the arrangement have rights to the net assets of the arrangement, hence it is regarded as a joint venture. The joint venture is accounted for using the equity method in these consolidated financial statements.

During the year, full provision for impairment was made on the interest in the Vanadium Joint Venture, please see the details in note 11.

21. INTEREST IN A JOINT VENTURE (CONTINUED)

Summarised financial information in respect of the Vanadium Joint Venture is set out below. The summarised financial information below represents amount shown in the joint venture's financial statements prepared in accordance with HKFRSs.

	2016 US$'000	2015 US$'000
Current assets	**11,820**	6,154
Non-current assets	**18,145**	36,066
Current liabilities	**(29,517)**	(26,891)
Non-current liabilities	**(346)**	(2,514)

The above amounts of assets and liabilities include the following:

	2016 US$'000	2015 US$'000
Cash and cash equivalents	**16**	35
Current financial liabilities (excluding trade and other payable and provision)	**(2,142)**	(110)
Non-current financial liabilities (excluding trade and other payable and provision)	**–**	(2,171)
Revenue	**14,102**	44,478
Profit and total comprehensive income for the year	**102**	2
The above profit for the year includes the following:		
Interest expense	**(863)**	(689)
Depreciation and amortisation	**(2,058)**	(2,163)
Taxation	**33**	48

21. INTEREST IN A JOINT VENTURE (CONTINUED)

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

	2016	2015
	US$'000	US$'000
Net assets of a joint venture	**102**	12,815
Proportion of the Group's ownership interest in a joint venture	**46%**	46%
	47	5,895
Less: Impairment loss recognised during the year (note 11)	**(47)**	(5,895)
Carrying amount of the Group's interest in a joint venture after impairment	**–**	–

22. OTHER NON-CURRENT ASSETS

	2016	2015
	US$'000	US$'000
Prepayments for property, plant and equipment	**–**	88,859
Cash advances to employees	**76**	158
	76	89,017

At 31 December 2016, the Group transferred the remaining prepayments for property, plant and equipment amounting to US$88,859,000 to the property, plant and equipment (see note 20 for details) since the Taking-Over Certificate (as defined in note 20) was issued to CNEEC (as defined in note 29) on the same date.

23. INVENTORIES

	2016 US$'000	2015 US$'000
Stores and spares	**6,505**	10,079
Work in progress	**12,827**	16,128
Finished goods	**1,039**	3,368
	20,371	29,575

No inventories had been pledged as security during the years ended 31 December 2016 and 2015. Work in progress, finished goods and spare parts were recovered by US$2,784,000 and ore stockpiles, fuel, raw and other materials were written down by US$4,006,000 to its net realisable value during the year ended 31 December 2016 (2015: work in progress, finished goods and ore stockpiles were recovered by US$252,000 and spare parts were written down by US$7,400,000 to its net realisable value). Recovery of the inventories in the current year is due to subsequent sales of inventories previously written down.

The cost of inventory charged to the consolidated statement of profit or loss and included in site operating expenses and service costs was approximately US$7,810,000 for the year ended 31 December 2016 (2015: US$31,614,000).

24. TRADE AND OTHER RECEIVABLES

	2016 US$'000	2015 US$'000
Value-added tax recoverable	**3,750**	5,318
Advances to suppliers	**1,203**	2,485
Amounts due from customers under engineering contracts	**358**	476
Trade receivables	**4,276**	10,141
Other debtors	**14,226**	7,043
	23,813	25,463

Amounts due from customers under engineering contracts are expected to be billed and settled within one year, and relate to the long-term contracts in progress.

Amounts included in trade receivables at 31 December 2016 and 2015 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

Other debtors at 31 December 2016 and 2015 are mainly contributed by interest receivable from General Nice, please see details in notes 31 and 37.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group has concentration of credit risk at 31 December 2016 as 97.5% (31 December 2015: 79.4%) of the total trade receivables was due from the Group's largest customer. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

Before accepting new customers, the Group uses an internal credit scoring system to assess the potential customers' credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 99% of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records for both years ended 31 December 2016 and 2015.

In determining recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. No impairment is necessary for these balances which are not past due.

Below is an aged analysis of the Group's trade receivables based on invoice date at the end of the reporting period.

	2016 **US$'000**	2015 US$'000
Less than one month	**4,057**	5,271
One month to three months	**176**	4,861
Over three months to six months	**11**	–
Over six months	**32**	9
Total	**4,276**	10,141

The Group allows credit period ranging from 10 days to 90 days (2015: 15 days to 63 days) to individual third party customers. The directors of the Company considered that the carrying value of trade and other receivables is approximately equal to their fair value.

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

Below is an aged analysis of trade receivables based on invoice date which are past due but not impaired:

	2016 **US$'000**	2015 US$'000
Less than one month	**–**	2
One to three months	**–**	1
Over three months to six months	**–**	–
Over six months	**43**	9
Total	**43**	12

The Group has not provided for impairment loss on trade receivables which were past due as there has not been a significant change in the credit quality and amounts are still considered recoverable based on historical experience.

The following shows an analysis of movements in the allowance for doubtful debts in respect of trade and other receivables:

	2016 **US$'000**	2015 US$'000
At the beginning of the year	**799**	987
Changes in allowance for doubtful debts	**–**	44
Amounts written off as uncollectible	**(877)**	(2)
Exchange adjustments	**221**	(230)
At the end of the year	**143**	799

Included in the allowance for doubtful debts were impaired trade receivables of US$143,000 and US$799,000 as at 31 December 2016 and 2015, respectively. The amount at 31 December 2016 mainly represented impairment for non-trade debtors at LLC Olekminsky Rudnik, LLC KS GOK and LLC Orlovsko-Sokhatinskiy Rudnik (trade debtors at LLC Petropavlovsk Iron Ore and non-trade debtors at LLC Olekminsky Rudnik as at 31 December 2015) who are in severe financial difficulties and the probability for them to settle the receivable is remote. The Group did not hold any collateral over these balances.

25. TIME DEPOSITS

Time deposits of the Group as at 31 December 2015 comprised short-term US Dollars denominated bank deposits with an original maturity of three to twelve months. The carrying amounts of the assets approximate their fair value. As at 31 December 2015, time deposits carrying interest at prevailing market rates ranged from 0.45% to 15.50% per annum. The Group did not have time deposits as at 31 December 2016.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Cash at banks carry interest at prevailing market rates ranging from 0.2% to 9.15% (2015: 0.4% to 16.25%) per annum for the year ended 31 December 2016.

27. TRADE AND OTHER PAYABLES

	2016 **US$'000**	2015 US$'000
Trade payables	**1,675**	3,121
Advances from customers	**349**	195
Accruals and other payables	**19,447**	14,716
	21,471	18,032

For related party and individual third party trade creditors, the average credit period on purchases of goods and services for the year was 30 days (2015: 19 days).

The directors of the Company consider that the carrying amount of trade creditors and other payables approximates their fair value.

Below is an aged analysis of the Group's trade creditors based on invoice date.

	2016 **US$'000**	2015 US$'000
Less than one month	**1,571**	1,030
One month to three months	**53**	37
Over three months to six months	**33**	51
Over six months	**18**	2,003
Total	**1,675**	3,121

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the year.

	Property, plant and equipment US$'000	Engineering contracts US$'000	Tax losses US$'000	Foreign exchange movements US$'000	Other temporary differences US$'000	Total US$'000
At 1 January 2015	(861)	63	30,686	(36,245)	(114)	(6,471)
Credit (charge) to profit or loss	28	29	15,281	(15,343)	(55)	(60)
Exchange adjustments	192	(18)	–	–	33	207
At 31 December 2015	(641)	74	45,967	(51,588)	(136)	(6,324)
Credit (charge) to profit or loss	27	5	5,257	(5,293)	(21)	(25)
Exchange adjustments	(127)	15	–	–	(25)	(137)
At 31 December 2016	(741)	94	51,224	(56,881)	(182)	(6,486)

At 31 December 2016 and 2015, the Group had unused tax losses of US$373.2 million and US$323.8 million respectively.

On 30 November 2016, an amendment to the Russian Tax Code was enacted that, effective from 1 January 2017 (i) the limitation regarding the utilisation of loss carryforwards up to 50% of taxable profit in the tax period will expire beginning in 2021; and (ii) the current 10-year carryforward period for losses will be eliminated, hence, it will be possible to fully utilise loss carryforwards against the corporate tax base in a given year from 2021 onwards. Further losses incurred from 2007 can be carried forward for an indefinite period until fully utilised.

In relation to these unused tax losses, deferred tax assets of US$5,257,000 have been recognised in 2016 in respect of US$144 million of unused tax losses and US$15,281,000 have been recognised in 2015 in respect of US$76 million of unused tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$229 million (2015: US$247 million) due to the unpredictability of future profit streams.

At 31 December 2016, the Group had deductible temporary difference of US$31.7 million, in respect of temporary differences arising on the sales of iron ores and certain costs capitalised within “mine development costs” of property, plant and equipment when they were under development in prior years (2015: US$15.1 million in respect of temporary differences arising on certain expenses). No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams.

The Group did not record a deferred tax liability in respect of withholding tax that would be payable on the unremitted earnings associated with investments in its subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and did not intend to reverse them in the foreseeable future. These subsidiaries are incorporated in Russia and subject to Russia tax rate at 20%. Unremitted earnings that would be subject to taxation comprised an aggregate of US$3.7 million and US$10.8 million at 31 December 2016 and 2015, respectively.

Temporary differences arising from the Group’s interests in a joint venture are insignificant.

29. BORROWINGS

	2016 US$'000	2015 US$'000
Bank loans		
Asian Pacific Bank	–	10,550
ICBC	219,739	257,738
Sberbank of Russia PJSC	1,430	–
	221,169	268,288
Other loans		
Polisko LLC	12,466	–
Uzhuralzoloto Group of Companies JSC ("Uzhuralzoloto JSC")	9,348	–
	21,814	–
Total	242,983	268,288
Secured	230,517	268,288
Unsecured	12,466	–
	242,983	268,288
Carrying amounts repayable		
Within one year	65,744	53,050
More than one year, but not exceeding two years	39,387	39,134
More than two years, but not exceeding five years	118,160	176,104
More than five years	19,692	–
Total	242,983	268,288

29. BORROWINGS (CONTINUED)

Bank loans from Asian Pacific Bank

In March 2015, the Group renewed the US$15,000,000 term loan facility with Asian Pacific Bank for a 13-month period with an annual interest of 9% repayable monthly and the loan principal was repayable by 21 April 2016. As at 31 December 2016, the loan amount was fully repaid (2015: US$8,350,000 was drawn down from the loan facility).

In October 2015, the Group renewed another US$10,000,000 loan facility ("US$10,000,000 Loan Facility") with Asian Pacific Bank for a 12-month period. The loan bore an annual interest of 10.60% which was repayable monthly. As at 31 December 2016, the loan was fully repaid (2015: US$2,200,000 was drawn down from the loan facility).

For the year ended 31 December 2016, the Group drew down US$3,795,000 from the facilities from Asian Pacific Bank in several tranches on a rolling basis and US$14,345,000 were repaid in aggregate during the year. As at 31 December 2016, the Group maintained no (2015: US$25,000,000) loan facility with Asian Pacific Bank.

These facilities were primarily for working capital financing the Group's Kuranakh project at 31 December 2015, both loan facilities were secured against the helicopter owned by LLC GMMC ("LLC GMMC"), subsidiary of the Group and the shares of Giproruda, subsidiary of the Group.

Bank loan from ICBC

On 6 December 2010, LLC KS GOK, a wholly owned subsidiary of the Company, entered into the HK$3.11 billion (equivalent to US$400 million) Engineering Procurement and Construction Contract ("EPC Contract") with China National Electric Engineering Corporation ("CNEEC"), for CNEEC to be the main contractor for the construction of the Group's mining operations at K&S Project.

On 13 December 2010, the Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") pursuant to which ICBC would lend US$340,000,000 to LLC KS GOK to be used to fund the construction of the Group's mining operations at K&S Project in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The whole facility amount was originally repayable semi-annually in 16 instalments of US$21,250,000 each, starting from December 2014 and would be fully repayable by June 2022. Since the last quarter of 2016, the Group has been in discussion with ICBC regarding further proposals for a restructuring, amendment or waiver under the ICBC Facility Agreement. On 27 February 2017, ICBC has agreed to restructure two repayment instalments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US$42,500,000 evenly into five subsequent semi-annual repayment instalments as such each of the repayment instalment due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020, respectively, is increased by US$8,500,000 to an amount equal to US$42,500,000. The restructuring of the repayments is subject to the fulfillment of certain conditions precedent which were satisfied on 16 March 2016.

The loan is carried at amortised cost with effective interest rate at 6.13% per annum (2015: 5.91%). The outstanding loan principal was US$233,750,000 as at 31 December 2016 (2015: US$276,250,000).

29. BORROWINGS (CONTINUED)

Bank loan from ICBC (Continued)

As at 31 December 2016 and 2015, the Group had no undrawn finance facilities in relation to the ICBC Facility Agreement.

As at 31 December 2015, US$2,119,000 was deposited in a debt service reserve account ("DSRA") with ICBC under a security deposit agreement ("DSRA Agreement") related to the ICBC Facility Agreement and was presented as restricted deposit under non-current assets. In January 2016, the Group placed restricted bank deposits of an amount up to US$28,250,000 in order to replenish the restricted deposit level pursuant to the security deposit agreement.

In accordance with the waiver and consent letter dated 19 April 2016 which the conditions precedent were satisfied on 21 June 2016, ICBC, among others, waived the Group's restriction on withdrawing from the DSRA for repayment of the ICBC loan instalment and related interest due in June and December 2016 and the requirement of the Group to maintain the DSRA until 30 June 2018 (or an earlier date if the Company and Petropavlovsk PLC decide that the aforementioned waivers are no longer required). Accordingly, a required balance of US$1,977,000 remained in the DSRA as at 31 December 2016 without replenishment. The deposit carries interest at prevailing market rate at around 1.0% per annum for the years ended 31 December 2016 and 2015.

Details of guarantee granted by Petropavlovsk PLC in relation to the ICBC Facility Agreement are set out in note 37.

Bank loan from Sberbank of Russia PJSC

On 17 November 2016, Ariti HK Ltd., a wholly-owned subsidiary of the Company, obtained a non-revolving loan facility from Sberbank of Russia PJSC primarily for working capital financing for the purchase of mineral resources from LLC KS GOK. The bank has granted Ariti HK Ltd. a loan facility to the extent of US$7,000,000 till 31 March 2017 and US$10,000,000 for the period from 1 April 2017 to 16 May 2018. The loan facility carries interest at 6% per annum which is repayable monthly and the loan principal is repayable by 16 May 2018.

For the year ended 31 December 2016, the Group drew down US$5,010,000 from this facility in several tranches on a rolling basis and US$3,580,000 were repaid in aggregate during the year.

As at 31 December 2016, the Group had US$5,570,000 undrawn loan facility with Sberbank of Russia PJSC.

As at 31 December 2016, the loan was secured against the helicopter owned by LLC GMMC.

Loan from Polisko LLC

On 13 December 2016, LLC Petropavlovsk Iron Ore, a subsidiary of the Group, obtained an unsecured short-term loan of US$12,477,000 from a subsidiary of Petropavlovsk PLC, a substantial shareholder of the Company, through Polisko LLC, an independent third party. The loan carries an annual interest of 6.5% and would be repayable by 25 January 2017. The carrying amount of the loan as at 31 December 2016 was approximately US$12,466,000 which was wholly repaid on 25 January 2017.

29. BORROWINGS (CONTINUED)

Loan from Uzhuralzoloto

On 18 December 2016, LLC KS GOK obtained a short-term loan of RUR567,000,000 (equivalent to approximately US$9,176,000) from Uzhuralzoloto JSC, an independent third party. The loan carries an annual interest rate of 15% and would be repayable by 11 January 2017. The carrying amount of the loan as at 31 December 2016 was approximately US$9,348,000 which was fully repaid on 11 January 2017.

As at 31 December 2016, the loan was guaranteed by an individual who is a related party of a substantial shareholder of the Company.

30. PROVISION FOR CLOSE DOWN AND RESTORATION COSTS

	2016 **US$'000**	2015 US$'000
At the beginning of year	**6,449**	4,022
Unwinding of discount	**732**	478
Exchange adjustments	**1,506**	(1,131)
Change in estimates	**1,428**	3,080
At the end of year	**10,115**	6,449

The provision represents amounts recognised in relation to mine closure, site and environmental restoration costs which are based on estimates provided by in-house engineers and geologists.

The amount shown in 2016 and 2015 represents the provision recognised for Kuranakh Project discounted at 8% (2015: 10.9%) per annum with the expected timing of cash outflow on the closure of mining operations to be after 2021; and K&S Project discounted at 8.3% (2015: 10.2%) per annum with the expected timing of cash outflow on the closure of mining operation to be after 2029.

31. SHARE CAPITAL

Details of the allotment and issuance of ordinary shares by the Company during the years ended 31 December 2016 and 2015 are as follows:

	Number of shares	Share capital US$'000
Issued and fully paid		
At 1 January 2015	4,859,910,301	1,211,231
Issue of new ordinary shares pursuant to an open offer of shares	1,295,976,080	52,656
Transaction costs attributable to issue of new ordinary shares	–	(3,222)
At 31 December 2015 and 1 January 2016	6,155,886,381	1,260,665
Issue of new shares	937,500,000	24,589
Transaction costs attributable to issue of new ordinary shares	–	(96)
At 31 December 2016	7,093,386,381	1,285,158

As disclosed in note 31 to the Group's 2015 consolidated financial statements, on 17 January 2013, the Company entered into a conditional subscription agreement with each of General Nice and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of the Company of up to approximately HK$1,845,000,000 (equivalent to approximately US$238,000,000) in aggregate.

The last subscription made by General Nice was 30 April 2014. A cumulative total of 1,365,876,000 new shares of the Company had been allotted and issued to General Nice as at 30 April 2014. As General Nice did not complete the subscription in accordance with the agreed timeline, Minmetals' subscription will be subject to further agreement between the parties. No subscription was made by Minmetals up to 31 December 2016.

On 17 November 2014, the Company agreed with General Nice that General Nice's further subscription of the Company's shares would take place on or before 18 December 2014. As part of General Nice's commitment to the transaction and investment, in addition to the personal guarantee already received from Mr. Cai Sui Xin, the Company had also agreed with General Nice that, in the event that the full payment was not made on or before 18 December 2014 and General Nice sought, and the Company agreed to, a further deferral of the completion of General Nice's further subscription, General Nice would pay interest on a monthly basis on the outstanding balance to the Company, calculated on the following escalating interest schedule:

(a) 6% per annum from 19 December 2014 to 18 March 2015;

(b) 9% per annum from 19 March 2015 to 18 June 2015; and

(c) 12% per annum from 19 June 2015 and thereafter.

At 31 December 2016 and 31 December 2015, excluding the shares subscribed by General Nice in the Company's open offer in 2015, a cumulative total of 1,365,876,000 new shares of the Company had been allotted and issued to General Nice, following the receipt of aggregate subscription monies of approximately HK$1,315.9 million (equivalent to approximately US$169.6 million).

31. SHARE CAPITAL (CONTINUED)

The Company is in discussions with General Nice, Mr. Cai Sui Xin and Minmetals about a further deferred completion and other available options.

On 30 November 2016, the Company entered into a subscription agreement with an investor, Tiger Capital Fund SPC – Tiger Global SP ("Tiger Capital Fund"), pursuant to which Tiger Capital Fund agreed to subscribe for 937,500,000 new ordinary shares of the Company at the subscription price of HK$0.21 per share. As part of the consideration for the subscription, the Company has also agreed to grant to Tiger Capital Fund a right to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Share(s)") of the Company. The subscription and the grant of the Option Shares were subject to shareholders' approval by way of an ordinary resolution which was passed on 29 December 2016. Accordingly, 937,500,000 ordinary shares were allotted and issued, as well as 60,000,000 Option Shares were granted, to Tiger Capital Fund on 30 December 2016 (the "Completion Date") for a total net proceeds of approximately US$25.4 million.

The shares issued by the Company during the year rank pari passu with the then existing issued shares and do not carry pre-emptive rights.

The 60,000,000 Option Shares granted was assigned to a director of Tiger Capital Fund, pursuant to the nomination by Tiger Capital Fund. The first tranche of 30,000,000 Option Shares has an exercise price of HK$0.3575, representing a premium of 10% to the closing price of HK$0.325 on the Completion Date. Following the completion of the first tranche of the Option Shares subscription, the exercise price for the second tranche of the remaining 30,000,000 Option Shares would be set at a price which is 110% of the closing price for a share of the Company on the first anniversary of the Completion Date.

The Option Shares are valid for a period of 5 years from the date of grant and are subject to the vesting periods as follows:

– one-half of the Option Shares granted to the Tiger Capital Fund shall vest on 30 December 2016; and

– one-half of the Options Shares granted to Tiger Capital Fund shall vest on 30 December 2017.

At 31 December 2016, the Option Shares granted to Tiger Capital Fund remained outstanding. No Option Shares granted were exercised or lapsed during the year ended 31 December 2016.

31. SHARE CAPITAL (CONTINUED)

The fair value of the Option Shares granted during the year was approximately US$1,282,000 and was determined using the binomial option pricing model by an independent valuer, RSM Consulting (Hong Kong) Limited with value per Option Share in the range of HK$0.145 to HK$0.146. The significant inputs into the model are as follows:

Share price, at the grant date (HK$)	0.325
Exercise price (HK$) for the first tranche of Option Shares	0.3575
Expected volatility (%)	61.73 – 62.79
Expected dividend yield (%)	–
Expected share option life (years)	5
Annual risk-free interest rate (%)	1.559 – 1.630

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the previous five years.

The expected life of the Option Shares is based on the maturity period of the Option Shares of 5 years. Transaction cost attributable to grant of Option Shares was approximately US$3,000.

32. TREASURY SHARES

	US$'000
As at 1 January 2015	11,986
Vesting of share-based awards for the year	(11,986)
As at 31 December 2015 and 31 December 2016	–

Treasury shares represented ordinary shares held by the Company's EBT to provide benefits to employees under the Long-term Incentive Plan (the "LTIP"). The LTIP scheme was completed in 2015 and during the year ended 31 December 2015, 32,362,875 shares were vested to the employees of the Group under the LTIP as detailed in note 34. There were no shares held under the EBT as at 31 December 2016 and 2015.

33. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of loss before taxation to cash used in operations

	2016 US$'000	2015 US$'000
Loss before taxation	**(18,812)**	(508,998)
Adjustments for:		
Depreciation of property, plant and equipment	**8,009**	6,105
Financial income	**(413)**	(1,458)
Financial expenses	**1,189**	1,872
Net (gain) loss on disposal of property, plant and equipment	**(2,747)**	28
Impairment charges	**47**	480,050
Inventory written down	**2,368**	7,148
Share-based payments and LTIP expense	**1,130**	147
Share of results of a joint venture	**(47)**	(1)
Allowance for doubtful debts	**–**	43
Net foreign exchange loss	**3,519**	4,358
Write off for doubtful debts	**177**	1
Depreciation capitalization	**(7,044)**	(5,421)
Other non-cash adjustments	**210**	350
Operating cash flows before movements in working capital	**(12,414)**	(15,776)
Decrease in inventories	**6,715**	12,455
Decrease (increase) in trade and other receivables	**6,644**	(2,690)
Increase in trade and other payables	**61**	5,212
Net cash generated from (used in) operations	**1,006**	(799)

(b) Major non-cash transactions

For the year ended 31 December 2016, property, plant and equipment of approximately US$1,360,000 (2015: US$158,000) were acquired but the amount has not yet been settled at 31 December 2016.

There were no other major non-cash transactions during the years ended 31 December 2016 and 2015.

34. SHARE-BASED PAYMENTS

a) Long Term Incentive Plan

Under the Company's Long-term Incentive Plan (the "Company's LTIP"), which was established on 11 August 2010, selected employees and directors of the Group (the "Selected Grantees") are to be awarded shares of the Company. These shares have been purchased by the Group's trustee. Upon the management's recommendation, the Board will determine the number of shares awarded to the Selected Grantees, with the vesting dates for various tranches. Any shares under the Company's LTIP awarded to a Selected Grantee who is also a director of the Company shall be subject to the Board's approval following a recommendation from the Remuneration Committee.

The LTIP was completed in 2015 and all shares under the scheme had been awarded. The net amount expensed during 2015 was US$17,000 (2016: nil).

b) Share Option Scheme

In November 2015, the Company adopted a share option scheme ("Share Option Scheme") for the primary purpose of providing incentives to directors and eligible employees, and will expire on 19 November 2025. Under the Share Option Scheme, the Company's directors may, at their sole discretion, grant options (the "Options") to any directors and employees of the Group to subscribe for shares of the Company at a price which shall be at least the higher of (i) the closing price of shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the day of the offer of grant; and (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the day of the offer of the grant. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 10% of the shares in issue on the date of commencement of dealings in the shares of the Company on the Stock Exchange, unless the Company obtains further approval from the shareholders.

The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Notwithstanding the above, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 30% of the relevant shares or securities of the Company in issue from time to time.

On 20 November 2015, 228,000,000 share options were granted to the Company's selected employees and directors. The exercise price is HK$0.315 per share, which is higher than the closing price of the Company's shares on the date of grant of HK$0.246 per share.

34. SHARE-BASED PAYMENTS (CONTINUED)

b) Share Option Scheme (Continued)

Of the total 228,000,000 share options, 87,000,000 share options were granted to directors of the Company, and 141,000,000 share options were granted to certain employees of the Group. The share options are valid for a period of 10 years from the date of grant and are subject to the vesting periods as follows:

– one-third of the Options granted to each Grantee shall vest on 19 November 2016;

– one-third of the Options granted to each Grantee shall vest on 19 November 2017; and

– one-third of the Options granted to each Grantee shall vest on 19 November 2018.

Each one-third tranche of the share options granted in 2015 are subject to the following vesting conditions:

– 25% of the tranche vesting relates to the achievement of certain production targets;

– 25% of the tranche vesting relates to profitability;

– 25% of the tranche vesting relates to the growth and development of the Group; and

– 25% of the tranche vesting relates to the meeting of certain health, safety and environmental requirements.

To address the dilutive effect of the Company's share placement which completed on 30 December 2016 (please refer to note 31 for details of the placement), the exercise price and the aggregate number of share options granted on 20 November 2015 have been adjusted to HK$0.296 and 242,328,035 respectively. Accordingly, one-third of the share options granted (80,776,011 share options) were due to vest in 2016, subject to the achievement of certain performance targets during the vesting period. However, as K&S Project has yet to commence commercial production and consequently the grantees were not in the position to deliver certain performance targets, the Board has determined that 50% of the share options that were due for vesting in 2016 (i.e. 40,388,006 share options) shall now only vest in 2017. As such, 40,388,005 share options were vested in 2016 and are exercisable.

At 31 December 2016, 242,328,035 (2015: 228,000,000) share options granted remained outstanding under the scheme. No share options were exercised or lapsed during the years ended 31 December 2016 and 2015.

The fair value of the share options granted during the year ended 31 December 2015 was approximately HK$26,273,000 and was determined using the Black-Scholes valuation model by an independent valuer, RSM Consulting (Hong Kong) Limited with value per option in the range of HK$0.1095 to HK$0.1242. The significant inputs into the model are as follows:

Share price, at the grant date (HK$)	0.246
Exercise price (HK$)	0.315
Expected volatility (%)	49.76
Expected dividend yield (%)	–
Expected share option life (years)	10
Annual risk-free interest rate (%)	1.614

34. SHARE-BASED PAYMENTS (CONTINUED)

b) Share Option Scheme (Continued)

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the previous six years at the date of the valuation.

The Black-Scholes valuation model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The expected share option life is based on the share option maturity period of 10 years.

The amount expensed under the Share Option Scheme during the year ended 31 December 2016 totalled US$1,130,000 (2015: US$130,000).

35. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF") for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The contributions charged to the consolidated statement of profit or loss for the year ended 31 December 2016 amounted to US$40,000 (2015: US$45,000) and represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2016, contributions of US$5,000 (2015: US$5,000) due in respect of the year ended 31 December 2016 (2015) had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

The Group also operates an investment fund for its directors and the total amount is charged to the consolidated statement of profit or loss for the year ended 31 December 2016 is US$104,000 (2015: US$202,000).

The Group decided to move the Kuranakh Project to temporary care and maintenance in March 2016 and issued notice of termination to the employees. Severance payment according to the Labour Code of the Russian Federation amounting to US$1.7 million was included in other payables for the year ended 31 December 2015.

36. FINANCIAL INSTRUMENTS

Capital and liquidity risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of net debt, which includes time deposits, cash and cash equivalents, borrowings and equity attributable to owners of the Company, comprising issued capital and reserves.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements except for the restriction disclosed in note 29 in relation to the bank credit facilities.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the consolidated financial statements.

Categories of financial instruments

	Carrying value as at 31 December 2016 US$'000	Carrying value as at 31 December 2015 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**51,810**	75,602
Financial liabilities		
Amortised cost	**(272,595)**	(274,157)

Financial risk management objectives

The Group's activities expose it to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units.

Foreign currency risk management

The group entities undertake certain transactions denominated in foreign currencies, principally Pounds Sterling, US Dollars, Euro, Hong Kong Dollars ("HK$) and Russian Roubles, which exposed the Group to exchange rate risk associated with fluctuations in the relative values of Pounds Sterling, US Dollars, Euro, Hong Kong Dollars and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors of the Company, through holding the relevant currencies for future settlements. At present, the Group does not undertake any foreign currency transaction hedging.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk management (Continued)

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities of the Group at the reporting date are as follows:

	Assets		Liabilities	
	2016	2015	**2016**	2015
	US$'000	US$'000	**US$'000**	US$'000
Russian Roubles	**4,251**	10,289	**7,826**	12,521
US Dollars	**27**	2,700	**–**	10
Pounds Sterling	**25**	22	**155**	1
Euro	**3**	1	**–**	–
Hong Kong Dollars	**31,787**	5,378	**43**	–

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US Dollars and Russian Roubles. The following table details the Group's sensitivity to a 25% (2015: 25%) change in exchange rate of functional currency (i.e. US Dollars) of the group entities against the relevant foreign currency (i.e. Russian Roubles) for the year. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates. No sensitivity analysis is presented for foreign currency fluctuation between US$ against HK$ because Hong Kong dollars is pegged to US$.

A negative/positive number below indicates an increase/decrease in post tax loss where the functional currency of the group entities strengthen 25% against Russian Roubles. For a 25% weakening of functional currency of the group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit or loss.

	Russian Rouble currency impact	
	2016	2015
	US$'000	US$'000
Profit or loss	**715**	446

The Group's policy is to hold a portion of its cash equivalents in Russian Roubles to cover its exposure arising on capital and operational expenditure incurred in Russian Roubles.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Group is exposed to fair value interest rate risk mainly in relation to construction costs payable and borrowings (see note 29 for details) and cash flow interest rate risk in relation to variable-rate borrowings (see note 29 for details of these borrowings). The Group's policy is to maintain borrowings at variable rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's US dollar denominated borrowings. The Group did not enter into any interest rate swaps to hedge against its exposure to changes in fair values of the borrowings.

The Group is exposed to cash flow interest rate risk through the holding of cash and cash equivalents, restricted bank deposits and time deposits. The interest rates attached to these instruments are at floating rates.

If interest rates had been 10% higher/lower, and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 would decrease/increase by US$15,000 (2015: US$4,468,000). The borrowing costs of the variable-rate borrowings are capitalised to the property, plant and equipment (see note 20); and therefore, no sensitivity analysis on interest rate exposure to variable-rate bank borrowings is presented.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of the counterparties are monitored by the Board of Directors of the Company, and limits have been established to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The principal financial assets of the Group are restricted bank deposits, cash and cash equivalents, time deposits, and trade and other receivables. Cash equivalents, restricted bank deposits and time deposits represent 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 counterparties are primarily banks with high credit-ratings assigned by international credit-rating agencies.

For operational reasons the Group holds amounts on deposit with banks located in Russia, one of which is a related party, as detailed in note 37. Amounts held on deposit as at 31 December 2016 and 2015 with these banks located in Russia were approximately US$2,205,000 and approximately US$47,361,000, representing 7% and 56% of total monetary assets held by the Group respectively.

Trade receivables consist mostly of amounts outstanding from the sales of iron ores and ilmenite and service provided under engineering contracts held by a subsidiary in Russia. A credit evaluation was performed on these customers prior to the commencement of these contracts. An analysis of balances past due at 31 December 2016 is included in note 24.

The Group's maximum exposure to credit risk, without taking account of the value of any collateral obtained, is limited to the carrying amount of financial assets recorded in the consolidated statement of financial position and statement of financial position respectively.

36. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2016, the Group's principal financial liabilities was trade and other payables, borrowings and construction costs payable. The management of the Group monitors the level of liquid assets available to the Group and the level of funding required to meet its short, medium and long-term requirements. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The following tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weight average interest rate	Due on demand or within one year	Due within one to two years	Due within two to five years	Due after more than five years	Total undiscounted cash flows	Carrying amount at 31 December 2016
	%	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2016							
Trade and other payables	**–**	**11,782**	**–**	**–**	**–**	**11,782**	**11,782**
Borrowings	**6.4**	**73,876**	**49,083**	**137,964**	**21,635**	**282,558**	**242,983**
Construction costs payable	**7.8**	**–**	**4,497**	**18,196**	**–**	**22,693**	**17,830**
		85,658	**53,580**	**156,160**	**21,635**	**317,033**	**272,595**
As at 31 December 2015							
Trade and other payables	–	5,869	–	–	–	5,869	5,869
Borrowings	6.1	61,457	49,837	141,134	65,845	318,273	268,288
		67,326	49,837	141,134	65,845	324,142	274,157

Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

37. RELATED PARTY DISCLOSURES

Transactions between the Group and its related parties are disclosed below. All of the transactions were reviewed by independent members of the Board of the Company.

During the year, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is a substantial shareholder of the Company, and its subsidiaries are considered to be related parties. Mr. Peter Hambro and Dr. Pavel Maslovskiy, shareholders of Petropavlovsk PLC, are close family members of the directors of the Company, Mr. George Jay Hambro and Mr. Yury Makarov, respectively.

Asian Pacific Bank is considered as a related party as Mr. Peter Hambro has interests and is able to exercise significant influence over Asian Pacific Bank.

For both years, Vanadium Joint Venture is a joint venture of the Group and hence is a related party.

As disclosed below, Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides the guarantee.

Trading transactions

Related party transactions the Group entered into relating to the day-to-day operation of the business are set out below.

	Services provided[a]		Services received[b]	
	2016 **US$'000**	2015 US$'000	**2016** **US$'000**	2015 US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	1	**4,625**	2,204
LLC NPGF Regis	**13**	14	**–**	–
CJSC Albynsky Rudnik	**396**	160	**–**	–
CJSC Pokrovsky Rudnik	**1,230**	911	**–**	–
MC Petropavlovsk	**273**	421	**53**	69
LLC Gidrometallurgia	**95**	97	**–**	–
LLC Helios	**–**	–	**1**	11

	Interest on outstanding capital contribution[c]	
	2016 **US$'000**	2015 US$'000
Transaction with other related party		
General Nice	**4,583**	3,815

37. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions (Continued)

Notes:

(a) Amounts represent fee received from related parties for provision of administrative support.

(b) Amounts represent fee paid/payable to related parties for receipt of financial guarantee, administrative support and helicopter services.

(c) Amount represents interest charged on outstanding capital contribution (see note 20 for details).

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

For the years ended 31 December 2016 and 2015, there is a deemed contribution from a shareholder, General Nice for outstanding capital contribution.

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties[a]		Amounts owed to related parties[b]	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Petropavlovsk PLC and its subsidiaries				
Peter Hambro Mining Treasury UK Limited	**–**	–	**12,466**[c]	–
Petropavlovsk PLC	**–**	98	**3,416**	9
OJSC Irgiredmet	**–**	–	**2**	2
LLC NPGF Regis	**50**	28	**99**	83
CJSC Pokrovsky Rudnik	**806**	903	**–**	–
CJSC Albynsky Rudnik	**702**	157	**–**	–
MC Petropavlovsk	**144**	144	**1,886**	1,930
LLC Gidrometallurgia	**2**	1	**–**	–
LLC Helios	**–**	1	**–**	–
Outstanding balances with other related parties				
Asian Pacific Bank	**5**	4	**–**	–
General Nice	**8,480**	3,897	**–**	–
	10,189	5,233	**17,869**	2,024

Notes:

(a) The amounts are recorded in other receivables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(b) Other than the outstanding loan balance of US$12,466,000 due to Peter Hambro Mining Treasury UK Limited as described in note (c) below, the amounts are recorded in other payables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(c) The amount represented a loan from Peter Hambro Mining Treasury UK Limited of US$12,466,000 through Polisko LLC in December 2016. This balance was repaid in January 2017 (see Note 29).

37. RELATED PARTY DISCLOSURES (CONTINUED)

Banking arrangements

Other than the related party transactions as disclosed in note 29, the Group has bank accounts with Asian Pacific Bank.

The bank balances at the end of the reporting period are set out below:

	2016 **US$'000**	2015 US$'000
Asian Pacific Bank	**58**	24,829

The Group earned interest on the balances held on accounts with the above bank details of which are set out below.

	2016 **US$'000**	2015 US$'000
Interest income from cash and cash equivalents	**54**	381

Guarantee arrangements

In relation to the ICBC loan as disclosed in note 29, Petropavlovsk PLC has guaranteed the Group's obligations under the ICBC Facility Agreement. Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides the guarantee ("Recourse Agreement"). No fee will be payable by the Group in respect of the provision of the guarantee by Petropavlovsk PLC while Petropavlovsk PLC remains the parent company of the Company under the relevant financial reporting standards. In the event that Petropavlovsk PLC ceases to be the parent company of the Company under the relevant financial reporting standards as agreed with Petropavlovsk PLC, a fee of no more than 1.75% on outstanding amount will be payable by the Company to Petropavlovsk PLC in respect of the guarantee. No security will be granted by the Group to Petropavlovsk PLC in respect of the guarantee. Pursuant to the Recourse Agreement, Petropavlovsk PLC will have the right to inject funds into the Group by shareholder loan (on normal commercial terms at the time) in order to enable the Group to make payments under the ICBC Facility Agreement or for other working capital purposes. The Recourse Agreement also contains reporting obligations and customary covenants from the Group which require Petropavlovsk PLC's consent as guarantor (acting reasonably and taking into account the effect upon the Group's ability to fulfill its obligations under the ICBC Facility Agreement) for certain actions including the issuance, acquisition or disposal of securities, and entry into joint ventures.

37. RELATED PARTY DISCLOSURES (CONTINUED)

Guarantee arrangements (Continued)

Since 7 August 2015, Petropavlovsk PLC beneficially owns less than 40% of the issued share capital of the Company and accordingly as agreed with the directors of Petropavlovsk PLC, its voting rights in the Company are insufficient to give it the practical ability to direct the relevant activities of the Company unilaterally and does not retain control over the Company. Against this, pursuant to the Recourse Agreement, a fee equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement has been charged for the provision of the guarantee by Petropavlovsk PLC which amounted to US$4,625,000 in 2016 (2015: US$2,086,000). Under the ICBC Facility Agreement, each of the following will constitute a covenant; and noncompliance with any covenant will constitute an event of default upon which the ICBC Facility Agreement will become immediately due and payable: (i) Petropavlovsk PLC must retain not less than 30% ("Minimal Holding") direct or indirect interest in the Company; (ii) Petropavlovsk PLC has an obligation to maintain a minimum tangible net worth of not less than US$750,000,000, a minimum interest cover ratio of 3.5:1 and a maximum leverage ratio of 4:1 and the group entity holding K&S Project has an obligation to maintain a minimum Debt Service Cover Ratio as defined in the ICBC Facility Agreement of 1.1x (the "Financial Covenants"); and (iii) there are also certain limited restrictions on the ability of Petropavlovsk PLC to grant security over its assets, make disposals of its assets or enter into merger transactions.

According to a waiver letter and consent letter of 19 April 2016, ICBC has agreed to grant a waiver of the Financial Covenants until 31 December 2017 (or an earlier date of Petropavlovsk PLC and the group entity holding K&S Project manage to comply with their respective Financial Covenants), subject to the fulfillment of certain conditions precedent which were satisfied on 21 June 2016. ICBC has also agreed to amend the Minimal Holding from 30% to 15%.

Key Management Compensation

The remuneration of directors, which represents members of key management, during the year was as follows:

	2016 **US$'000**	2015 US$'000
Short-term benefits	**1,802**	2,172
Post-employment benefits	**104**	202
Share-based payments	**431**	34
	2,337	2,408

The remuneration of key management personnel is determined by the remuneration committee regard to the performance of individuals and market trends.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at the end of the reporting period are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/registered capital[d]	Equity interest attributable to the Group 2016[c]	2015[c]	Principal activities
Arfin Limited	Cyprus 22 August 2005	US$18,707	100%	100%	Provision of financing services for the Group
Brasenose Services Limited	Cyprus 20 January 2004	US$63,830	100%	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US$5,687	100%	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US$4,216	100%	100%	Investment holding
Expokom Limited	Cyprus 22 December 2005	US$311,631	100%	100%	Investment holding
Guiner Enterprises Ltd	Cyprus 25 August 2007	US$369,260	100%	100%	Investment holding
Kapucius Services Limited	Cyprus 12 April 2006	US$657,670	100%	100%	Investment holding
Lapwing Limited	Cyprus 9 August 2006	EUR28,795	99.58%	99.58%	Investment holding
Lucilius Investments Limited	Cyprus 22 November 2008	US$27,218	100%	100%	Investment holding
Metellus Limited	Cyprus 21 August 2006	US$7,436	100%	100%	Investment holding
Rumier Holdings Ltd	Cyprus 3 October 2007	US$430,323	100%	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US$270,944	100%	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US$5,747	100%	100%	Investment holding
Thorholdco (Cyprus) Limited	Cyprus 3 October 2013	US$1,027	100%	100%	Investment holding
Caedmon Ltd	Cyprus 29 September 2011	US$1,424	50.1%	50.1%	Financing and investment holding
Aricom Limited	United Kingdom 12 September 2003	GBP1,324,615	100%	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP242,304,914	100%	100%	Investment holding
Heilongjiang Jiatai Titanium Co. Limited	PRC 11 February 2009	RMB219,024,974	100%	100%	Development of Titanium Sponge
Ariti HK Limited	Hong Kong 11 February 2008	HK$1,575,383	100%	100%	General trading
Ariva HK Limited	Hong Kong 11 March 2008	HK$52,950,991	100%	100%	Investment holding
Thorholdco Limited	Cayman Islands 18 May 2010	US$8,461	100%	100%	Investment holding

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/registered capital[d]	Equity interest attributable to the Group 2016[c]	2015[c]	Principal activities
Thorrouble Limited	Cayman Islands 18 May 2010	RUR290,860	**100%**	100%	Provision of financing services for the Group
Thordollar Limited	Cayman Islands 18 May 2010	US$9,157	**100%**	100%	Provision of financing services for the Group
LLC Petropavlovsk – Iron Ore	Russia 25 August 2004	RUR10,000,000	**100%**	100%	Business services for the Group
LLC KS GOK	Russia 2 August 2004	RUR141,514,865	**100%**	100%	Exploration and mining – K&S
LLC Olekminsky Rudnik	Russia 28 March 2001	RUR1,378,664,935	**100%**	100%	Exploration and mining
CJSC Soviet Harbour Maritime Trade Port ("CJSC SGMTP")[a]	Russia 30 August 2005	RUR1,000,000	**100%**	100%	Development of port for the Group
OJSC Giproruda[b]	Russia 8 December 1992	RUR4,639	**70.28%**	70.28%	Engineering services
LLC GMMC	Russia 26 June 2006	RUR780,000,000	**100%**	100%	Exploration and mining – Garinskoye
LLC Kostenginskiy GOK	Russia 16 February 2007	RUR10,000	**100%**	100%	Exploration and mining – Kostenginskoye project
LLC Orlovsko – Sokhatinsky Rudnik	Russia 3 April 2007	RUR10,000	**100%**	100%	Exploration and mining
LLC Garinskaya Infrastructure	Russia 14 December 2007	RUR1,000,000	**100%**	100%	Transportation services for Garinskoye project
LLC Amursnab	Russia 28 December 2009	RUR10,000,000	**99.9%**	99.9%	Procurement services
LLC Uralmining	Russia 12 October 2008	RUR1,000,000	**100%**	100%	Exploration and mining – Bolshoi Seym
LLC Gorniy Park	Russia 25 October 2010	RUR10,000	**50.1%**	50.1%	Exploration and mining

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

(a) CJSC SGMTP is a Closed Joint Stock Company in Russia. CJSC issued shares cannot be freely traded.

(b) OJSC Giproruda is an Open Joint Stock Company in Russia. OJSC issued shares can be freely traded.

(c) As at 31 December 2016 and 2015, except for Thorholdco Limited, which was directly held by the Company, all of the interests in remaining subsidiaries are indirectly attributable to the Group.

(d) Apart from Heilongjiang Jiatai Titanium Co. Limited, a wholly foreign-owned enterprise established in the PRC with registered capital of RMB219,024,974, class of shares held by all other subsidiaries is ordinary shares.

None of the subsidiaries had issued any debt securities at the end of the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests for the year ended 31 December		Balance of non-controlling interests as at 31 December	
		2016	2015	**2016**	2015	**2016**	2015
				US$'000	US$'000	**US$'000**	US$'000
OJSC Giproruda	Russia	**29.72%**	29.72%	**882**	279	**(176)**	1,346
An immaterial subsidiary with non-controlling interest						**114**	129
						(62)	1,475

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Summarised financial information extracted from the consolidated financial statements prepared in accordance with International Financial Reporting Standards before intragroup eliminations in respect of these two subsidiaries that have material non-controlling interests is set out below.

	2016 US$'000	2015 US$'000
OJSC Giproruda		
Current assets	1,875	5,136
Non-current assets	3,995	3,510
Current liabilities	(507)	(570)
Non-current liabilities	(748)	(690)
Equity attributable to owners of the Company	4,791	6,040
Non-controlling interests	(176)	1,346
Revenue	902	1,559
Expenses	(3,871)	(2,497)
Loss for the year	(2,969)	(938)
Loss attributable to owners of the Company	(2,087)	(659)
Loss attributable to non-controlling interests	(882)	(279)
Loss for the year	(2,969)	(938)
Other comprehensive expenses attributable to owners of the Company	(838)	(1,381)
Other comprehensive expenses attributable to non-controlling interests	(355)	(584)
Other comprehensive expenses for the year	(1,193)	(1,965)
Total comprehensive expenses attributable to owners of the Company	(2,925)	(2,040)
Total comprehensive expenses attributable to non-controlling interests	(1,237)	(863)
Total comprehensive expenses for the year	(4,162)	(2,903)
Dividend paid	(995)	(535)
Net cash used in operating activities	(727)	(2,315)
Net cash from investing activities	192	479
Effect of foreign exchange rate changes	257	(622)
Net decrease in cash and cash equivalents	(278)	(2,458)

For the Year Ended 31 December 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 US$'000	2015 US$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**121,357**	132,737
	121,354	132,737
CURRENT ASSETS		
Prepayment and other receivables	**8,648**	4,135
Amounts due from subsidiaries	**2,496**	865
Cash and cash equivalents	**28,345**	6,450
	39,489	11,450
TOTAL ASSETS	**160,846**	144,187
CURRENT LIABILITIES		
Amounts due to subsidiaries	**(22,351)**	(21,924)
Amount due to a shareholder	**(3,416)**	(9)
Accruals and other payables	**(1,465)**	(1,078)
	(27,232)	(23,011)
NET CURRENT ASSETS (LIABILITIES)	**12,257**	(11,561)
NET ASSETS	**133,614**	121,176
CAPITAL AND RESERVES		
Share capital	**1,285,158**	1,260,665
Capital reserve	**592**	592
Share-based payment reserve	**1,566**	436
Other reserves	**9,197**	3,815
Accumulated losses	**(1,162,899)**	(1,144,332)
TOTAL EQUITY	**133,614**	121,176

The Company's statement of financial position was approved and authorised for issue by the board of directors on 31 March 2017.

George Jay Hambro	**Danila Kotlyarov**
DIRECTOR	*DIRECTOR*

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Share capital US$000	Capital reserves US$000	Share-based payment reserve US$000	Other reserves US$000	Accumulated losses US$000	Total US$000
At 1 January 2015	1,211,231	592	3,589	–	(635,507)	579,905
Loss for the year	–	–	–	–	(508,825)	(508,825)
Total comprehensive expenses for the year	–	–	–	–	(508,825)	(508,825)
Issue of new shares (note 31)	52,656	–	–	–	–	52,656
Transaction costs attributable to issue of new shares (note 31)	(3,222)	–	–	–	–	(3,222)
Share-based payment	–	–	147	–	–	147
Vesting of share-based awards	–	–	(3,300)	–	–	(3,300)
Deemed contribution from a shareholder	–	–	–	3,815	–	3,815
At 31 December 2015	1,260,665	592	436	3,815	(1,144,332)	121,176
Loss for the year	–	–	–	–	(18,567)	(18,567)
Total comprehensive expenses for the year	–	–	–	–	(18,567)	(18,567)
Issue of new shares (note 31)	24,589	–	–	–	–	24,589
Grant of share options (note 31)	–	–	–	802	–	802
Transaction costs attributable to issue of new shares (note 31)	(96)	–	–	–	–	(96)
Transaction costs attributable to grant of share options (note 31)	–	–	–	(3)	–	(3)
Share-based payment	–	–	1,130	–	–	1,130
Deemed contribution from a shareholder	–	–	–	4,583	–	4,583
At 31 December 2016	1,285,158	592	1,566	9,197	(1,162,899)	133,614

FINANCIAL SUMMARY

	Results of the Group for the year ended 31 December				
	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	**2016** **US$'000**
Revenue	139,687	160,854	122,414	81,910	**16,467**
Loss attributable to owners of the Company	(57,554)	(41,613)	(317,644)	(508,969)	**(18,226)**

	Assets and liabilities of the Group as at 31 December				
	2012 US$'000	2013 US$'000	2014 US$'000	2015 US$'000	**2016** **US$'000**
Total assets	957,704	1,095,678	874,228	420,635	**432,845**
Less: Total liabilities	(174,511)	(232,840)	(294,323)	(299,459)	**(299,231)**
Total net assets	783,193	862,838	579,905	121,176	**133,614**

GLOSSARY

This glossary contains definitions of certain terms used in this report in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

GLOSSARY

ASP	Average selling price
Board	The Board of Directors
Cayiron	Cayiron Limited, a wholly owned subsidiary of Petropavlovsk and the immediate controlling shareholder of the Company
CFR	INCOTERM Cost and Freight
CIM	The Canadian Institute of Mining, Metallurgy and Petroleum
CNEEC	China National Electric Engineering Company Limited, the principle EPC contractor at the K&S Project
Concentrate	The clean product recovered from a treatment plant
DAP	INCOTERM Delivery at Place
Deposit	Mineral deposit or ore deposit is used to designate a natural occurrence of a useful mineral, or an ore, in sufficient extent and degree of concentration
Directors	The directors of the Company
DSO	Direct shipping ores. Ores that are economic due to their high grades and therefore limited requirement for upgrading and processing before sale to end users. Raw material for iron ore concentrate, isometric mineral, Fe
EAO	Jewish Autonomous Region, an oblast of the Russian Federation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPC	Engineering, Procurement and Construction contract
Exploration	Method by which ore deposits are evaluated
Fe	The chemical symbol for iron
Feasibility study	An extensive technical and financial study to assess the commercial viability of a project
Flotation	A mineral process used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
FOB	INCOTERM Free on Board
GDP	Gross domestic product
General Nice	General Nice Development Limited is a Hong Kong incorporated holding company which trades and produces steel raw material commodities in China and globally
Geophysical	Prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
Geotechnical	Referring to the use of scientific methods and engineering principles to acquire, interpret, and apply knowledge of earth materials for solving engineering problems
Grade	Relative quantity or the percentage of ore mineral or metal content in an ore body
HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong	The Hong Kong Special Administrative Region of the PRC
ICBC	Industrial and Commercial Bank of China Limited, a company listed on the Stock Exchange (Stock code: 1398)
Ilmenite	Iron titanium oxide; a trigonal mineral, chemical formula $FeTiO_3$
JORC code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time
K&S	A magnetite development project in the Company's portfolio consisting of the Kimkan deposit and the Sutara deposit
LTIFR	Lost time injury frequency rate, the number of lost time injuries per million man hours worked
Magnetite	Fe_3O_4; major mineral in banded iron formations, generally low grade (1.5-40% iron)
Metallurgical	Describing the science concerned with the production, purification and properties of metals and their applications
Micon	Micon International Limited has provided consulting services to the international mining industry since 1988, with particular focus upon mineral resource estimations, metallurgical services, mine design and production scheduling, preparation of pre-feasibility and feasibility studies, independent reviews of mining and mineral properties, project monitoring, independent engineer roles, financial analysis and litigation support. Micon's resource estimate complies with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) standards and definitions, as required by Canadian National Instrument 43-101 (NI 43-101)
Mill	Equipment used to grind crushed rocks to the desired size for mineral extraction
Mineralisation	Process of formation and concentration of elements and their chemical compounds within a mass or body of rock
Minmetals Cheerglory	Minmetals Cheerglory Limited, the Hong Kong incorporated, wholly owned subsidiary of China Minmetals Corporation
NI 43-101	Also referred to as National Instrument 43-101, the (Canadian) Standards of Disclosure for Mineral Projects, including Companion Policy 43-101 as amended from time to time

GLOSSARY (CONTINUED...)

Open-pit	A large scale hard rock surface mine; mine working or excavation open to the surface
Optimisation	Co-ordination of various mining and processing factors, controls and specifications to provide optimum conditions for technical/economic operation
Ore	Material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives
Ore-field	A zone of concentration of mineral occurrences
Ore body	Mining term to define a solid mass of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserves	The parts of a Mineral Resource that can at present be economically mined
Petropavlovsk	Petropavlovsk plc, the London Stock Exchange quoted, Russian gold mining company
Precious metal	Gold, silver and platinum group minerals
Primary	Characteristic of or existing in a rock at the time of its formation; pertains to minerals, textures etc.; original
Processing	Methods employed to clean, process and prepare materials or ore into the final marketable product
Recovery	Proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
Resources	The concentration of material of economic interest in or on the earth's crust
ROM	Run-of-mine. This is recovered ore, as mined with dilution, before any pre-concentration or other form of processing
Russian Far East	Refers to the Far Eastern Federal district of the Russian Federation, which covers the area of Russia between Lake Baikal in Siberia and the Pacific Ocean
Shareholder(s)	Holder of the Share(s)
SRP	Steel/Slag Reprocessing Project
Stock Exchange	The Stock Exchange of Hong Kong Limited
Tailings	Material that remains after all metals/minerals considered economic have been removed from the ore
Tiger Capital	Tiger Capital Fund SPC – Tiger Global SP, an exempted company incorporated with limited liability and registered as a segregated portfolio company under the laws of the Cayman Islands participating in Tiger Global SP, a segregated portfolio of Tiger Capital Fund SPC
TiO_2	Titanium dioxide. A fine white powder. Used in paints, plastics or paper, it provides for maximum whiteness and opacity
Titanomagnetite	Concentrate which is a variation of a magnetite concentrate typically with a high vanadium and titanium content
Treatment plant	A plant where ore undergoes physical or chemical treatment to extract the valuable metals/ minerals
Tonne/t	1 wet metric tonne (1,000 kg)
US Dollar or US$	United States Dollar

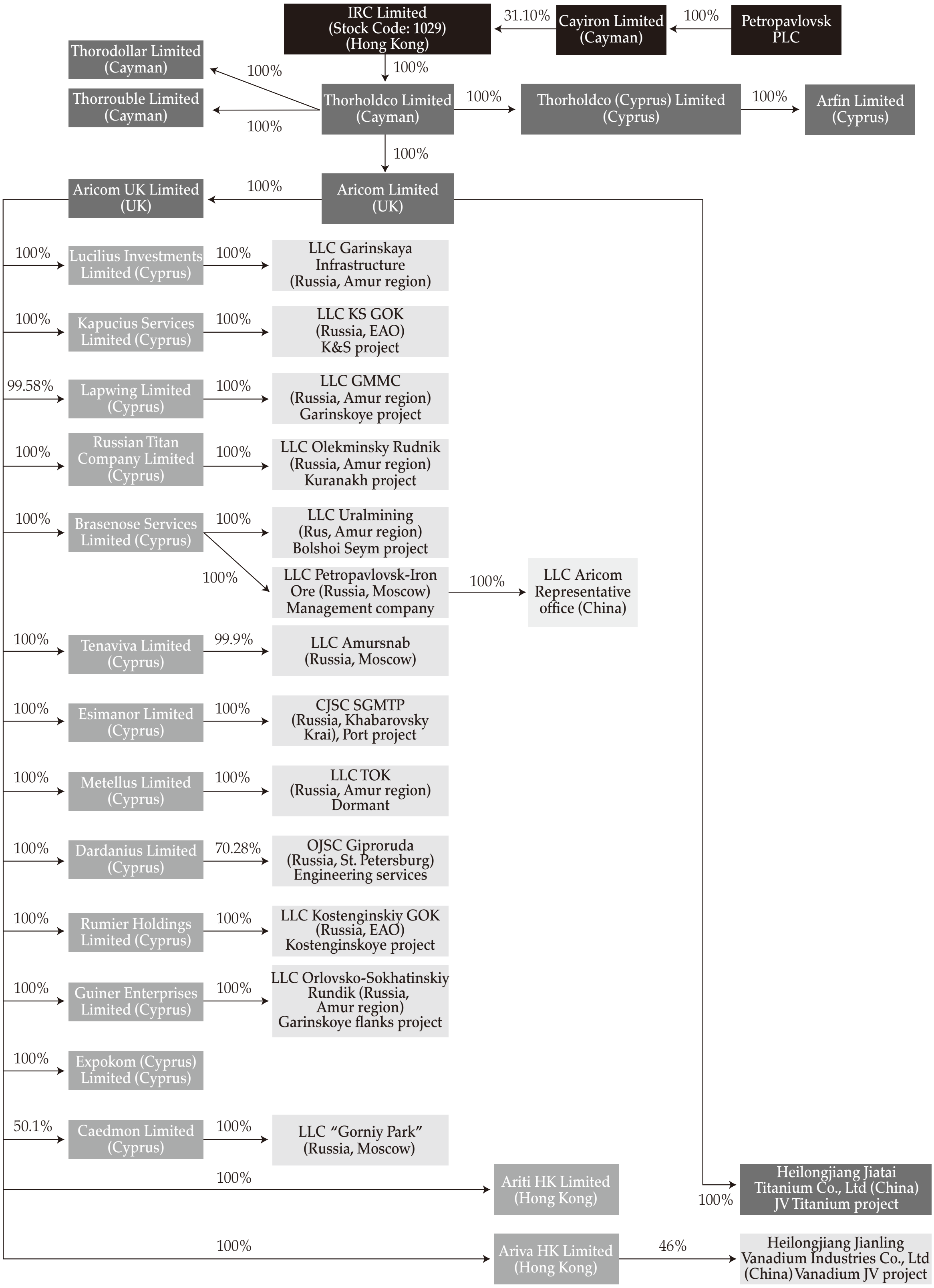
LIST OF ABBREVIATIONS

°C	degrees Celsius, a thermal unit equivalent to Kelvin+273.15
CaO	chemical symbol for calcium oxide or quicklime
Fe	chemical symbol for iron
Fe_{magn}	total iron in the ore originating from magnetite
$Fe_{(total)}$	total amount of iron content
kg	kilogramme, the SI unit of mass
km	kilometres, a unit of length equivalent to 1,000 m
km^2	square kilometres, a unit of area equivalent to 1,000,000 m^2
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
kV	kilovolts, one thousand volts, a unit of electromotive force
Kwh	kilowatt hour, a unit of energy
m	metres, the SI unit of length
m^3	cubic meter, a unit of volume
mm	millimetres, unit of length equivalent to 0.001 m
Mt	million tonnes
Mtpa	million tonnes per annum
mWt	megawatt, one million watts, a unit of power
nm	not measured
sq.m.	square metre, a unit of area
t	a wet metric tonne, a unit of mass equivalent to 1,000 kg
tpa	tonnes per annum
TiO_2	chemical symbol for titanium dioxide
V_2O_5	chemical symbol for vanadium pentoxide

All dollars refer to United States Dollars unless otherwise stated.

All maps and diagrams in this report are for illustration purposes only and are not to scale.

CORPORATE STRUCTURE



CORPORATE INFORMATION

IRC LIMITED — 鐵江現貨有限公司

Stock Exchange of Hong Kong: 1029

CORPORATE INFORMATION

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Corporate Website: www.ircgroup.com.hk

Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

PRINCIPAL PLACE OF BUSINESS IN RUSSIA

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Moscow
109544
Russia

CHAIRMAN

G.J. Hambro

EXECUTIVE DIRECTORS

Chief Executive Officer: Y.V. Makarov
Chief Financial Officer: D. Kotlyarov

NON-EXECUTIVE DIRECTORS

G.J. Hambro
R.K.T. Woo
S.X. Cai (B. Ng as his Alternate Director)
C.K. Cheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

D.R. Bradshaw, *Senior Independent Non-Executive Director*
C.F. Li
J.E. Martin Smith
S. Murray, *CBE, Chevalier de la Légion d'Honneur*

EMERITUS DIRECTOR

Dr P.A. Maslovskiy

COMMITTEES OF THE BOARD

Audit Committee

C.F. Li (Chairman)
J.E. Martin Smith
D.R. Bradshaw

Remuneration Committee

J.E. Martin Smith (Chairman)
D.R. Bradshaw
C.F. Li

Health, Safety and Environmental Committee

D.R. Bradshaw (Chairman)
C.F. Li
J.E. Martin Smith

Nomination Committee

G.J. Hambro (Chairman)
D.R. Bradshaw
J.E. Martin Smith

AUTHORISED REPRESENTATIVES FOR THE PURPOSES OF THE STOCK EXCHANGE OF HONG KONG LIMITED

D. Kotlyarov
J. Yuen

COMPANY SECRETARY

J. Yuen

RISK FACTORS

The Group is exposed to a variety of risks and uncertainties which could significantly affect its business and financial results. From the Board, to executive and operational management and every employee, the Group seeks to undertake a pro-active approach that anticipates risk, seeking to identify them, measure their impact and thereby avoid, reduce, transfer or control such risks.

The Group's view of the principal risks that could impact it for the 2016 financial year and beyond are substantially unchanged from those of the previous years. A summary of these key risks is set out below:

- Operational risks such as delay in supply of/or failure of equipment/services and adverse weather conditions.
- Financial risks such as commodity prices, exchange rate fluctuations, funding and liquidity and capital programme controls.
- Health, safety and environmental risks such as health and safety issues, legal and regulatory risks, licences and permits, restatement of reserves and resources, and non-compliance with applicable legislation.
- Legal and Regulatory risks such as country-specific risks.
- Human Resources risks such as the ability to attract key senior management and potential lack of skilled labour.

This should not be regarded as a complete or comprehensive list of all potential risks that the Group may experience. In addition, there may be additional risks currently unknown to the Group and other risks, currently believed to be immaterial, which could turn out to be material and significantly affect the Group's business and financial results.

DISCLAIMER

Some statements contained in this document referred to in it are or may be forward-looking statements. Statements reflect the Company's current views with respect to future events and are subject to risks, assumptions, uncertainties and other factors beyond the Company's control that could cause actual results to differ from those expressed in such statements. Although the Company believes that such forward-looking statements, which speak only as of the date of this document, are reasonable, no assurance can be given that they will prove to be correct. Therefore, you should not place undue reliance on these statements. There can be no assurance that the results and events contemplated by the forward-looking statements contained in this document will, in fact, occur. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date of this document, except as required by law or by any appropriate regulatory authority. Nothing in this document or in documents referred to in it should be considered as a profit forecast. Past performance of the Company or its shares cannot be relied on as a guide to future performance. This document does not constitute, or form part of or contain any invitation or offer to any person to underwrite, subscribe for, otherwise acquire, or dispose of any shares in IRC Limited or advise persons to do so in any jurisdiction, nor shall it, or any part of it, form the basis of or be relied on in any connection with or act as an inducement to enter into any contract or commitment therefore. In particular, this document and the information contained herein are not an offer of securities for sale in the United States of America. No reliance may be placed for any purpose whatsoever on the information or opinions contained in this document or on its completeness and no liability whatsoever is accepted for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith. The development and production plans and estimates set out herein represent the current views of the Company's management. The Company's Board reviews the production estimates on an ongoing basis. All planning is subject to available funding and capital allocation decisions. This document is prepared in compliance with Hong Kong law and the courts of the Hong Kong Special Administrative Region of the People's Republic of China will have exclusive jurisdiction over any disputes arising from or connected with this document.

Since 2011, the Company implemented electronic communications to reduce the financial and environmental costs of producing the Annual Report. In this regard we would encourage downloading of reports from our website. Financial reports may be found at: www.ircgroup.com.hk/html/ir_financial.php

The annual report this year has once again been printed on paper certified by the Forest Stewardship Council.

If a printed copy is preferred, it is available free of charge from the Company, by writing to:

Investor Relations
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We welcome comments on our Annual Report and Communications activities at all times. We can be contacted by mail, phone, email and social media:

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LinkedIn (linkedin.com/pub/irc-limited)
Twitter (@IRCLimited)

Our Future	K&S	Commercial production (Phase I) Doubling production (Phase II)
	Garinskoye	Production
2016	IRC	Tiger Capital shares subscription
	K&S	Trial production commenced and ramp-up First iron ore concentrate production Final hot commissioning and testing
2015	IRC	Completed fully underwritten Open Offer
	K&S	Ongoing commissioning and testing
2014	K&S	Commissioning Programme commenced
2013	IRC	General Nice + Minmetals Cheerglory Strategic Alliance
	K&S	Ongoing construction
2012	Kuranakh	Ilmenite production full capacity
	Garinskoye	DSO operation announced
	Exploration	Ilmenite & Molybdenum Exploration acquisitions
2011	IRC	Group reserves increase threefold
	Kuranakh	Full year production targets exceeded
	K&S	First drawdown ICBC facility Optimisation Study to double K&S production
2010	IRC	HKEx listing
	Kuranakh	Commissioned Iron ore production full capacity
	K&S	US$340m ICBC facility US$400m CNEEC EPC contract
	SRP	First production

铁货 IRC

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