IRC Limited

HONG KONG STOCK CODE: 1029

ANNUAL REPORT

2017

ABOUT US

IRC is the largest iron ore mining operator exclusively in the Russian Far East. Our world-class expertise focuses on producing the high quality iron ore concentrate with long-term customer relationship in China and Russia.

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.

2017 AND BEYOND

K&S mine, our 3.2 million tonne per annum project, has started commercial production in 2017 and will ramp up to full production capacity in 2018. It produces premium 65% iron ore products at some of the lowest industry cost levels. 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

Dear Shareholders and Stakeholders,

PROFIT, PROFIT AND MORE PROFIT...

K&S – A Profit-Making & Cash-Generating Mine

2017 has been a year of growth for IRC. Recently, IRC announced that K&S had produced more than 2 million tonnes of iron ore concentrate since inception of the mine. The mine is currently operating at a steady capacity of about 70% and production is continuing to ramp up. It demonstrates the transformation of K&S from a developing project to a cash generating mine.

K&S the Game-Changer, IRC recorded US$113.3 million Net Profit

With a strengthening iron ore price for the 65% Fe grading products, K&S has been bringing positive cashflow to IRC since its inception. In addition, apart from a significant EBITDA contribution from K&S, the Group is glad to record an impairment loss reversal this year, resulting in a positive turnaround of profit attributable to owners of the Company of US$113.3 million.

Ongoing Ramp-Up Despite Setbacks

While the ramp-up programme of K&S is moving forward, K&S has produced over 2 million tonnes of iron ore concentrate since inception, despite encountering certain production disruptions due to the railway congestion issues and problems with the Drying Unit towards the end of 2017. K&S operated on average at a steady production capacity of c.50% in 2017 and this figure is improving. As the remaining bottlenecks are gradually being resolved, K&S will continue to pick up its pace in its ramp-up programme and is on track to operate at full capacity soon.

Six Times Increase in Sales Volume Year-On-Year

The Group has sold over 1.5 million tonnes of iron ore concentrate in 2017, a 6 times increase compared to last year. All products that K&S produces are effectively sold immediately, a testimony that K&S' high grade products are well received by the market.

We are also very fortunate that K&S is producing premium quality high grade 65% iron ore. While investors may have concerns over excess supplies of <62% iron ore products in the market, the 65% grade is effectively a different market segment and K&S is benefiting from premium pricing. During 2017, there was an average of about 17% or US$12 per tonne price premium over the benchmark of 62% iron ore products.

Diversification of Customers

During the year, K&S has expanded its customer base and these customers come from different countries and regions, including Russia and China. Diversification of customers allows us to commend a stronger bargaining power for better prices and sales terms. We will continue to broaden our customer base to capitalise on the advantages.

The Sino-Russian Bridge

We look forward to the benefits that the Sino-Russian Amur River Railway Bridge will bring to IRC. While the Russian side of the bridge construction is in progress, the basic construction of Chinese side has been completed. The Bridge aims to encourage bilateral trade and is expected to further reduce K&S' unit cash cost by about US$5 per tonne when we transport our products to China. The infrastructure is also expected to bring closer economic cooperation between the two countries which IRC may benefit from.

In addition, during the year, the Chinese President visited Russia, The Russian President Vladimir Putin and the Chinese President Xi Jinping signed a joint statement on further deepening of the bilateral comprehensive strategic partnership. With this strengthened Sino-Russian relationship and the Belt-And-Road initiatives, we believe commodities producers like IRC would benefit when the infrastructure projects and commodities demand pick up along the new "Silk Road". Given that the Far East of Russia is one of the strategic points for the Sino-Russia Economic Corridor, K&S is well-located to enjoy this geographical advantage.

Outlook and Beyond

We are pleased to witness the transformation that IRC has gone through in 2017. K&S continues to generate positive cash flow and as the mine ramps up its production capacity, it is on track to make greater contributions to IRC. With the commodities market in an improved position, we hope to yield better earnings and strive for greater value generation.

With a record profit delivered, we are delighted to look forward to more positive results when the mine fully ramps up and the cost-lowering bridge is brought online. Both of these targets are near term and materially value enhancing for IRC.

Last but not least, we thank our team, shareholders and stakeholders for their continuous support.

George Jay Hambro	**Yury Makarov**
Chairman	*Chief Executive Officer*

CFO STATEMENT & RESULTS OF OPERATIONS

This year, we are glad to report a positive result of IRC as K&S entered into commercial production. The Group's sales volume grew by over 6 times compared to last year and K&S reported an impressive operating performance with strong US$32.9 million EBITDA.

In 2017, we achieved a net profit attributable to owners of the Company of US$113.3 million, as compared to a net loss of US$18.2 million last year. The turnaround from loss to profit is mainly due to the positive K&S operating results and impairment loss reversed in respect of the property, plant and equipment related to the K&S project. The partial impairment loss reversal, amounting to US$129.6 million, results from the increase in fair value assessment of the K&S project following the improved iron ore price in 2017. That fact reassures strong economic fundamentals of the K&S project and its positive long term outlook, especially with the Belt and Road initiative supporting the markets. The decrease in corporate administrative costs also plays a role to the positive results.

Additionally, against the backdrop of a strong iron ore price market, with K&S producing 1.5 million tonnes of iron ore concentrate under a progressive ramp-up programme in 2017, the Group recorded a revenue of US$109.3 million (2016: US$16.5 million) and a net operating gain of US$132.8 million, against a net operating loss of US$18.7 million last year, thanks to the strong US$32.9 million EBITDA that K&S generated. The operating results are expected to further improve as K&S reaches full capacity of operation.

Strong cash flows from K&S project also kept the balance sheet at a healthy level, with bank balances and deposits amounted to US$11.0 million as at the end of 2017.

The Group's stable financial position also owe thanks to our lenders. ICBC agreed to restructure the repayments under the K&S Project Finance Facility of which two repayment instalments due in 2017 amounting to approximately US$42.5 million is now to be repayable in the subsequent five repayment instalments. This has alleviated the Group's cash flow for the year 2017, resulting in a healthy balance sheet. Due to some delay with K&S commissioning process, IRC might require some amendments to the current facility terms with ICBC and are in the process of discussion with a number of parties. We continue to maintain a good relationship with our lenders and management has a positive outlook on the results of these discussions.

Similar to last year, the Group continued to implement stringent cost-control measure and managed to keep corporate administrative cost at a low level of US$9.9 million during 2017. Excluding the share-based expenses which are non-cash in nature, 2017 corporate administrative cost of US$8.4 million is 9.8% lower than that of 2016. In terms of operational cost, the unit cash cost reduced by 12% to US$48.4 per tonne. This figure is expected to be further lowered when K&S has reached its full capacity and the Amur River Bridge becomes operational, reiterating K&S as an efficient low-cash-cost mine among peers.

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 hedging iron ore prices and the Rouble exchange rate to secure our bottom line for future growth.

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

The table below shows the consolidated results of the Group for the year ended 31 December 2017 and 2016:

	For the year ended 31 December		
	2017	2016	Variance
Key Operating Data			
Iron ore concentrate			
— Sales volume (tonnes)	**1,539,146**	219,352	>100%
— Average price (US$/tonne)	**78**	39	100%
Ilmenite			
— Sales volume (tonnes)	**–**	60,044	(100%)
— Average price (US$/tonne)	**–**	117	(100%)
Consolidated Income Statement (US$'000)			
Revenue			
Iron ore concentrate	**108,212**	8,637	>100%
Ilmenite	**–**	6,943	(100%)
Engineering services	**1,053**	887	18.7%
Total Revenue	**109,265**	16,467	>100%
Site operating expenses and service costs	**(96,221)**	(24,795)	>100%
General administration expenses	**(9,871)**	(10,397)	(5.1%)
Impairment charges reversed (recognised)	**129,614**	(47)	N/A
Share of result of a joint venture	**–**	47	(100%)
Net operating profit (loss)	**132,787**	(18,725)	N/A
Other income, gains and losses	**2,134**	689	>100%
Financial expenses, net of financial income	**(22,296)**	(776)	>100%
Profit (loss) before taxation	**112,625**	(18,812)	N/A
Income tax credit (expense)	**590**	(315)	N/A
Profit (loss) for the year	**113,215**	(19,127)	N/A
Non-controlling interests	**39**	901	(95.7%)
Profit (loss) attributable to owners of the Company	**113,254**	(18,226)	N/A
Underlying Results (US$'000)			
Loss attributable to owners of the Company, excluding impairment charges reversed (recognised)	**(16,360)**	(18,179)	(10.0%)

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the mining operations. 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 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.

Due to the positive operating results of K&S, the Group's Underlying Loss, which excludes impairment charges, reduced by 10.0% to US$16.4 million (31 December 2016: US$18.2 million).

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	**2017**	2016	Variance
Profit/(loss) attributable to owners of the Company	**113,254**	(18,226)	N/A
Impairment (reversal) charges recognised	**(129,614)**	47	N/A
Underlying loss for the year	**(16,360)**	(18,179)	(10.0%)

Iron ore concentrate

IRC's operating results improved significantly due to the positive contribution from K&S. The mine commenced its commercial production in 2017 and its operating results started being reflected in the Group's income statement since the beginning of 2017. Compared to last year, when the Group had no significant operation because the Kuranakh was moved to care and maintenance, the sales volume of iron ore increased significantly to 1,539,146 tonnes in 2017, a six-fold increase compared to 2016. As a result of improved commodities environment during the year, the average achieved selling price of the iron ore concentrate also increased by 100% to US$78 per tonne (for the year ended 31 December 2016 average selling price: US$39 per tonne). Also, while Kuranakh was producing c. 62% Fe grading iron ore concentrate, K&S is producing 65% Fe grading iron ore concentrate which commends a price premium over the benchmark 62% ore. The selling price of K&S' product is based on the Platts 65% Fe index. As a result of the increased sales volume and selling price, the 2017 sales revenue of iron ore concentrate increased by more than 10 times to US$108.2 million when comparing with 2016.

Ilmenite

There is no ilmenite sales during 2017 because K&S does not produce ilmenite. The sales of ilmenite from Kuranakh, before the mine was being moved to care and maintenance was US$6.9 million for the year ended 31 December 2016.

Engineering Services

Revenue in 2017 of US$1.1 million from Giproruda, the small engineering services division of the Group, represented an increase of US$0.2 million when comparing with last year.

SITE OPERATING EXPENSES AND SERVICE COSTS

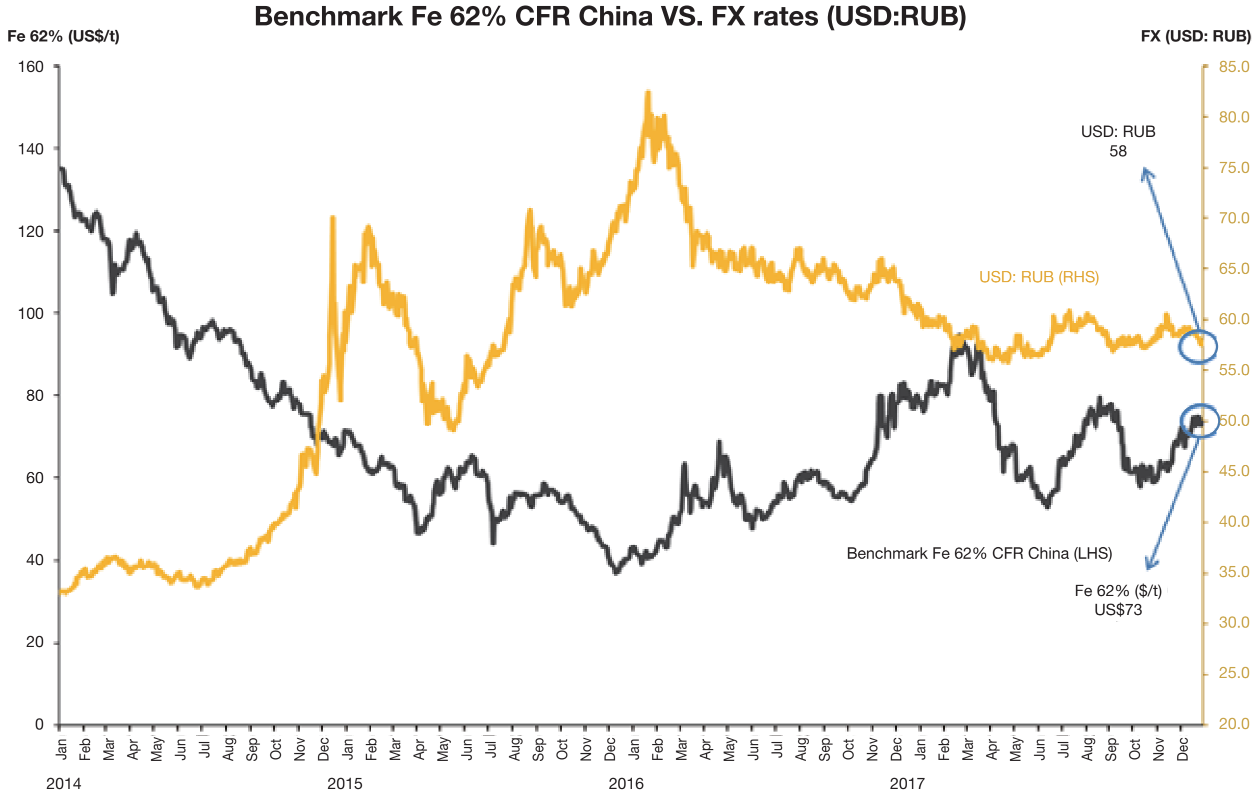
Site Operating Expenses and Service Costs in 2017 mainly represent the mining and operating expenses incurred by the Group's current sole mine in production, the K&S operation; while the 2016 figures represent the cost and expenses of Kuranakh, the only mine in operation at that time. K&S commenced commercial production in 2017 and IRC started recognising its operating results in the income statement since the beginning of 2017. This is different from the situation last year, when Kuranakh was being moved to care and maintenance at the beginning of 2016 with decreasing sales volumes of iron ore and ilmenite. As a result, there is an increase in site operating expenses and service costs from US$24.8 million in 2016 to US$96.2 million in 2017 to match with the increased scale of operation. A breakdown of the expenses is set out in note 8a to the consolidated financial statements on page 110. In accordance with the general market practice and for presentation and analysis purposes, the table below classifies ilmenite sales in Kuranakh (no ilmenite production from K&S) 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:

	2017		2016
	Total cash cost US$ million	**Cash cost per tonne US$/t**	Cash cost per tonne US$/t
Mining	**19.9**	**12.6**	5.4
Processing	**19.0**	**12.0**	12.3
Transportation to plant	**–**	**–**	3.8
Production overheads, site administration and related costs	**16.5**	**10.5**	14.4
Transportation to customers	**25.5**	**16.6**	17.8
Movements in inventories and finished goods	**(4.9)**	**(3.3)**	20.1
Contribution from sales of ilmenite* and others	**–**	**–**	(18.8)
Net cash cost	**76.0**	**48.4**	55.0

* net of tariff and other railway charges for ilmenite

The cash cost per tonne in 2017 is lower than last year despite K&S not yet producing at its full production capacity, an indication that K&S is a more efficient and lower-cost mine than Kuranakh. The cash cost of K&S is expected to be further reduced when K&S is producing at higher capacity due to economies of scale. In addition, the Group continues to implement stringent cost control measures with the aid of Russian Roubles devaluation. As widely reported in the press, the Russian Roubles depreciated significantly since December 2014 and the currency remained weak in 2017. 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, would be reduced as Roubles depreciates.

The chart below shows how the depreciation of Rouble helps offsetting the effect of the reduction in iron ore prices:



SEGMENT INFORMATION

K&S generated an EBITDA of US$32.9 million and, after taking into account the impairment reversal of K&S, depreciation charges and the ongoing maintenance costs of Kuranakh, the "Mine in production" segment reported a gain of US$143.3 million in 2017. The Kuranakh operation continues to be under care and maintenance and has no production during 2017 (31 December 2016: "Mine in production" solely contributed by Kuranakh reported a segmental loss of US$6.5 million). The "Engineering" segment also recorded a reduction in loss to US$0.3 million due to an increase in consultancy billings.

GENERAL ADMINISTRATION EXPENSES

Special attention continues to be paid to controlling administrative costs. The successful implementation of the cost savings initiatives continued to provide benefits, with the Group's 2017 general administration costs of US$9.9 million being 5% lower than that of 2016. Excluding the non-cash share-based expenses, 2017 general administration costs of US$8.4 million is 9.8% lower than that of 2016.

IMPAIRMENT CHARGES REVERSED

Reflecting on the successful operation of the K&S mine and the increase of market iron ore price, a partial impairment reversal of US$129.6 million was made in 2017.

SHARE OF RESULTS OF JOINT VENTURE

The vanadium joint venture, 46% owned by IRC, was moved to cave and maintenance during 2017 and did not have any contribution (31 December 2016: profit of US$47,000) to IRC.

OTHER INCOME, GAINS AND LOSSES

The other income, gains and losses of US$2.1 million mainly represents the gains in assets disposals and the income from equipment leases after the offset of foreign exchange loss.

FINANCIAL EXPENSES, NET OF FINANCIAL INCOME

Net financial expenses of US$22.3 million, mainly represent the interest expenses of the ICBC project finance loan and the accrual of the loan guarantee fee. As IRC commenced the recognition of K&S' revenue since the beginning of 2017, the related financial expenses were reflected in the 2017 income statement instead of being capitalised as in 2016.

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

The net financial expenses can be analysed as follows:

	For the year ended 31 December	
US$'m	**2017**	2016
Interest expense on borrowings	**13.4**	10.2
Loan guarantee fee	**4.1**	4.6
Facilitation fees for loan restructuring and other borrowings	**2.7**	–
Unwinding of discount on environmental obligation and others	**2.2**	0.7
Interest income	**(0.1)**	(0.4)
Capitalisation to property, plant and equipment	**–**	(14.3)
Net financial expenses	**22.3**	0.8

INCOME TAX CREDIT (EXPENSE)

The income tax credit of US$0.6 million (31 December 2016 income tax expense: US$0.3 million) mainly represents the movements in deferred tax provisions and the tax charge relating to the foreign exchange movements of the Group's borrowing.

PROFIT (LOSS) ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

During 2017, IRC commenced the recognition of revenue from the mining operation of K&S which significantly improved the operating results of the Group. In addition, with the reversal of impairment charges in 2017, IRC reported a net profit attributable to the owners of the Company of US$113.3 million.

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the year ended 31 December 2017 and 31 December 2016:

	For the year ended 31 December	
US$'000	**2017**	2016
Net cash generated from operations	**21,718**	1,006
Interest paid	**(10,244)**	(10,150)
Facilitation fees for loan restructuring and other borrowings	**(4,000)**	–
Capital expenditure	**(6,784)**	(14,734)
Proceeds on issuance of new shares and share options, net of transaction costs	**–**	25,292
Repayment of bank borrowings and loan commitment fees	**(21,794)**	(29,806)
Proceeds from constructor in remedying mining project defect	**–**	4,508
Other payments and adjustments, net	**(1,241)**	(1,060)
Net movement during the year	**(22,345)**	(24,944)
Cash and bank balances (including time and restricted deposits)		
— At 1 January	**33,319**	58,263
— At 31 December	**10,974**	33,319

The net cash generated from operations amounted to US$21.7 million (31 December 2016: US$1.0 million), mainly due to cash inflow from the K&S mine. Capital expenditure of US$6.8 million was spent mainly on the K&S mine while it is in the process of ramping up its production. A net loan repayment of US$21.8 million mainly represents the repayment of the bridging loans that the Group drew at the end of 2016 to service the ICBC loan.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share capital

There were no changes in the share capital of the Company in 2017.

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 2017, 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 2017. The Company is in discussions with General Nice and Minmetals about a further deferred completion and other available options.

Cash Position and Capital Expenditure

As at 31 December 2017, the carrying amount of the Group's cash, deposits and bank balances was approximately US$11.0 million (31 December 2016: US$33.3 million). The decrease in cash balance is mainly due to the positive cashflow from the K&S' operation being utilised for the repayment of the bridging loans, which were obtained in December 2016 for the purpose of servicing the ICBC loan, and repayment of interest of the ICBC loan. The decrease was also partly attributable to capital expenditure spent on ramping up K&S' operation to full scale.

Exploration, Development and Mining Production Activities

For the year ended 31 December 2017, US$86.1 million (31 December 2016: US$41.2 million) was incurred on development and mining production activities. No exploration activity was carried out in 2017 and 2016. The following table details the capital and operating expenditures in 2017 and 2016:

	For the year ended 31 December 2017			For the year ended 31 December 2016		
US$'m	**Operating expenses**	**Capital expenditure**	**Total**	Operating expenses	Capital expenditure	Total
Kuranakh	**–**	**–**	**–**	22.1	–	22.1
K&S development	**79.4**	**6.7**	**86.1**	1.3	17.6	18.9
Exploration projects and others	**(0.3)**	**0.3**	**–**	–	0.2	0.2
	79.1	**7.0**	**86.1**	23.4	17.8	41.2

The table below sets out the details of material new contracts and commitments entered into during 2017 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to ramp-up completion.

		For the year ended 31 December	
US$'m	**Nature**	**2017**	2016
K&S	Purchase of property, plant and equipment	**0.6**	0.1
Others	Other contracts and commitments	**0.7**	–
		1.3	0.1

Borrowings and Charges

As at 31 December 2017, the Group had gross borrowings of US$235.2 million (31 December 2016: US$257.0 million). All of the Group's borrowings were denominated in US dollars. US$1.5 million represents the Group's working capital loan and the rest represents the long-term borrowing drawn from the ICBC loan facility which is guaranteed by Petropavlovsk. The Group has been keeping its borrowing costs at market level, with its weighted average interest rate at approximately 6.4% (31 December 2016: 6.4%) per annum. As of 31 December 2017, gearing, expressed as the percentage of net borrowings to the total of net borrowings and net assets, was 45.8% (31 December 2016: 61.1%).

In 2017, the debt service holiday agreed by ICBC became effective. ICBC has agreed to restructure the principal repayment schedule of K&S' project finance facility which fully relieves K&S from principal repayments of US$42.5 million in 2017. According to the agreement, the repayments under the Project Finance Facility are restructured 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 restructuring of the repayments has been effective since 20 March 2017 and shall continue to be effective until 20 June 2020, subject to the on-going satisfaction of certain conditions.

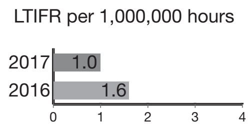
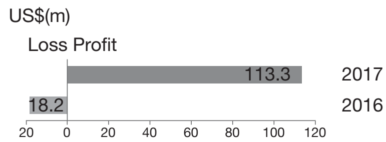
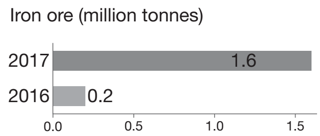
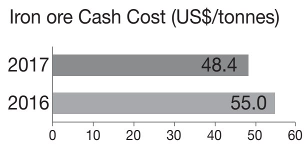
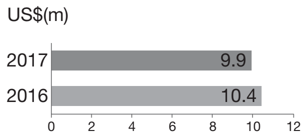
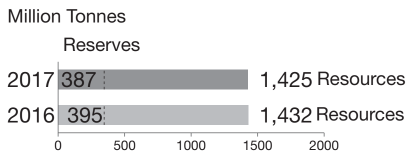
Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble 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 and entering into foreign currency forward contracts to hedge the Group's Russian Rouble exposure.

Employees and Emolument Policies

As at 31 December 2017, the Group employed approximately 1,440 employees (31 December 2016: 1,477 employees). The total staff costs excluding share-based payments was US$21.7 million for 2017 (31 December 2016: US$17.8 million). 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	2017 DEVELOPMENT	2017 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 – Maintain at satisfactory level** 
Profitability	Profitability focuses on mid to long term. Currently, K&S mine was commissioned in 2016 and in the process of ramping up to full capacity. Kuranakh has been moved to care and maintenance.	K&S is already in commercial production stage and achieved an average of c.50% production capacity in 2017. Kuranakh was moved to care and maintenance since 2016. K&S was the main contributor to profitability in 2017.	**Profitability – Turnaround to profit** 
Production	Good track record of beating annual production target each year. K&S is in ramping up and Kuranakh has been moved to care and maintenance.	K&S plant has proved to be capable of operating at load, having successfully completed a 24-hour loading test at 90% capacity and produced over 1.6 million tonnes of 65%Fe grading iron ore concentrates.	**Iron Ore Production – Significant increase** 
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 general administrative expenses.	K&S proved to be a more efficient mine than Kuranakh, with the cash cost reduced despite K&S only operating at c.50% capacity.	**Efficiency & Cash Cost – Reduction** 
Administrative Overheads	Administrative overheads measure costs of supporting units for the business to carry out profit making activities.	In 2017, stringent measures of corporate costs cutting continued across the Group.	**Administrative Overheads – Reduction** 
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 ramping up of K&S. No exploration activity was carried out during 2017.	**Exploration & Development – Reserves remain at similar level** 
HSE & Community	HSE is measured by adhering to legislation and best practices in the communities and environment where we operate.	The integrated environmental management system ("EMS") helps IRC in reducing its impact on the environment.	**Extensive HSE statistics are published in the HSE Section.**

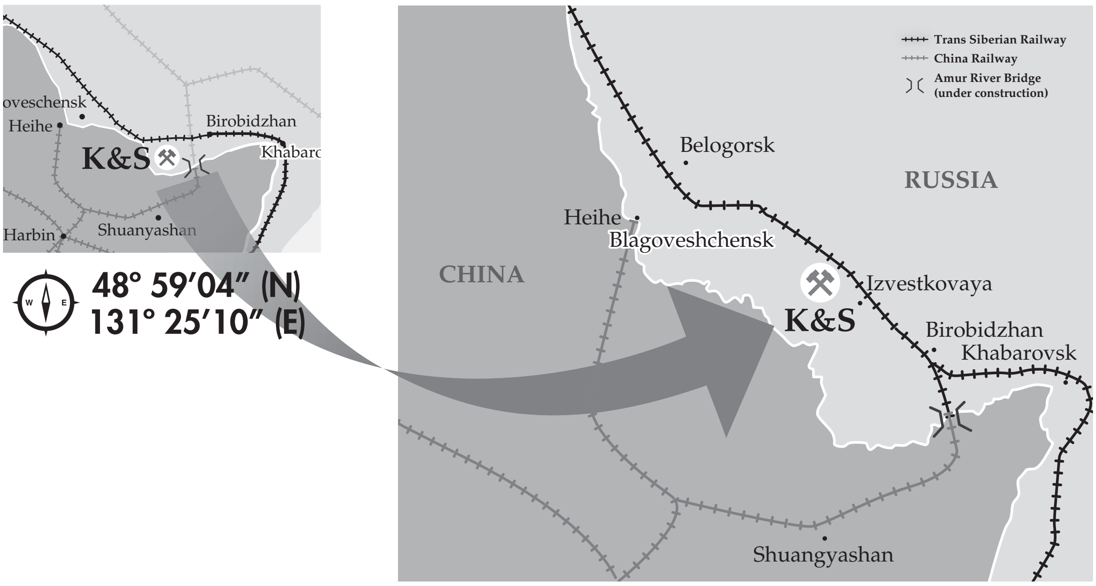
KEY PERFORMANCE INDICATORS (CONTINUED...)

	2016 PERFORMANCE	FUTURE OPPORTUNITIES
Overall safety performances maintains at our satisfactory level. Group LTIFR per 1,000,000 hours decrease to 1.0. Number of fatality and injury rate were recorded as 1 and 2 respectively.	Overall performances in safety remains at satisfactory level. Group LTIFR per 1,000,000 hours remains similar to the year of 2015 at 1.6. One fatality was recorded in 2016 while injury rate remains the same as 2015.	IRC will continue to maintain 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 continue to be carried out.
K&S reported a positive segmental EBITDA before impairment of US$32.9 million. After taking into account the reversal of asset impairment, IRC reported a profit of US$113.3 million, a turnaround from last year's loss making position.	Kuranakh reported a negative segmental EBITDA before impairment of US$6.5 million, a 48.6% reduction in loss compared to 2015. 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.	An international Sino-Russian railroad bridge, Amur Bridge is expected to be opened in 2018 which will allow reduction of transportation cost of K&S. Although Kuranakh is currently under care and maintenance, the Group may consider the option of re-opening Kuranakh if the iron ore market upside prevails.
In 2017, IRC produced 1,563,066 tonnes of iron ore, 731% increased compare to 2016, demonstrating the transformation that K&S brings to IRC.	There were 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.	As K&S ramps up to full capacity in 2018, cash inflow will be boosted. Future development of K&S Phase 1.5 or Phase 2 projects will allow an increase of total designed capacity to 4.6 million tonnes or 6.3 million tonnes per annum respectively.
The average cash cost per tonne of iron ore decreased by 12.0% to US$48.4 as K&S continues to ramp up and started commercial production.	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.	Unit cash cost is expected to further reduced when K&S has reached full capacity due to economies of scale. 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 2017, general administrative costs of the Group were further reduced 4.8% to US$9.9 million. Excluding share-based payment, which is non-cash in nature, the cost reduced by 9.8% to US$8.4 million.	In 2016, general administrative costs of the Group were further from an already lean level of US$10.8 million to US$10.4 million.	The Group will continue to carry out more stringent cost saving measures to minimise the administrative overheads costs.
Group resources amounted to 1,425 million tonnes as at the end of 2017. Reserves decreased to 387 million tonnes, mainly due to a reflection of utilising the reserves for production at K&S.	Group resources and reserves remained at similar level, amounted to 1,432 million tonnes and 395 million tonnes respectively in 2016.	Exploration and development activities will resume when the market conditions and the Group's cash flow improve.
The integrated EMS was applied to all Company's activities in 2017. This helps reduce the impact of our operations on the environment.	Ongoing efforts in 2016, including the maintenance of EMS, to help IRC mitigate its impact in all health, social and environmental aspects.	The Group will continue to strive to reduce energy consumption and emissions, water usage and waste.

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 IRC 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. As an interim development between the two phases, IRC is assessing an option to upgrade the Phase One production facility to increase the production capacity to about 4.6 million tonnes per annum with a capital expenditure requirement of about US$50 million. 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 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 RAMP UP PROGRESS CONTINUES

During 2017, K&S has entered into commercial production stage while it continues to ramp up to higher production capacity. During the year, numerous ramp-up tests were carried out – K&S plant has proved to be capable of operating at load, having successfully completed a 5-day 80% capacity loading test and a 24-hour loading test at 90% capacity when the Drying Unit was not required to be in use. Towards the end of year, K&S' production capacity was affected by problems at the Drying Unit, due to poor quality workmanship by the contractors to the K&S project. While the K&S site team continued to resolve the issues identified, the need for the Drying Unit as part of the K&S production process will gradually be reduced over the first quarter in 2018 as the winter weather subsides.

During the third and fourth quarter of 2017, K&S experienced some delays in the transportation of products to customers due to congestion of the Russian railway system. The railway usage, which was originally already burdened by the high traffic of thermal coal shipments during the winter, became more congested due to the unusually heavy torrential rain in the region. As there were insufficient wagons arriving at K&S for timely delivery of products as a result of the railway congestion, the production at K&S was slowed down after its storage warehouse was full.

In 2017, despite the aforesaid issues, K&S plant still managed to produce at an average of c.50% capacity and contributed positive cashflow to IRC throughout the year.

PRODUCTION

In 2017, 5,323,630 tonnes of ore were fed to primary processing plant and 3,589,877 tonnes of pre-concentrate were produced. During the year, a total of 1,563,066 tonnes of iron ore concentrates was produced.

SALES & MARKETING

In 2017, 1,539,146 tonnes of iron ore concentrate were sold. The price of the product is determined with reference to the international Platts spot price of 65% Fe iron ore concentrates. In 2017, the averaged achieved selling price was US$78 per tonne. During the year, K&S successfully diversified its customer base and has also signed an off-take contract with a Russian customer. When K&S is near full ramped up capacity, long-term contracts will be signed to secure a more stable revenue stream.

K&S UNIT CASH COST

In view of the fact that K&S has not yet reached full production capacity, the unit cash cost per tonne in 2017 amounting to US$48.4 per tonne has not yet reached its optimal level. Taking into account the potential Rouble depreciation to previous lows and the opening of the Amur River Bridge in 2018 which would reduce transportation costs, the Group considers that K&S' cash cost is expected to remain near US$40 per tonne when full scale operation at K&S is achieved.

SAFETY

The LTIFR is a measure of the number of lost-time injuries per one million hours worked. The K&S Mine reported a good safety performance for 2017 with two incidents recorded during the year and the LTIFR was reduced to 1.0 (31 December 2016 LTIFR: 1.6). 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 2017, the mining contractor commenced the mining works and started to increase the mining scale for continuous production of K&S. The process of drilling and blasting followed by excavating and hauling of the open pit continues to replenish the stockpiles which are used for plant feeding. During the year, a total of 263,807 meters were drilled, 7,172,424 cubic meters were blasted and 6,304,300 tonnes of ore were mined.

AMUR RIVER BRIDGE/TONGJIANG BRIDGE

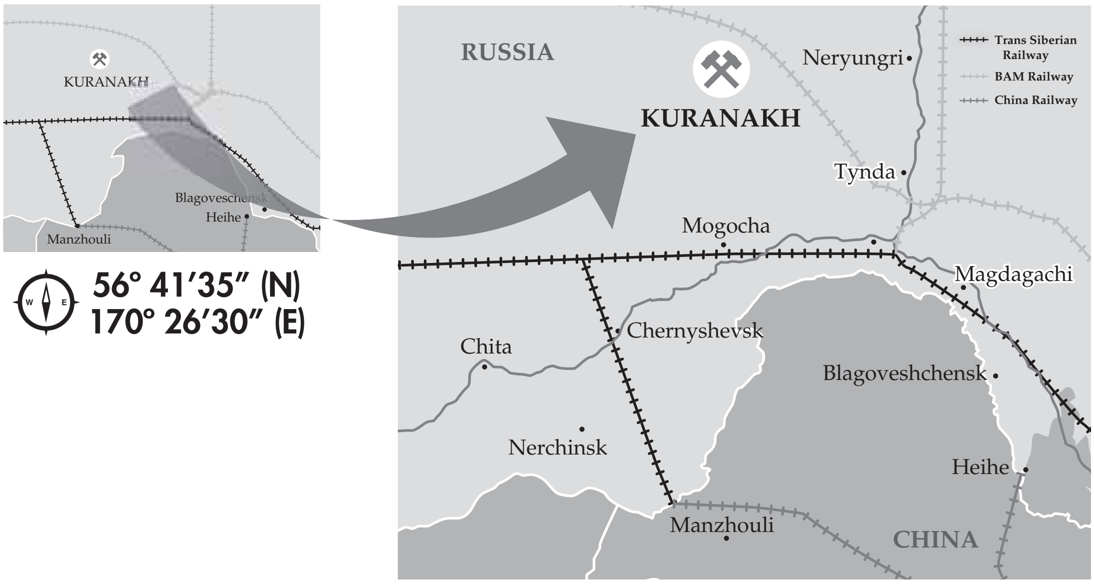
Amur River Bridge is a national project between China and Russia to build a railway bridge across the Amur River border between the two countries. The Amur River Bridge was hailed as one of the major projects between the two countries. These infrastructure projects including the Amur River Bridge are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

According to the Russian media, the Amur River Bridge, originally planned for commissioning in mid-2018, has experienced some technical issues which caused a delay of a few months. Despite this small delay, when the Bridge is operational, K&S will be able to reduce the transportation cost to the Chinese boarder for up to US$5 per tonne, allowing K&S to strengthen its position as a low-cost iron ore concentrate producer. Moreover, the Bridge will become a part of the new export route and a stimulus for the creation of new logistical and industrial clusters, improving the transport accessibility of the region which K&S is expected to benefit indirectly.

The current distance from K&S operation to the Chinese border (Suifenhe) is approximately 1,000 kilometres. 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.

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 beginning of 2016 due to difficult operating environment in commodities market in previous years.

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% TiO2 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

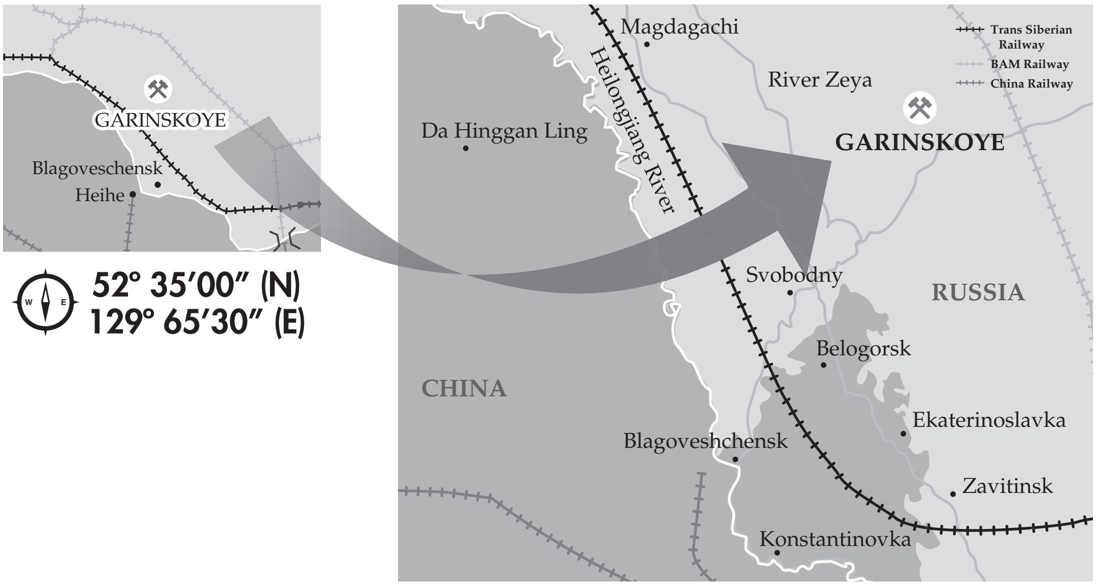
LTIFR is a measure of the number of lost-time injuries per one million hours worked. As the mine was moved to care and maintenance, there was no injuries and the LTIFR was zero during 2017 (31 December 2016 LTIFR: 4.8).

KURANAKH – CONTINUED TO BE IN CARE & MAINTENANCE

Kuranakh has been moved to care and maintenance since the beginning of 2016 due to difficult operating environment. Consequently, during 2017, there was no production or sales from Kuranakh operation. The only minimal costs recorded were for equipment maintenance and security. Nevertheless, in light of the improved commodities market, the management of IRC may consider the option of reopening Kuranakh if the iron ore market upside prevails.

Garinskoye

99.6% owned



OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration project. 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 tonnes 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, and as there were no alternative sources of materials as the feedstock for the project, therefore it was also moved to care and maintenance in 2017. 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

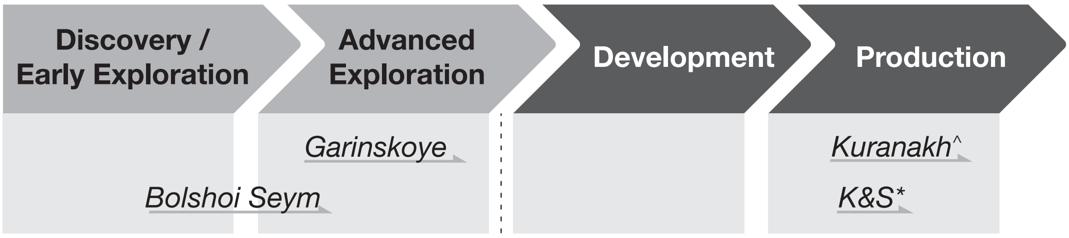
MINERAL RESOURCES AND ORE RESERVES STATEMENT

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
^ Under care and maintenance

OPERATIONS

Over 2017, although no material exploration activity was carried out, changes to resources and reserves were mainly due to the commencement of commercial production at K&S. Reflecting these changes, the Group resources and reserves as at 31 December 2017 are as follows.

31 December 2017		
IRON ORE	RESOURCES	**1,425.3 million tonnes**
		29.2% Fe
	RESERVES	**387.4 million tonnes**
		32.6% 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.

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

The table below details the Group's Mineral Resources and Ore Reserves as at 31 December 2017 (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 2017. 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	20.1	31.4%	6.3	—	—
	Indicated	374.6	32.7%	122.5	—	—
	Inferred	461.0	30.3%	139.7	—	—
	Total	855.8	31.4%	268.5	—	—
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**	**20.1**	**31.4%**	**6.3**	**—**	**—**
	Total Indicated	**865.1**	**28.7%**	**248.2**	**7.7%**	**21.6**
	Total Inferred	**540.0**	**29.8%**	**161.0**	**8.2%**	**2.5**
	Total	**1,425.3**	**29.2%**	**415.5**	**7.8%**	**24.1**

* Including Kostenginskoye

Reserves Summary

Project	Category	Tonnage Mt	Fe Grade %	Fe Mt
RESERVES				
Kuranakh	Proven	—	—	—
	Probable	—	—	—
	Total	—	—	—
K&S	Proven	20.8	29.8%	6.2
	Probable	340.4	31.7%	107.8
	Total	361.2	31.6%	114.0
Garinskoye	Proven	—	—	—
	Probable	26.2	47.0%	12.3
	Total	26.2	47.0%	12.3
Group	**Total Proven**	**20.8**	**29.8%**	**6.2**
	Total Probable	**366.6**	**32.8%**	**120.1**
	Total	**387.4**	**32.6%**	**126.3**

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: Kuranakh and Saikta

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 2016. As a result, no mining activities happened during 2017. Also based on low iron ore price environment in previous years, the reserves of Kuranakh were proved uneconomical and continue assumed to be nil.

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	9.9%	0.3
Total	7.7	31.6%	2.4	10.1%	0.8
Saikta Pit					
Measured	—	—	—	—	—
Indicated	4.4	29.5%	1.3	9.3%	0.4
Inferred	5.1	31.4%	1.6	9.3%	0.5
Total	9.5	30.5%	2.9	9.3%	0.9
Total Measured	**—**	**—**	**—**	**—**	**—**
Total Indicated	**8.8**	**30.7%**	**2.7**	**9.8%**	**0.9**
Total Inferred	**8.4**	**31.0%**	**2.6**	**9.6%**	**0.8**
Total	**17.2**	**30.8%**	**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 2017, the normal minor oxidation of the iron ore and mining and drilling activities carried out at K&S slightly decrease its mineral resources and reserves.

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	20.1	31.4%	6.3
Indicated	374.6	32.7%	122.5
Inferred	281.6	32.0%	90.2
Total	676.3	32.4%	219.0
Kostenginskoye			
Measured	—	—	—
Indicated	—	—	—
Inferred	179.4	27.6%	49.5
Total	179.4	27.6%	49.5
Total Measured	**20.1**	**31.4%**	**6.3**
Total Indicated	**374.6**	**32.7%**	**122.5**
Total Inferred	**461.0**	**30.3%**	**139.7**
Total	**855.8**	**31.4%**	**268.5**
Reserves			
Kimkan & Sutara			
Total Proven	**20.8**	**29.8%**	**6.2**
Total Probable	**340.4**	**31.7%**	**107.8**
Total	**361.2**	**31.6%**	**114.0**

Assumed average cut-off grades: Kimkan & Sutara Pit Fe cut-off grade 15% and Kostenginskoye Pit Fe magnetite cut-off grade 10%. The adoption of lower cut-off grade for Kimkan & Sutara Pit from 17% in 2016 to 15% in 2017 and Kosteninskoye Pit from 18% in 2016 to 10% in 2017 is based on recent feasibility study.

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 the works have focussed on the opportunity for a DSO-style operation since 2011. In 2017, 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 2017 compared to 2016.

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

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. For details of the committee, please refer to page 56 of this report.

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 end of 2017, IRC employed approximately 1,679 employees and contractors, about 6.9% increase compared to the end of 2016. The increase in the number of involved employees is related to the commissioning and ramping up of K&S (Phase One).

IRC encourages diversified culture in workplace. The Company recruits people for work not only from the Far East, but also from other regions of Russia and the Commonwealth of Independent States ("CIS") and participates in the state program of the resettlement of compatriots. The resettlement program of compatriots involves preferential conditions for obtaining citizenship and compensation for the costs of moving and rearrangement to a new place. In 2017, under the resettlement of compatriots program, the Company employed 3 employees.

Workforce Composition

	2016	**2017**
Part-Time	22	**18**
Casual	30	**54**
Contractors	279	**109**
Female–Ratio %	34.1	**41.7**

Note: the table presents average number for the year

Employment Mission & Vision

Attracting, employing and retaining high-quality and competent staff is fundamental to IRC's 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 2017, 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 2017 was conducted by external consultants in the following areas:

— Upgrade professional qualifications, for example in the following areas of "Safe methods and methods of performing of works at height. Training of the organisation employees on work safety at height", "Safety of construction: the organisation of construction, reconstruction and major repairs", "Instrumentation and automation specialist", "Training and retraining of drivers carrying dangerous goods of hazard class 2 and 3", "Maintenance technician";

- Learning new vocational skills;

- Operational and crisis safety training, including labour safety, industrial and fire safety.

In 2017, in accordance with the training and qualification upgrade program approved by the Company, 739 employees were successfully trained.

Of these, 437 company employees were trained in the training centre at K&S. The K&S training centre has a license for professional training, issued by the Education Committee of Jewish Autonomous region No 953 dated 03.04.2014. Only employees of the plant are trained in the training centre. Upon completion of training, the employee is issued a certificate or a certificate equivalent. There are two classrooms and visual training material in the centre. Industrial training takes place in the workplace under the guidance of a teaching staff of production training. The teaching staff includes engineers and technicians at K&S, who have obtained a diploma of professional retraining for conducting professional activities in the field of education.

For environmental knowledge and environmental conservation training, internal trainings were carried out by the Company in 2017, they included:

- 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 2017, 18 employees have completed such testing.

Also, the Company regularly acquaints the newly recruited employees with the environmental policy of IRC. In 2017, 478 people were introduced to environmental policy.

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 expressed 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 with double payment of labour or set off as an extra day-off.

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 labour 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;
- dormitory rules; and
- provisions on charity.

In 2017, 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 2012–2017 (Russian Standard Scale)

	2012		2013		2014		2015		2016		**2017**	
	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	Injuries	LTIFR	**Injuries**	**LTIFR**
Kuranakh	6	2.55	9	3.90	7	3.44	3	1.90	2	4.80	**0**	**0.00**
K&S	0	0.00	1	1.00	1	0.81	0	0.00	1	0.68	**2**	**1.05**
Other projects	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	**0**	**0.00**
Group	6	1.77	10	3.00	8	2.42	3	1.18	3	1.57	**2**	**0.99**

The total quantity of the registered injuries with loss of working ability decreased from 3 in 2016 to 2 in 2017. The LTIFR, which is the frequency of injuries with loss of working ability, decreased from 1.57 in 2016 to 0.99 in 2017. 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 the reduced 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 2017.

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 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. 136, 2001 “Land Code”

— 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 67,160 analyses of various environmental components have been conducted since 2004 and more than 29,262 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.

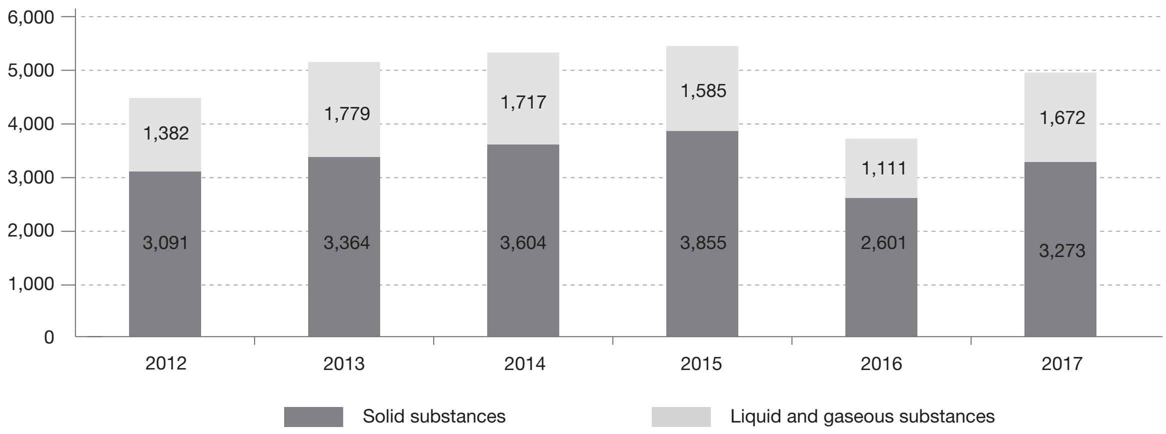
AIR POLLUTANTS AND EMISSIONS

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 2017 emissions of air pollutants were 4,945 tonnes, which is 33.22% higher than in 2016 (3,712 tonnes), 88.7% of which is emissions from K&S and 11.3% from Kuranakh (which has been in care and maintenance since 2016). The main reason for such a sharp increase of emissions of air pollutants is mainly related to K&S starting production in 2017.

Emissions of Air Pollutants from Stationary Sources, 2012–2017 (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 2017, K&S received a new permit for the pollutants discharge into the atmosphere by stationary sources located on the territory of the mining complex (processing plant, mining complex, boiler house "Central", diesel depot, shift camp, tailings dam, construction industry base, solid waste landfill), valid until August 2, 2022.

Also, in 2017, the Company's environmentalists completed a procedure of a state registration of the operating facilities of the group of companies "Petropavlovsk — Iron Industry", which have a negative impact on the environment, with assigning them with categories and referring them to environmental surveillance levels. Certificates on state registration of objects that have a negative impact on the environment have been issued.

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 96.78% in 2017. 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.

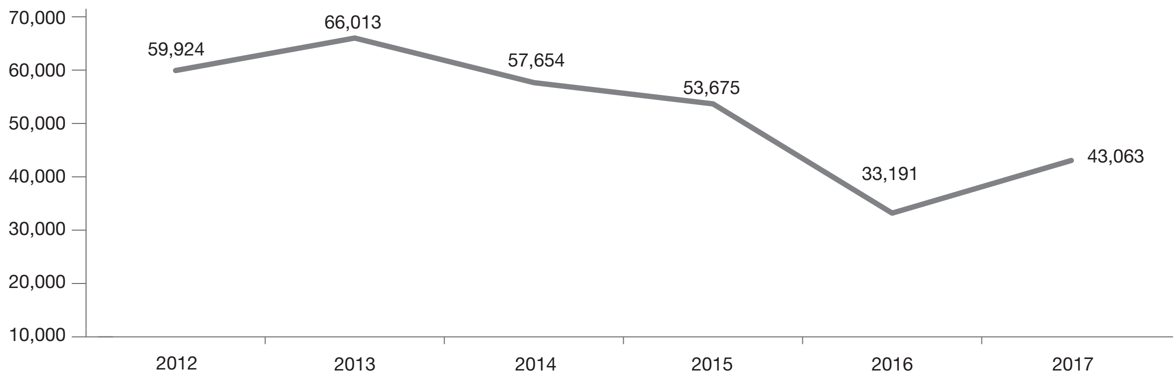
— Reducing diesel powered electric generation.

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 2017, there was an increase of greenhouse gas emissions, the emissions amounted to 43,063 tonnes of CO_2-equivalent, which is 9,872 tonnes (29.74%) higher than in 2016.

Greenhouse Gas Emissions, 2012–2017 (tonnes)



The increase in greenhouse gas emissions was mainly related to the increase of energy consumption (in particular due to an increase in the consumption of brown coal in the boiler house of 65 MW and the drying unit of the Processing Plant) in K&S as a result of commencement of the operation at the mine.

Summary of Air Pollutant & Emission Statistics 2012–2017

	Unit	2012	2013	2014	2015	2016	**2017**
Air Pollutants & Emissions							
Mass of emitted hazardous pollutants:							
Solid substances	t	3,091	3,364	3,604	3,855	2,601	**3,273**
Liquid and gaseous substances	t	1,382	1,779	1,717	1,585	1,111	**1,672**
Total	t	4,473	5,143	5,321	5,440	3,712	**4,945**
Greenhouse gas emissions (CO_2-equivalent):							
Gasoline combustion	t	439	467	566	555	569	**539**
Diesel fuel combustion	t	42,050	47,967	36,260	30,949	7,609	**2,939**
Kerosene combustion	t	0.14	0.89	1.02	0	0.13	**0.59**
Coal combustion	t	17,435	17,578	20,827	22,171	25,013	**39,585**
Total	t	59,924	66,013	57,654	53,675	33,191	**43,063**
Rate of permissible discharge:							
Permissible release of solids	%	92	86	90	78	69	**97**
Permissible release of liquid and gases	%	101	81	86	85	69	**87**
Pollutants removed by gas treatment:							
Removed solid substance	t	2,510	2,418	2,884	3,147	3,246	**24,617**
Removed liquid and gaseous substances	t	526	602	783	843	843	**853**
Total removed	t	3,036	3,020	3,667	3,990	4,089	**25,470**

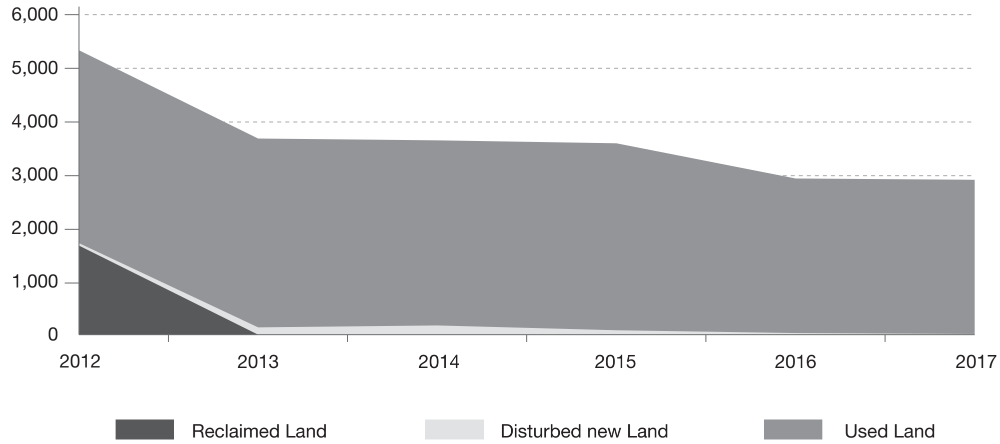
LAND USE AND RECLAMATION

At the end of 2017, the total amount of land used by IRC was 2,890 hectares, which is 8 (0.28%) hectares less than in 2016. Reduction of lands in use is mainly related to a reduction of K&S' land use for development of minerals deposits and the completion of construction of K&S facilities.

The total area of soils disturbed was 13.35 hectares in 2017, 100% attributed to K&S' mining mainly.

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, 2012–2017 (hectares)



Land Use & Reclamation Statistics 2012–2017

	Unit	2012	2013	2014	2015	2016	**2017**
Land lease:							
Total	ha	3,616	3,540	3,470	3,505	2,898	**2,890**
New surfaces disturbed in the reporting period	ha	46	137	173	82.7	30.2	**13.35**
Recultivated lands during year							
Reclaimed land	ha	1,670	0	0	0	0	**0**
Used topsoil	m^3	0	0	0	0	0	**5,280**
Preservation of topsoil							
Removed to stockpiles	m^3	143,900	42,000	0	0	0	**0**
Total topsoil stored at 31 December	m^3	1,393,700	1,434,853	1,306,853	1,306,856	1,306,856	**1,301,576**
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 99.986% 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 0.014% from all types of waste. This class of waste includes both solid and liquid domestic waste.

Class III (moderately hazardous wastes) — approximately 3.6×10^{-4}% from all types of waste. This includes oil contaminated wastes.

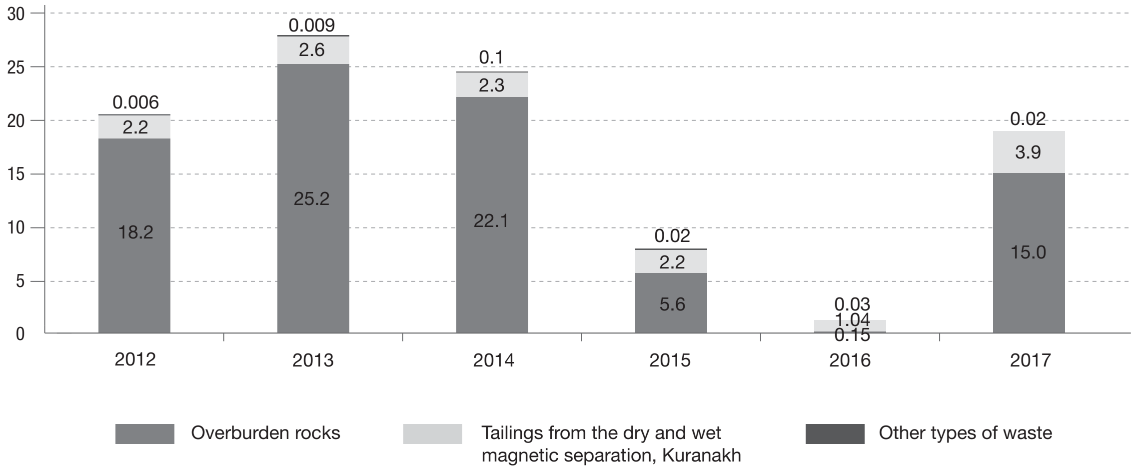
Class II (highly hazardous wastes) — approximately 8.4×10^{-6}% from all types of waste. This includes used sulphuric battery acid and waste batteries.

Class I (extremely hazardous waste) — less than 1.9×10^{-6}% 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 industrial and household waste generated in 2017 increased 15.5 times and reached 18,932.593 k tonnes, including: overburden of 14,989.050 k tonnes, approximately 79.17% of total waste and; wet and dry tailings of 3,918.72 k tonnes, approximately 20.7% of total waste; other types of waste of 24.823 k tonnes, approximately 0.13% of total waste.

Waste Volume, 2012–2017 (million tonnes)



Increase of wastes volume of overburden, tailings of dry and wet magnetic separation and bottom ash wastes is related to the commencement of operation at K&S due to the increasing mining works for its continuous 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 2017, 111,720 tonnes of wastes from the Group was recycled, 99.8% of which were tailings of dry magnetic separation and bottom ash wastes. The wastes were used in repair and construction of roads, when filling of construction sites and in preparation of de-icing products. The rest of the waste is used in the following ways: sawdust as absorbent of oil products.

Quantity of wastes transmitted to the licensed organisations for further treatment is 20,032 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.

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. In 2017, 30 kg of used batteries were received from the Company's employees, which prevented contamination by heavy metals of ~ 1191 m^3 of soil and 478,522 litres of water.

Waste Management Statistics 2012–2017

	Unit	2012	2013	2014	2015	2016	2017
Formed Waste:							
Total	t	20,412,291	27,837,914	24,373,977	7,861,251	1,220,067	**18,932,593**
Wastes without notice of overburdens and tailings:	t	7,564	8,353	10,213	22,350	25,493	**24,823**
Class I	t	0.37	0.46	0.59	0.83	0.231	**0.357**
Class II	t	5.77	6.92	5.74	4.18	0.26	**1.59**
Class III	t	146.88	184.11	163.42	110.39	27.39	**68.52**
Class IV	t	269.09	236.30	180.10	10,052.07	9,970.11	**2,582.74**
Class V	t	7,142	7,925	9,863	12,182	15,495	**22,170**
Waste from operations:	t	20,397,162	27,821,209	24,353,551	7,838,902	1,194,574	**18,907,770**
Overburden rocks	t	18,222,979	25,188,323	22,101,404	5,602,431	150,161	**14,989,050**
Wet tailings	t	675,681	722,893	631,970	659,411	489,588	**2,007,880**
Tailings	t	1,498,502	1,909,993	1,620,177	1,577,060	554,825	**1,910,840**
Waste Management:							
Neutralized at the plant	t	17	28	22	9,816	9,809	**0**
Reused at the plant	t	2,546	2,484	2,696	74,624	1,589	**111,721**
Buried at plant landfill	t	20,397,162	26,418,779	24,353,551	7,838,902	838,885	**18,797,987**
Transferred to contractors	t	4,771	5,763	7,411	9,291	14,074	**20,032**

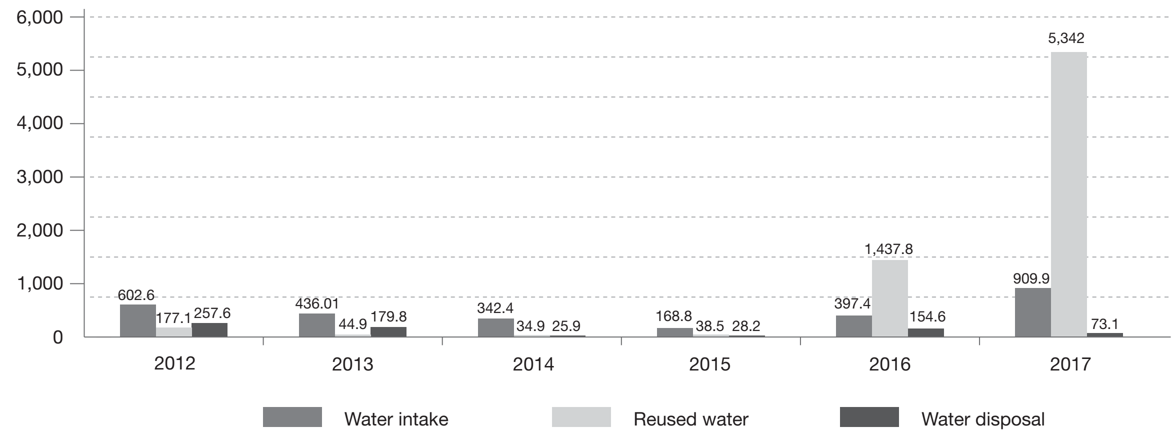
WATER MANAGEMENT

In 2017, the water intake of the Group increased by 512,462 m^3 to 909,902 m^3, of which 900,737 m^3 was sourced from natural water objects and 9,165 m^3 from the existing municipal systems. Increase of water volume taken from the underground water objects is related to the commencement of production of 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). Where it is impossible to use water from the circulating water supply system, the fresh water replenishes the technological processes.

The volume of reused water amounted to 5,342,000 m^3 (for feeding of the water recycling system, for dust suppression in the quarries and in the access roads).

Water disposal in 2017 was 73,128 m^3 in total, of these 44,223 m^3 was allocated to the abstraction of treated water into natural water bodies, and 28,905 m^3 to the existing sewerage utilities of the settlement.

Water Consumption and Disposal, 2012-2017 (Km^3)



Data of the Group's water consumption for operation is based on water usage agreement contracts concluded with designated supplier with grants for usage of water body on the surface and/or licenses for subsoil usage (for underground sources).

Data of the Group's consumption of water from available public service systems is conducted based on 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 2012–2017

	Unit	2012	2013	2014	2015	2016	**2017**
Water intake:	m^3	602,632	436,010	342,349	168,825	397,440	**909,902**
Water disposal:	m^3	257,604	179,752	25,875	28,207	154,563	**73,128**
Volume of reused water:	m^3	177,064	44,878	34,900	38,466	1,437,849	**5,342,000**

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 measures continue to be applied:

— Installation of power lines at the solid waste landfill, waste water treatment station Complect-200 (100×2), installation of backup power line for the boiler house “Central”, reconstruction of old power line on the waste-water treatment plant.

— Installation of light sensors on the light lines of underground water wells № 9SN, 10SN, 11SN.

— Installation of LED lighting fixtures to illuminate the coal unloading trestle.

— Development of parameter charts on the boiler house “Central” to achieve optimal performance from fuel used for heat production.

— Using brown coal with a heat capacity of 4,000 kcal/kg at the drying unit and boiler house “Central” instead of the coal provided in the design, 6,000 kcal/kg.

In 2017, consumption of fuel and power resources was 23,498 tonnes, an increase of 42,7% compared to 2016.

The growth in energy consumption at the K&S plant is mainly associated with the start of production activity at the plant (mainly due to the burning of brown coal at the “Central” boiler house and the drying unit of the Processing Plant).

Energy Consumption & Conservation Statistics 2012—2017

	Unit	2012	2013	2014	2015	2016	**2017**
Consumption:							
Coil	t	9,663	9,742	11,543	12,288	13,863	**22,379**
Diesel fuel	l	15,938,978	18,181,913	13,744,216	11,731,094	2,883,972	**1,121,079**
Gasoline	l	187,237	199,043	241,282	236,567	242,854	**233,004**
Kerosene	l	55	350	400	0	50	**231**

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 2017 include:

- Landscaping and site finishing, with the planting of local flora at operations. 100 trees and 280 bushes have been planted (including fir tree, silver fir, birch, cedar, lilac) on the territory of K&S.

- The installation of fire prevention measures.

- Release of 1,000 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 sights during 2017.

OPERATING PRACTICES

Supply chain management

For the purchasing, production and services for IRC, the Company holds open tenders for proposals which include a questionnaire for tender participants on environmental protection and system of ecological management.

In order to ensure that suppliers and contractors fulfil the requirements in terms of labour protection, industrial and environmental safety, when preparing the contracts, the texts of the contracts specify the obligations of the executor in respect of labour protection, industrial safety and 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 supply of the raw material 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 monitor over the quality indicators of mining feedstock and final product produced, 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 anti-corruption 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 interests have arisen or may potentially arise.

STAKEHOLDERS ENGAGEMENT

In the Russian Far East, IRC increased its stakeholders’ activities in 2017, 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 contractor workers, 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 2017:

— As part of charity, the Company organised the purchase and delivery of more than 450 books for school and settlement libraries in the village of Izvestkovy, Dvurechye, and the boarding school in Bira village.

— The Group organised central collection points with marked containers to collect used batteries from company staff 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.

Since 2009, IRC has provided financial support to STS, the Jewish Autonomous Region (EAO) educational TV programme channel. These programmes highlight the ecological and environmental uniqueness of the region and the challenges it faces.

Between 2009 and 2017, the Company prepared 30 editions of the Ecological Bulletin of the EAO, one of which were in 2017, which focuses on the Group's implementation of water recycling technology at K&S, and also about efforts in collection of "EAO flora", as well as a documentary of tigers relocation from EAO to Rostov-na-Donu" Zoo.

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.

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 2012–2017

Performance Indices	Unit	2012	2013	2014	2015	2016	**2017**
1. Air Pollutants & Emissions							
Mass of emitted hazardous pollutants:							
Total	t	4,473	5,143	5,321	5,440	3,712	**4,945**
Solid substances	t	3,091	3,364	3,604	3,855	2,601	**3,273**
Liquid and gaseous substances	t	1,382	1,779	1,717	1,585	1,111	**1,672**
Greenhouse gases emissions (CO_2):							
Gasoline combustion	t	439	467	566	555	569	**539**
Diesel fuel combustion	t	42,050	47,967	36,260	30,949	7,609	**2,939**
Kerosene combustion	t	0.14	0.89	1.02	0	0.13	**0.59**
Coal combustion	t	17,435	17,578	20,827	22,171	25,013	**39,585**
Total	t	59,924	66,013	57,654	53,675	33,191	**43,063**
Rate of permissible discharge:							
Permissible release of solids	%	92	86	90	78	69	**97**
Permissible release of liquid and gases	%	101	81	86	85	69	**87**
Pollutants removed by gas treatment:							
Total removed	t	3,036	3,020	3,667	3,990	4,089	**25,470**
Removed solid substance	t	2,510	2,418	2,884	3,147	3,246	**24,617**
Removed liquid and gaseous substances	t	526	602	783	843	843	**853**
2. Land Use & Reclamation							
Land lease:							
Total	ha	3,616	3,540	3,470	3,505	2,898	**2,890**
New surfaces disturbed in the reporting period	ha	46	137	173	82.7	30.2	**13.35**
Recultivated lands during the year							
Reclaimed land	ha	1,670	0	0	0	0	**0**
Used topsoil	m^3	0	0	0	0	0	**5,280**
Preservation of topsoil							
Removed to stockpiles	m^3	143,900	42,000	0	0	0	**0**
Total topsoil stored at 31 December	m^3	1,393,700	1,434,853	1,306,853	1,306,856	1,306,856	**1,301,576**
Forest plantation							
Total	ha	0	0	0	0	0	**0**
3. Waste Management							
Formed Waste:							
Total	t	20,412,291	27,837,914	24,373,977	7,861,251	1,220,067	**18,932,593**
Wastes without notice of overburdens and tailings:	t	756	8,353	10,213	22,350	25,493	**24,823**
Class I	t	0.37	0.46	0.59	0.83	0.231	**0.357**
Class II	t	5.77	6.92	5.74	4.18	0.26	**1.59**
Class III	t	146.88	184.11	163.42	110.39	27.39	**68.52**
Class IV	t	269.09	236.30	180.10	10,052.07	9,970.11	**2,582.74**
Class V	t	7,142	7,925	9,863	12,182	15,495	**22,170**
Waste from operations:	t	20,397,162	27,821,209	24,353,551	7,838,902	1,194,574	**18,907,770**
Overburden rocks	t	18,222,979	25,188,323	22,101,404	5,602,431	150,161	**14,989,050**
Wet tailings	t	675,681	722,893	631,970	659,411	489,588	**2,007,880**
Tailings	t	1,498,502	1,909,993	1,620,177	1,577,060	554,825	**1,910,840**
Waste Management:							
Disposed at the plant	t	17	28	22.2	9,816	9,809	**0**
Reused at the plant	t	2,546	2,484	2,696	74,624	1,589	**111,721**
Buried at plant landfill	t	20,397,162	26,418,779	24,353,551	7,838,902	838,885	**18,797,987**
Transferred to contractors	t	4,771	5,763	7,411	9,291	14,074	**20,032**
4. Water Management							
Water intake:	m^3	602,632	436,010	342,349	168,825	397,440	**909,902**
Water disposal:	m^3	257,604	179,752	25,875	28,207	154,563	**73,128**
Volume of reused water	m^3	177,064	44,878	34,900	38,466	1,437,849	**5,342,000**
5. Energy Consumption & Conservation							
Consumption:							
Coil	t	9,663	9,742	11,543	12,288	13,863	**22,379**
Diesel fuel	l	15,938,978	18,181,913	13,744,216	11,731,094	2,883,972	**1,121,079**
Gasoline	l	187,237	199,043	241,282	236,567	242,854	**233,004**
Kerosene	l	55	350	400	0	50	**231**

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 2017, the Board comprised of ten Directors with two Executive Directors and eight 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. The training session covered topics including updates on Listing Rules and the corporate governance environment.

A summary of training received by the directors for the year ended 31 December 2017 is as follows:

Directors	Type of training
Executive Directors	
Yury Makarov	A,B
Danila Kotlyarov	A,B
Non-Executive Directors	
George Jay Hambro	A,B
Raymond Woo	A,B
Cai Sui Xin	B
Benjamin Ng (alternate director to Cai Sui Xin)*	A,B
Patrick Chi Kin Cheng (appointed on 3 February 2017)	A,B
Independent Non-Executive Directors	
Daniel Rochfort Bradshaw	A,B
Simon Murray	A,B
Jonathan Eric Martin Smith	A,B
Chuang-fei Li	A,B

* Mr Benjamin Ng was the Alternate Director to Mr Cai Sui Xin, a Non-executive Director of the Company. 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.

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 2017, 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.

The Board held four meetings in 2017 and the attendance of individual directors is set out in the table on page 56.

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 2017, 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 2017 and the attendance of Committee members is set out in the table on page 56.

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 2017 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 2017 are set out in a letter from the Remuneration Committee Chairman below.

The Remuneration Committee held two meetings in 2017 and the attendance of Committee members is set out in the table on page 56.

A letter from the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board and the Remuneration Committee, I present the IRC 2017 Remuneration Report.

We have maintained the 2016 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 2017.

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.

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. A further 10% reduction in salaries and directors' fees (as applicable) for Board members and most of senior management was implemented in January 2016. In light of K&S commencing commercial production and the recovery in the commodities market, in September 2017, the reduced salaries and directors' fees were partially restored. The new remuneration level was about 10% to 15% below the original level in 2015. No bonuses were paid in 2017.

Pursuant to the Company's share option scheme adopted in 2015, a new batch of employee share options of 296,400,000 options were granted to selected directors and employees in September 2017. The Remuneration Committee also reviewed the vesting conditions of the employee share options that were granted in 2015, and had decided to vest 74,576,097 options to the grantees and write off 37,288,055 share options in 2017.

Full details regarding the above activities 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 49 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 2017 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 2017

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. In light of K&S commencing commercial production and the recovery in the commodities market, in September 2017, the reduced salaries and directors' fees were partially restored. The new remuneration level was about 10% to 15% lower than the original level in 2015.

	For the year ended 31 December					
	2017			2016		
US$'000	Directors' fees	Salaries and other benefits	Total	Directors' fees	Salaries and other benefits	Total
Executive Directors						
George Jay Hambro (a)	–	–	–	–	39	39
Yury Makarov	–	642	642	–	612	612
Danila Kotlyarov (b)	–	569	569	–	492	492
Non-Executive Directors						
George Jay Hambro (a)	181	–	181	166	–	166
Simon Murray (c)	–	–	–	17	–	17
Raymond Woo	83	–	83	80	–	80
Cai Sui Xin (d)	–	–	–	–	–	–
Cheng Chi Kin (e)	76	–	76	–	–	–
Independent Non-Executive Directors						
Daniel Rochfort Bradshaw	115	–	115	111	–	111
Simon Murray (c)	83	–	83	63	–	63
Jonathan Eric Martin Smith	115	–	115	111	–	111
Chuang-fei Li	115	–	115	111	–	111
	768	1,211	1,979	659	1,143	1,802

(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) Appointed as Executive Director on 20 January 2016.

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

(d) Benjamin Ng, alternate director to Cai Sui Xin with effect from 28 June 2016, does not receive any remuneration.

(e) Appointed as Non-Executive Director on 3 February 2017.

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 2017

No bonuses were paid in 2017.

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 Persons 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 30 to the Consolidated Financial Statements.

Two batches of share options were granted, one in 2015 and the other in 2017, and the vesting of these options is conditional upon the achievement of certain performance targets during the vesting period. In relation to the batch issued in 2015, 15,411,213 options were due to vest to each of George Jay Hambro, Yury Makarov and Danila Kotlyarov in 2017. After assessing the level of achievement of the performance targets, the Board has determined to vest 10,274,142 options to each of the aforesaid three directors and to write off the remaining 5,137,071 options for each of these directors. In relation to the batch issued in 2017, the share options will be vested in three equal instalments in 2018, 2019 and 2020 and therefore none of these options were vested in 2017.

The share options granted to the directors are summarised in the table below.

	Number of share options									Exercise price HK$
	Granted	Vested in		Written off in		Unvested as of 31 Dec		Exercised in		
		2016 or before	2017	2016 or before	2017	2016	2017	2016	2017	
Share options granted in 2015										
George Jay Hambro (a)	30,822,425	5,137,070	**10,274,142**	–	**5,137,071**	25,685,355	**10,274,142**	–	**–**	0.2960
Yury Makarov	30,822,425	5,137,070	**10,274,142**	–	**5,137,071**	25,685,355	**10,274,142**	–	**–**	0.2960
Danila Kotlyarov	30,822,425	5,137,070	**10,274,142**	–	**5,137,071**	25,685,355	**10,274,142**	–	**–**	0.2960
Share options granted in 2017										
George Jay Hambro (a)	37,200,000	–	**–**	–	**–**	–	**37,200,000**	–	**–**	0.2728
Yury Makarov	37,200,000	–	**–**	–	**–**	–	**37,200,000**	–	**–**	0.2728
Danila Kotlyarov	37,200,000	–	**–**	–	**–**	–	**37,200,000**	–	**–**	0.2728

a) The options were granted to an independent service company providing management services to IRC that is consequently classed as an affiliated company to the director.

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 in retirement benefit. IRC makes contributions which are assessed annually by the Remuneration Committee.

	For the year ended 31 December	
US$'000	**2017**	2016
George Jay Hambro (a)	**23**	26
Yury Makarov	**80**	76
Danila Kotlyarov (b)	**2**	2
	105	104

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

(b) 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

27 March 2018

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 2017, 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 2017, 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 2017 are shown below together with attendance details:

	Meeting attended / Held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Health, Safety and Environment Committee
Chairman and Non-Executive Director					
George Jay Hambro	4/4	–	–	1/1	–
Executive Directors					
Yury Makarov	4/4	–	–	–	–
Danila Kotlyarov	4/4	–	–	–	–
Non-Executive Directors					
Raymond Woo	4/4	–	–	–	–
Cai Sui Xin (a)	0/4	–	–	–	–
Patrick Cheng (b)	3/4	–	–	–	–
Independent Non-Executive Directors					
Daniel Rochfort Bradshaw	4/4	2/2	1/1	1/1	1/1
Simon Murray	3/4	–	–	–	–
Jonathan Eric Martin Smith	4/4	2/2	1/1	1/1	1/1
Chuang-fei Li	4/4	2/2	1/1	–	1/1

(a) All board meetings were attended by Benjamin Ng, the alternate director of Cai Sui Xin. Benjamin Ng's attendances were not counted as attendance by the director himself in accordance with the requirements of the CG Code.

(b) Appointed as Non-Executive Director on 3 February 2017.

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 2017 and the comparative figures for the year ended 31 December 2016 are set out below:

	For the year ended 31 December	
US$'000	**2017**	2016
Audit	**363**	363
Non-audit*	**123**	93
	486	456

* The fee for non-audit services mainly represents the fee for the review of the Group's Interim Results for the six months ended 30 June 2017 and 30 June 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 20 June 2017. 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 2016.	99.997%
To re-appoint Messrs Deloitte Touche Tohmatsu as Auditor and authorise the Board of Directors to fix the remuneration of the Auditor.	100.000%
To elect Mr Patrick Chi Kin Cheng as Director.	99.997%
To re-elect Mr Yury Makarov as Director.	99.997%
To re-elect Mr Jonathan Eric Martin Smith as Director.	100.000%
To re-elect Mr Simon Murray as Director.	99.461%
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.	99.997%
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.	99.229%
To add shares repurchased to the general mandate to issue new shares.	99.229%

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 except that Non-Executive Director Mr Cai Sui Xin was unable to attend the annual general meeting of the Company held on 20 June 2017 as provided for in CG Code provision A.6.7, due to his overseas engagements at the time.

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 AND GOING CONCERN ASSESSMENT

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.

In preparing the 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 net current liabilities position of approximately US$36.0 million and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations, cash and cash equivalents and the credit facilities being refinanced by the Group.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and the US$/Rouble exchange rates for a fifteen month period after 31 December 2017. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

The Group has initiated the process of refinancing and obtaining an amendment and extension of its credit facilities. The amendment includes changes to the financial covenants and the repayment terms. The execution of the amendment is subject to finalisation of required approval by the banks and documentation.

However, if the Group is unable to successfully refinance its loan facilities 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 loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

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, the consolidated financial statements have been prepared on a going concern basis.

Please refer to the unmodified opinion on the Independent Auditor's Report on Page 72, which includes a paragraph regarding material uncertainty related to going concern, for details.

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 72.

On behalf of the Board

George Jay Hambro
Chairman

27 March 2018

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 2017.

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 2017 is set out in note 7 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 page 3. 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 4 to 12. 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 156. The future development of the Company's business is discussed throughout this Annual Report including in the Chairman & CEO Review section on page 3. 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 13 to 14 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 47 to 60 and the Directors' Report on pages 61 to 70. 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 28 to 46.

DIVIDEND

The Board does not recommend the distribution of a dividend for the year ended 31 December 2017.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year ended 31 December 2017 are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

There were no changes in the share capital of the Company in 2017.

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:

Chairman and Non-Executive Director:

George Jay Hambro

Deputy Chairman and Independent Non-Executive Director:

Daniel Rochfort Bradshaw*

Executive Directors:

Yury Makarov
Danila Kotlyarov

Non-Executive Directors:

Cai Sui Xin**
Benjamin Ng***
Patrick Chi Kin Cheng^

Independent Non-Executive Directors:

Simon Murray, *CBE, Chevalier de la Légion d'honneur*
Raymond Woo^^
Jonathan Eric Martin Smith
Chuang-fei Li

* Daniel Rochfort Bradshaw was appointed as Deputy Chairman on 5 January 2018.

** Cai Sui Xin resigned as Non-Executive Director on 5 January 2018.

*** Benjamin Ng, alternate director to Cai Sui Xin prior to his resignation, was appointed as Non-Executive Director on 5 January 2018.

^ As part of the terms of the share subscription (please refer to note 25 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 on 3 February 2017 and he was appointed as a Non-Executive director on that day.

^^ Raymond Woo was re-designated from Non-Executive Director to Independent Non-Executive Director on 5 January 2018.

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 2017, 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 at 31 December 2017
George Jay Hambro	Interest of a controlled corporation*	445,866	0.01%
	Beneficial interest**	34,286,539	0.48%
	Contingent beneficial interest***	62,885,354	0.89%^
Yury Makarov	Beneficial interest	30,911,505	0.44%
	Contingent beneficial interest***	62,885,354	0.89%^
Raymond Kar Tung Woo	Beneficial interest	7,435,360	0.10%
Danila Kotlyarov	Contingent beneficial interest***	62,885,354	0.89%^
Cai Sui Xin^^	Interest of a controlled corporation	1,513,026,000^^^	21.33%

* 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 and on 29 September 2017. Details of the share option scheme are set out on page 132 of the 2017 Annual Report of the Company under the heading "SHARE-BASED PAYMENTS TRANSACTIONS".

^ These percentages are calculated on the basis of 7,093,386,381 Shares in issue as at 31 December 2017.

^^ 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 2017 was 978,700,000 Shares (representing approximately 13.80% of the total issued shares of the Company as at 31 December 2017).

Long positions in shares of an associated corporation

As at 31 December 2017, Yury Makarov, Executive Director, beneficially holds 75,278 shares of Petropavlovsk PLC ("Petropavlovsk"). Petropavlovsk, through its wholly-owned subsidiary Cayiron Limited, is a substantial shareholder of the Company, and accordingly an associated corporation of the Company.

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.

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 2017.

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 2017, 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 2017
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	1,513,026,000^	21.33%
General Nice Group Holdings Limited***	Interest of a controlled corporation	1,513,026,000^	21.33%
General Nice Development Limited	Beneficial interest	1,513,026,000^	21.33%
A Plus Capital Management Limited	Interest of a controlled corporation	777,500,000	10.96%
Tiger Capital Fund SPC - Tiger Global SP^^	Beneficial interest	777,500,000	10.96%
Full House Asset Management Company Limited^^^	Fund manager	777,500,000	10.96%

* 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 70 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 2017 was 978,700,000 Shares (representing approximately 13.80% of the total issued shares of the Company as at 31 December 2017).

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

^^^ Full House Asset Management Company 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 2017.

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 2017, 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 2017	Actual amount for 2017
A	Shared Services Agreement	Petropavlovsk and/or its subsidiaries	2,035	93
B	Technical Services Agreement	Petropavlovsk and/or its subsidiaries	4,500	–
C	Helicopter Lease Agreement	Petropavlovsk and/or its subsidiaries	1,000	361
D	Helicopter Services Agreement	Petropavlovsk and/or its subsidiaries	2,000	–
E	Equipment Leasing Framework Agreement	Petropavlovsk and/or its subsidiaries	3,500	1,573
			13,035	2,027

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 2017 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 2017 are set out in note 36, 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 15 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 2017 are set out in the Corporate Governance Report on page 51 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 55 and Note 30 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 99% of the total revenue for the year. The largest of them accounted for 54% of the total revenue. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together represented 70% of the Group's total purchases for the year. The largest supplier represented 31% 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 36 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 2017) 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 47 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

27 March 2018

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, 43, 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 the 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 in a Non-Executive capacity. Mr Hambro is also the Chief Investment Officer of the GFG Alliance and Chief Executive Officer of SIMEC Energy & Mining Divisions. He is a Fellow of the Institute of Materials, Minerals and Mining and holds a BA in Business Management from Newcastle University.

EXECUTIVE DIRECTORS

Yury Makarov
Chief Executive Officer

Mr Yury Makarov, 43, 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, 39, is the Chief Financial Officer 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 companies. He holds a BA in Management from Moscow State University and an MA in International Economics from the Moscow State Institute of International Relations. He is a fellow member of the ACCA, CFA charter holder and has professional diploma in civil and industrial construction.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Daniel Rochfort Bradshaw

Mr Bradshaw, 71, is the Deputy Chairman, Senior Independent Non-Executive Director and Chairman of the Health, Safety and Environment Committee of IRC. 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 director of The Hong Kong Club, a director of the Kadoorie Farm & Botanic Garden Corporation, a non-executive director of Euronav N.V., an Independent Non-Executive Director of Pacific Basin Shipping Limited, an Independent Non-Executive Director of GasLog MLP, and a member of the Executive Council of the World Wide Fund for Nature Hong Kong.

Jonathan Martin Smith

Mr Jonathan Martin Smith, 59, is an Independent Non-Executive Director and Chairman of the Remuneration Committee. He is a partner of the specialist mining advisory firm Legacy Hill Capital. 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 Broe. He is a graduate from the Royal Military Academy Sandhurst where he served as an officer in the Welsh Guards until 1982.

Chuang-fei Li

Mr Chuang-fei Li, 71, 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, 78, 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 the NED of China LNG Group Limited and Greenheart Group Limited, and the INED of Orient Overseas International Limited, Wing Tai Properties and Spring Asset Management Limited (the manager of Spring REIT), all of which are listed in Hong Kong.

Raymond Woo

Mr Raymond Woo, 48, was redesignated as an Independent Non-Executive Director of IRC on 5 January 2018. Mr Woo began his career at Arthur Andersen, then an investment banker at ING, CITIC Securities and Credit Suisse. He holds a Bachelor of Commerce 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 and then as INED on 5 January 2018, he was the Executive Director, CFO and Company Secretary of IRC.

NON-EXECUTIVE DIRECTORS

Benjamin Tse For Ng

Mr Benjamin Ng, 56, is the Non-Executive Director of IRC, prior to that Mr Ng was the Alternate Director of Mr Cai Sui Xin, the former Non-Executive Director of IRC. Mr Ng is currently the Executive Director of Silk Road Logistics Holdings Limited, a company listed in Hong Kong, since September 2008.

Patrick Chi Kin Cheng

Mr Patrick Cheng, 49, is an Executive Director of Sino Haijing Holdings, a listed company in Hong Kong. He is a CPA 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, 61, 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, until which he relinquished in July 2017.

SENIOR MANAGEMENT

Johnny Yuen

Mr Johnny Yuen, 45, 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 78 to 150, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, 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 2017, 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 in the consolidated financial statements which states that as at 31 December 2017, the Group's current liabilities exceeds its current assets by US$36.0 million and that the Group is refinancing its loan facilities to enable it to meet its liquidity needs for the next twelve months from the end of the reporting period. The refinancing is subject to approval by the banks indicating that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of iron ore sales	
We identified revenue recognition of iron ore sales as a key audit matter due to the commissioning of the Group's Kimkan and Sutara project (the "K&S Project") during the year and its significant amount to the consolidated financial statements and management judgement required to determine when the risks and rewards have been transferred under certain contractual arrangements with third parties. Substantially all of the output from the K&S Project has been sold to third party customers domiciled in the People's Republic of China. The Group has recognised revenue of US$108 million in relation to sales of iron ore concentrate for the year ended 31 December 2017 as set out in note 6 to the consolidated financial statements.	Our procedures in relation to the revenue recognition of iron ore sales included: • Obtaining and inspecting the master sales contracts signed with the customers for terms that could affect the revenue recognition; • Understanding the Group's accounting policy on the revenue recognition of iron ore sales and assessing whether the revenue recognition policies adopted complied with HKFRSs; • Comparing the monthly production and shipment information to the production capacity of the K&S Project; • Checking the revenue recorded close to the year, on a sample basis, against the shipping documents; and • Agreeing details of sales recognised on a sample basis to the underlying supporting documents such as sales contracts and sales invoices.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of non-financial assets	
We identified the impairment of non-financial assets as a key audit matter due to the inherent subjectivity within the estimation of the present value of the future cash flows, a key component of determining the assets' recoverable amounts. The recoverable amounts of the non-financial assets have been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows based on projected income and expenses of the business and working capital needs. Management is also required to choose suitable discount rates in order to calculate the present values of those cash flows. Changes in the key assumptions on which the recoverable amount of the assets are based could significantly affect the Group's assessment resulting in an impairment loss being recognised or previously recognised amount being further reversed. As stated in note 9 to the consolidated financial statements, the Group has performed impairment assessment of non-financial assets which resulted in a reversal of previously recognised impairment charge of US$129.6 million.	Our procedures in relation to the impairment of non-financial assets included: • Obtaining an understanding of the process over the annual impairment assessment including the Group's assessment of impairment indicators, preparation of the cash flow forecasts, setting of reasonable and supportable assumptions and inputs to the models used to estimate the recoverable amount; • Testing the reasonableness of assumptions and the inputs used to determine the cash flow forecasts against historical performance, economic and industry indicators, publicly available information and the Group's strategic plans; • Involving our internal valuation specialists to assess the appropriateness of the discount rate used; • Checking the underlying calculations used in the Group's assessment and performing sensitivity testing of the inputs used; and • Evaluating the sensitivity analysis performed by the management on the inputs used to evaluate the extent of impact on the estimated future 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.

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

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.

- 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.

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

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 Stephen David Smart.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
Revenue	6	**109,265**	16,467
Operating expenses	8	**(106,092)**	(35,192)
Impairment charges reversed (recognised)	9	**129,614**	(47)
		132,787	(18,772)
Share of result of a joint venture		**–**	47
		132,787	(18,725)
Other income, gains and losses	10	**2,134**	689
Financial income	11	**114**	413
Financial expenses	12	**(22,410)**	(1,189)
Profit (loss) before taxation		**112,625**	(18,812)
Income tax credit (expense)	13	**590**	(315)
Profit (loss) for the year		**113,215**	(19,127)
Profit (loss) for the year attributable to:			
Owners of the Company		**113,254**	(18,226)
Non-controlling interests		**(39)**	(901)
		113,215	(19,127)
Earnings (loss) per share (US cents)	17		
Basic		**1.60**	(0.30)
Diluted		**1.60**	(0.30)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
Profit (loss) for the year	**113,215**	(19,127)
Other comprehensive income (expense) for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**390**	1,555
Fair value loss on hedging instruments in cash flow hedges	**(1,852)**	–
Total comprehensive income (expense) for the year	**111,753**	(17,572)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**111,719**	(17,025)
Non-controlling interests	**34**	(547)
	111,753	(17,572)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
NON-CURRENT ASSETS			
Exploration and evaluation assets	18	**19,149**	18,856
Property, plant and equipment	19	**459,118**	333,690
Interest in a joint venture		**–**	–
Other non-current assets		**97**	76
Restricted bank deposit	27	**1,977**	1,977
Value-added tax recoverable	19	**2,918**	2,720
		483,259	357,319
CURRENT ASSETS			
Inventories	21	**28,616**	20,371
Trade and other receivables	20	**25,410**	23,813
Time deposits	22	**347**	–
Bank balances	23	**8,650**	31,342
		63,023	75,526
TOTAL ASSETS		**546,282**	432,845
CURRENT LIABILITIES			
Trade and other payables	24	**(33,598)**	(21,471)
Income tax payable		**(2,638)**	(346)
Borrowings – due within one year	27	**(60,950)**	(65,744)
Other financial liabilities	28	**(1,852)**	–
		(99,038)	(87,561)
NET CURRENT LIABILITIES		**(36,015)**	(12,035)
TOTAL ASSETS LESS CURRENT LIABILITIES		**447,244**	345,284
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**(3,623)**	(6,486)
Provision for close down and restoration costs	29	**(14,030)**	(10,115)
Construction costs payable	19	**(16,069)**	(17,830)
Borrowings – due more than one year	27	**(162,078)**	(177,239)
		(195,800)	(211,670)
TOTAL LIABILITIES		**(294,838)**	(299,231)
NET ASSETS		**251,444**	133,614

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED...)

At 31 December 2017

	NOTE	**2017 US$'000**	2016 US$'000
CAPITAL AND RESERVES			
Share capital	25	**1,285,158**	1,285,158
Capital reserve		**17,984**	17,984
Reserves		**14,222**	9,680
Accumulated losses		**(1,065,887)**	(1,179,141)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**251,477**	133,681
NON-CONTROLLING INTERESTS		**(33)**	(67)
TOTAL EQUITY		**251,444**	133,614

The consolidated financial statements on pages 78 to 150 were approved and authorised for issue by the Board of Directors on 27 March 2018 and are signed on its behalf by:

Yury Makarov
DIRECTOR

Danila Kotlyarov
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Total attributable to owners of the Company									
	Share capital US$'000	Capital reserve[(a)] US$'000	Share-based payment reserve US$'000	Translation reserve US$'000	Hedging 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 2016	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 income for the year										
Exchange differences on translation of foreign operations	–	–	–	1,201	–	–	–	1,201	354	1,555
Total comprehensive income (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 25)	24,589	–	–	–	–	–	–	24,589	–	24,589
Transaction costs attributable to issue of new shares (note 25)	(96)	–	–	–	–	–	–	(96)	–	(96)
Grant of share options (note 25)	–	–	–	–	–	802	–	802	–	802
Transaction costs attributable to grant of share options (note 25)	–	–	–	–	–	(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
Profit (loss) for the year	–	–	–	–	–	–	113,254	113,254	(39)	113,215
Exchange differences on translation of foreign operations	–	–	–	317	–	–	–	317	73	390
Fair value loss on hedging instruments in cash flow hedges	–	–	–	–	(1,852)	–	–	(1,852)	–	(1,852)
Total comprehensive income (expenses) for the year	–	–	–	317	(1,852)	–	113,254	111,719	34	111,753
Share-based payments	–	–	1,515	–	–	–	–	1,515	–	1,515
Deemed contribution from a shareholder	–	–	–	–	–	4,562	–	4,562	–	4,562
Balance at 31 December 2017	1,285,158	17,984	14,190	(21,882)	(1,852)	23,766	(1,065,887)	251,477	(33)	251,444

(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 25), 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 25).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	NOTES	2017 US$'000	2016 US$'000
OPERATING ACTIVITIES			
Net cash generated from operations	32	**21,718**	1,006
Income tax paid		**(154)**	(268)
NET CASH FROM OPERATING ACTIVITIES		**21,564**	738
INVESTING ACTIVITIES			
Restricted bank deposits placed		**–**	(26,131)
Restricted bank deposits withdrawn		**–**	26,273
Purchase of property, plant and equipment and exploration and evaluation assets		**(6,784)**	(14,734)
Time deposits placed	22	**(347)**	(2,990)
Time deposits withdrawn	22	**–**	9,950
Proceeds from a constructor for compensation on remedial and associated works	19	**–**	4,508
Proceeds on disposal of property, plant and equipment		**–**	1,696
Interest received		**114**	413
NET CASH USED IN INVESTING ACTIVITIES		**(7,017)**	(1,015)
FINANCING ACTIVITIES			
Proceeds from borrowings		**27,374**	30,619
Repayment of borrowings		**(49,168)**	(60,425)
Interest expenses paid		**(14,244)**	(10,150)
Loan guarantee fee paid		**(1,147)**	(1,126)
Dividends paid		**–**	(995)
Transaction costs attributable to issuance of new shares and share options		**–**	(99)
Proceeds from issuance of new shares and share options		**–**	25,391
NET CASH USED IN FINANCING ACTIVITIES		**(37,185)**	(16,785)
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**(22,638)**	(17,062)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**31,342**	49,184
Effect of foreign exchange rate changes		**(54)**	(780)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**8,650**	31,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 the People's Republic of China ("PRC") and the Group predominantly serves the Russian and Chinese markets. The activities of the Company's principal subsidiaries are set out in note 37.

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 net current liabilities position of approximately US$36.0 million and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations, cash and cash equivalents and the credit facilities being refinanced by the Group.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project ("K&S Project"), iron ore prices and the US$/Rouble exchange rates for a fifteen month period after 31 December 2017. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

The Group has initiated the process of refinancing and obtaining an amendment and extension of its credit facilities. The amendment includes changes to the financial covenants and the repayment terms. The execution of the amendment is subject to finalisation of required approval by the banks and documentation.

However, if the Group is unable to successfully refinance its loan facilities 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 loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

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 consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED 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 HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financial activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates: (iv) changes in fair value; and (v) other changes.

The Group's liabilities arising from financing activities consist of borrowings and amount due to Petropavlovsk PLC included in other payables. A reconciliation between the opening and closing balance of the item is provided in note 32(c). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 32(c), the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised 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]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

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 2021

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 REVISED 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.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- Debt instruments classified as loan receivables carried at amortised cost as disclosed in note 20: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Except for financial assets subject to expected credit loss measurement, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

The directors of the Company do not expect any material impact on the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 as compared to the accumulated amount recognised under HKAS 39 by applying the expected credit losses model.

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

HKFRS 9 Financial Instruments (Continued)

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of HKFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows by the Group respectively.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$380,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Except as described above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs and interpretations will have no material impact on the Group's financial performance and positions and/or the disclosures to the consolidated financial statements of the Group in future.

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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 ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments that are measured at fair values at the end of cash reporting period, as explained in the accounting 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 exchange 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 the foreign operation attributable to the owners of the Company are reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets

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

Non-mining assets are initially 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, and are subsequently valued at cost less accumulated depreciation and impairment, if any.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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.

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 and 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses of tangible assets (Continued)

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 9.

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 unwinding of the discount applied in establishing the net present value of provision is charged to profit or loss for the year. The unwinding 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, bank balances, restricted bank deposit 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Hedge accounting (Continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of other reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other income, gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (other reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

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.

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

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.

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 shareholders

Where share options are granted to shareholders as part of a share 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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 and 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Determination of production commencement date

The Group assesses the stage of each mine under development to determine when a mine moves into the production phase, this being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine development project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. At this point, all related amounts are reclassified from "Mines in development" to "Mine in production". Some of the criteria used to identify the production start date include, but are not limited to:

- Level of capital expenditure incurred compared with the original construction cost estimate;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to produce metal in saleable form (within specification); and
- Ability to sustain ongoing production of metal

When a mine development project moves into the production phase, the capitalisation of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation commences.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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, changes to iron ore prices, production costs, capacity and increases in the total forecast cost of planned projects or negative outcomes to exploration and evaluation activities could lead to further impairment charges or reversals in the future. With the K&S Project starting commercial production and improvements in the spot iron ore price in the current year, management has revisited the assessment of the recoverable amount of the K&S Project resulting in a partial reversal of the impairment charge of US$129.6 million in the statement of profit or loss for the year ended 31 December 2017 (2016: NIL).

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Ore reserve estimates (Continued)

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.

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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.

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 tax profits of the business and the likelihood and timing of these amounts.

6. REVENUE

An analysis of the Group's revenue is as follows:

	2017 **US$'000**	2016 US$'000
Revenue		
Sale of iron ore concentrate	**108,212**	8,637
Sale of ilmenite	**–**	6,943
Engineering services	**1,053**	887
	109,265	16,467

7. 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 had included the Kuranakh project, which is located in the Evreyskaya Avtononnaya Oblast of the Russian Federation ("EAO Region") in 2016. However, the Group has put the Kuranakh Project under care and maintenance since March 2016. Meanwhile, the K&S Project, which is located in the Russia Far East Region started commercial production in January 2017 and so was transferred from the Mines in Development Segment to Mines in Production during the year ended 31 December 2017.

- Mines in Development segment ("Mines in Development"), comprises iron ore projects in the exploration and development phase. This segment includes the Garinskoye project and the Bolshoi Seym 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 general administration expenses, general depreciation, other income, gains and losses, financial income and financial expenses.

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

For the purposes of monitoring segment performance 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.

The following is an analysis of the Group's revenue and results by separable and reportable segment.

7. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2017

	Mines in production US$'000	Mines in development US$'000	Engineering US$'000	Other US$'000	Total US$'000
Revenue					
External sales	108,212	–	1,053	–	109,265
Segment revenue	108,212	–	1,053	–	109,265
Site operating expenses and service costs	(94,478)	(364)	(1,367)	(12)	(96,221)
Site operating expenses and service costs include:					
Depreciation and amortisation	(14,161)	(266)	(152)	–	(14,579)
Impairment charges reversed	129,614	–	–	–	129,614
Segment profit (loss)	143,348	(364)	(314)	(12)	142,658
General administrative expenses					(9,832)
General depreciation					(39)
Other income, gains and losses					2,134
Financial income					114
Financial expenses					(22,410)
Profit before taxation					112,625
Other segment information					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	10,232	–	–	7	10,239
Exploration and evaluation expenditure capitalised	–	293	–	–	293
Segment assets	496,140	27,941	5,720	11,855	541,656
Central cash and cash equivalents					4,626
Consolidated assets					546,282
Segment liabilities	(54,892)	(651)	(273)	(12,371)	(68,187)
Borrowings					(223,028)
Deferred tax liabilities					(3,623)
Consolidated liabilities					(294,838)

7. 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 and amortisation	–	(7,813)	(152)	–	(7,965)
Inventory written down	(2,346)	–	–	–	(2,346)
Impairment charges	–	–	–	(47)	(47)
Share of result of a joint venture	–	–	–	47	47
Segment loss	(6,533)	(355)	(1,429)	(11)	(8,328)
General administrative expenses					(10,353)
General 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 on property, plant and equipment	2	141,301	3	–	141,306
Exploration and evaluation expenditure capitalised	–	253	–	–	253
Segment assets	6,081	386,987	5,796	12,537	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)

For the year ended 31 December 2017

7. SEGMENT INFORMATION (CONTINUED)

Revenue by geographical location[(a)]

	2017 US$'000	2016 US$'000
PRC	**98,930**	14,518
Japan	**–**	1,047
Russia and the Commonwealth of Independent States	**10,335**	902
	109,265	16,467

(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

The Group's non-current assets, excluding financial assets, are substantially located in Russia.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017 US$'000	2016 US$'000
Heilongjiang Xianglong International Trading Corporation Limited	**60,090**	8,622
Minmetals Luobei International Trading Co., Ltd.	**16,909**	–
Suifenhe Fangda International Trade Co., Ltd.	**16,223**	–
Ningbo Xinfu Titanium Dioxide Co., Ltd.	**–**	4,776

8. OPERATING EXPENSES

	2017 US$'000	2016 US$'000
Site operating expenses and service costs[a]	96,221	24,795
General administration expenses[b]	9,871	10,397
	106,092	35,192

(a) Site operating expenses and service costs

	2017 US$'000	2016 US$'000
Railway tariffs	20,966	9,241
Subcontracted mining costs and engineering services	19,921	1,457
Staff costs	16,405	12,932
Depreciation and amortisation	14,579	7,965
Materials usage	8,368	4,196
Electricity	7,440	1,642
Property tax	6,266	4,162
Other expenses	4,284	555
Rental fee	2,741	310
Fuel	1,591	1,779
Professional fees*	590	112
Office costs	408	379
Insurance	191	19
Bank charges	93	117
Business travel expenses	53	61
Royalties	7	56
Allowance for bad debts	6	–
Inventory written down	–	2,368
Movement in finished goods and work in progress	(5,545)	4,929
Mine development costs capitalised in property, plant and equipment	(2,143)	(27,485)
	96,221	24,795

(b) General administration expenses

	2017 US$'000	2016 US$'000
Staff costs other than share-based payments	5,281	4,825
Share-based payments	1,515	1,130
Professional fees*	1,384	1,116
Business travel expenses	428	413
Office rent	422	996
Office costs	265	281
Other expenses	179	153
Bank charges	163	132
Insurance	148	156
Utilities and other expenses	46	973
Depreciation	39	44
Property tax	1	1
Write-off of bad debts	–	177
	9,871	10,397

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

9. IMPAIRMENT CHARGES REVERSED (RECOGNISED)

The Group follows the requirements of *HKAS 36 Impairment of Assets* to consider whether there are impairment indicators and if so, to determine whether the non-financial assets are impaired. At the end of each reporting period, the management assesses whether there is any indication that the impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the management is required to estimate the recoverable amount of the asset which requires significant judgment. In making this judgment, management considers factors including changes in the cash costs of production, available ore reserves, purity of the iron ore concentrates, forecasted iron and ilmenite prices and exchange rates.

With the K&S Project starting commercial production and improvements in the spot iron ore price in the current year, management has revisited the assessment of the recoverable amount of the K&S Project resulting in a partial reversal of the impairment charge of US$129.6 million in the statement of profit or loss for the year ended 31 December 2017 (2016: NIL).

The recoverable amount of the K&S Project has been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows based on projected income and expenses of the business and working capital needs that have taking into consideration the future economic conditions, expected production capacity, iron ore prices and the US$/Rouble exchange rates over the expected life of the mine. Management is also required to choose suitable discount rates in order to calculate the present values of those cash flows. The discount rate used was 12% (2016: 12%). Changes in the key assumptions on which the recoverable amounts of the assets are based could significantly affect management's assessment.

Due to the current iron and ilmenite price environment and the higher operating costs, operating the Kuranakh mine remains uneconomical and it remains under care and maintenance since March 2016. For the purpose of the impairment testing of the Kuranakh project, the recoverable amount of the project has been determined based on its value in use, being the estimated future cash flows of the project discounted to their present value using a discount rate of 12.0% (2016: 12.0%). No additional impairment or reversal of impairment has been recognised.

As at 31 December 2017, the recoverable amount of the property, plant and equipment of the K&S Project is approximately US$454 million.

10. OTHER INCOME, GAINS AND LOSSES

	2017 **US$'000**	2016 US$'000
Net foreign exchange loss	**(857)**	(3,440)
Net gain on disposal of property, plant and equipment	**539**	2,743
Rental income	**2,535**	1,386
Others	**(83)**	–
	2,134	689

For the Year ended 31 December 2017

11. FINANCIAL INCOME

	2017 US$'000	2016 US$'000
Interest income on cash and cash equivalents	**109**	208
Interest income on time deposits	**–**	199
Others	**5**	6
	114	413

12. FINANCIAL EXPENSES

	2017 US$'000	2016 US$'000
Interest expense on borrowings (note)	**16,083**	14,828
Less: Interest expense capitalised to property, plant and equipment	**–**	(14,371)
	16,083	457
Loan guarantee fee	**4,128**	–
Unwinding of discount on environmental obligation and long-term construction costs payable	**2,199**	732
	22,410	1,189

Note: For the year ended 31 December 2016, interest expense included a loan guarantee fee of US$4,625,000 which was capitalised to property, plant and equipment.

13. INCOME TAX (CREDIT) EXPENSE

	2017 US$'000	2016 US$'000
Current:		
Russian Corporate tax	**(2,313)**	(19)
Cyprus Corporate tax	**–**	(102)
Hong Kong Profits tax	**–**	(38)
	(2,313)	(159)
Prior year:		
Underprovision in prior years of Cyprus Corporate tax	**–**	(131)
	(2,313)	(290)
Deferred tax credit (expense) (note 26)	**2,903**	(25)
	590	(315)

Russian 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, the K&S Project is considered to be an investment project and is eligible for income tax relief over 10 years starting from August 2015. The K&S Project is exempted from Russian Corporate tax for the period from August 2015 to August 2020 and then, will be taxed at a reduced rate of 10% for the following 5 years increasing to 20% thereafter.

Cyprus Corporate tax is calculated at a rate of 12.5% of the estimated assessable profit for both years.

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for both years.

13. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

No United Kingdom Corporate tax and PRC Enterprise Income tax has been recognised as the Group had no assessable profit arising in or derived from these jurisdictions during both years. The charge for the year can be reconciled to profit before taxation per the consolidated statement of profit or loss as follows.

	2017 US$'000	2016 US$'000
Profit (loss) before taxation	**112,625**	(18,812)
Tax at the Russian corporation tax rate of 20%[a]	**22,525**	(3,763)
Effect of different tax rates of subsidiaries' operations in other jurisdictions	**594**	1,601
Tax effect of share of result of a joint venture	**–**	(9)
Tax effect of tax losses not recognised	**4,090**	1,738
Tax effect of utilisation of tax losses previously not recognised	**(1,766)**	(5,543)
Tax effect arising from exchange adjustments on non-monetary assets	**(4,806)**	5,293
Tax effect of income that is not taxable in determining taxable profit	**(25,925)**	(88)
Tax effect of expenses that are not deductible in determining taxable profit	**4,698**	955
Underprovision in prior years	**–**	131
Income tax (credit) expense for the year	**(590)**	315

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

14. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows:

	2017 US$'000	2016 US$'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	**123**	93
Total	**486**	456

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

The aggregate remuneration of employees (including directors) comprised:

	2017 US$'000	2016 US$'000
Wages and salaries	**16,690**	13,820
Social security and other benefits	**4,850**	3,793
Retirement benefit contribution	**146**	144
Share-based payments	**1,515**	1,130
	23,201	18,887

	2017 US$'000	2016 US$'000
Directors' emoluments		
Emoluments for executive directors:		
– salaries and other benefits	**1,211**	1,143
– retirement benefit contributions	**82**	83
– share-based payments	**384**	295
Emoluments for non-executive directors:		
– directors' fees	**768**	659
– retirement benefit contributions	**23**	21
– share-based payments	**192**	136
	2,660	2,337

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

	2017				
	Directors' fees US$'000	Salaries and other benefits US$'000	Retirement benefit contribution US$'000	Share-based payments[g] US$'000	Total US$'000
Executive directors:					
Yury Makarov	–	642[i]	80	192	914
Danila Kotlyarov[d]	–	569[i]	2	192	763
Non-executive directors:					
Non-executive directors					
George Jay Hambro[c]	181[h]	–	23	192	396
Cheng Chi Kin[a]	76	–	–	–	76
Cai Sui Xin[b]	–	–	–	–	–
Raymond Woo	83	–	–	–	83
Independent non-executive directors					
Daniel Bradshaw	115	–	–	–	115
Jonathan Martin Smith	115	–	–	–	115
Chuang-fei Li	115	–	–	–	115
Simon Murray[e]	83	–	–	–	83
	768	1,211	105	576	2,660

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

	2016				
	Directors' fees US$'000	Salaries and other benefits US$'000	Retirement benefit contribution US$'000	Share-based payments[g] US$'000	Total US$'000
Executive directors:					
George Jay Hambro[c]	–	39[h]	5	7	51
Yury Makarov	–	612[i]	76	144	832
Danila Kotlyarov[d]	–	492[j]	2	144	638
Non-executive directors:					
Non-executive directors					
George Jay Hambro[c]	166[h]	–	21	136	323
Simon Murray[e]	17	–	–	–	17
Cai Sui Xin[b]	–	–	–	–	–
Liu Qingchun[f]	–	–	–	–	–
Raymond Woo	80	–	–	–	80
Independent non-executive directors					
Daniel Bradshaw	111	–	–	–	111
Jonathan Martin Smith	111	–	–	–	111
Chuang-fei Li	111	–	–	–	111
Simon Murray[e]	63	–	–	–	63
	659	1,143	104	431	2,337

Notes:

(a) Appointed as non-executive director on 3 February 2017

(b) Resigned as non-executive director on 5 January 2018

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

(d) Appointed as executive director on 20 January 2016

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

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

(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 30.

(h) Included in directors' fees and salaries was US$98,000 (2016: US$86,000) and retirement benefit contributions of US$23,000 (2016: US$25,000) paid to a service company which is an affiliated company of the director.

(i) Included in salaries was US$36,000 (2016: US$32,000) paid by subsidiaries.

(j) Included in salaries was US$6,000 (2016: US$11,000) paid by subsidiaries.

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

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 for their services as directors of the Company.

Mr. Yury Makarov and Mr. Danila Kotlyarov are also the Chief Executive and the Chief Financial Officer of the Company respectively and their emoluments disclosed above include those for services rendered by them as the Chief Executive and the Chief Financial Officer.

Five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals included three directors of the Company (2016: three directors of the Company). The emoluments of the remaining highest paid individuals for the years ended 31 December 2017 and 2016 are as follows:

	2017 **US$'000**	2016 US$'000
Employees		
– salaries and other benefits	**471**	440
– share-based payments	**138**	109
	609	549
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
HK$2,000,001 to HK$2,500,000		
(equivalent to approximately US$256,411 to US$320,513)	**1**	1
HK$2,500,001 to HK$3,000,000		
(equivalent to approximately US$320,514 to US$384,615)	**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 waived or agreed to waive 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 during the year.

During the year, certain directors and employees were granted share options, in respect of their services to the Group under share options scheme of the Company. Details of the share option scheme are set out in note 30 to the Group's consolidated financial statements.

16. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

17. EARNINGS (LOSS) PER SHARE

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

Profit (loss) for the year

	2017 US$'000	2016 US$'000
Profit (loss) for the purposes of basic and diluted earnings (loss) per ordinary share being profit (loss) for the year attributable to owners of the Company	**113,254**	(18,226)

Number of shares

	2017 Number '000	2016 Number '000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**7,093,386**	6,175,320

The computation of diluted earnings (loss) per share for the years ended 31 December 2017 and 2016 does not 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 Company's shares.

18. EXPLORATION AND EVALUATION ASSETS

	2017 US$'000	2016 US$'000
At the beginning of the year	**18,856**	18,603
Additions	**293**	253
At the end of the year	**19,149**	18,856

Garinskoye and Bolshoi Seym Deposit are classified as exploration and evaluation assets. Additions mainly related to capitalised costs incurred on exploration and evaluation activities.

19. 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 2016	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
Additions	5,116	5,116	7	–	10,239
Transfers	(771,766)	882,398	(8,340)	(102,292)	–
Disposals	(21)	(4,115)	(431)	–	(4,567)
Exchange adjustments	–	–	295	–	295
At 31 December 2017	377,975	1,002,619	43,437	15,552	1,439,583
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	(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)
Depreciation charge for the year	–	(13,905)	(713)	–	(14,618)
Transfer	572,306	(572,306)	–	–	–
Impairment loss reversed in profit or loss	–	129,614	–	–	129,614
Eliminated on disposals	21	4,115	431	–	4,567
Exchange adjustments	–	–	(102)	–	(102)
At 31 December 2017	(358,161)	(571,702)	(35,101)	(15,501)	(980,465)
CARRYING AMOUNTS					
At 31 December 2017	19,814	430,917	8,336	51	459,118
At 31 December 2016	214,158	–	17,189	102,343	333,690

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2016, cumulative capitalised borrowing costs of US$56,431,000 were included within mine development costs in the above table. The whole amount of the capitalised borrowing costs has been transferred from mine development costs to mining assets during the year ended 31 December 2017. Depreciation of US$35,000 relating primarily to assets used in the construction of plant in the K&S Project was capitalised during the year ended 31 December 2017 (2016: US$3,643,000).

Property, plant and equipment with a net book value of US$5,561,000 (2016: US$5,825,000) have been pledged to secure the bank borrowings of the Group.

At 31 December 2017 and 2016, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment.

In connection with the Engineering Procurement and Construction Contract (the “EPC Contract”) entered into between the Group and China National Electric Engineering Corporation (“CNEEC”) on 6 December 2010 and the additional agreement signed on 27 December 2016 for the K&S Project, the Group is pursuing CNEEC for penalty claims pertaining to the delay in completion of the infrastructure works of the K&S Project amounting to US$27.6 million (the “Delay Penalties”).

The Group owes CNEEC a final payment of US$26.6 million to be settled in tranches of 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 has been offset against the Delay Penalties, the remaining US$22.7 million has been measured at amortised cost, carried floating interest rate. The effective interest rate is 8.16% per annum for 2017.

Hence, a construction costs payable amounting to approximately US$16,069,000 has been recorded as a non-current liability. The related value-added tax recoverable of US$2,918,000 calculated at the value-added tax rate of 18% has been recorded as a non-current asset.

20. TRADE AND OTHER RECEIVABLES

	2017 US$'000	2016 US$'000
Value-added tax recoverable	**8,063**	3,750
Advances to suppliers	**2,603**	1,203
Amounts due from customers under engineering contracts	**167**	358
Trade receivables	**1,803**	4,276
Other debtors	**12,774**	14,226
	25,410	23,813

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 2017 and 2016 related to iron ore concentrate and ilmenite sold and services performed under engineering contracts invoiced to those customers.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Other debtors at 31 December 2017 and 2016 are mainly contributed by interest receivable from General Nice, please see details in notes 25 and 36.

The Group has a concentration of credit risk at 31 December 2017 as 93.5% (31 December 2016: 97.5%) 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 and minimising its risk by receiving substantial upfront payments. The Group's exposure and credit ratings of its counterparties are monitored closely by management. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

99% of the trade receivables that are neither past due nor impaired are considered to be of good credit quality based on their settlement records for both years ended 31 December 2017 and 2016.

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.

	2017 **US$'000**	2016 US$'000
Less than one month	**1,791**	4,057
One month to three months	**1**	176
Three months to six months	**–**	11
Over six months	**11**	32
Total	**1,803**	4,276

The Group allows credit period ranging from 10 days to 53 days (2016: 10 days to 90 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.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2017 **US$'000**	2016 US$'000
Three months to six months	**–**	11
Over six months	**11**	32
Total	**11**	43

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:

	2017 **US$'000**	2016 US$'000
At the beginning of the year	**143**	799
Amounts written off as uncollectible	**(113)**	(877)
Exchange adjustments	**1**	221
At the end of the year	**31**	143

Included in the allowance for doubtful debts were impaired trade receivables of US$31,000 and US$143,000 as at 31 December 2017 and 2016, respectively. The amount at 31 December 2017 mainly represented impairment for non-trade debtors at LLC Olekminsky Rudnik, LLC KS GOK and LLC Orlovsko-Sokhatinskiy Rudnik (non-trade debtors at LLC Olekminsky Rudnik, LLC KS GOK and LLC Orlovsko-Sokhatinskiy Rudnik as at 31 December 2016) 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.

21. INVENTORIES

	2017 US$'000	2016 US$'000
Stores and spares	**9,187**	6,505
Work in progress	**16,811**	12,827
Finished goods	**2,618**	1,039
	28,616	20,371

No inventories had been pledged as security during the years ended 31 December 2017 and 2016.

No inventories were written down or recovered to its net realisable value during the year ended 31 December 2017 (2016: 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 estimated net realisable value). Recovery of the inventories in the prior 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$7,799,000 for the year ended 31 December 2017 (2016: US$7,810,000).

22. TIME DEPOSITS

Time deposits of the Group as at 31 December 2017 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 2017, time deposits bore interest at prevailing market rates ranging from 7% to 7.3% per annum. The Group did not have time deposits as at 31 December 2016.

23. BANK BALANCES

Bank balances 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 0.44% to 10.2% (2016: 0.2% to 9.15%) per annum for the year ended 31 December 2017.

24. TRADE AND OTHER PAYABLES

	2017 US$'000	2016 US$'000
Trade payables	**4,369**	1,675
Advances from customers	**62**	349
Accruals and other payables	**29,167**	19,447
	33,598	21,471

The average credit period on purchases of goods and services for the year was 27 days (2016: 30 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.

	2017 US$'000	2016 US$'000
Less than one month	**3,361**	1,571
One month to three months	**854**	53
Three months to six months	**8**	33
Over six months	**146**	18
Total	**4,369**	1,675

25. SHARE CAPITAL

Details of the allotment and issuance of ordinary shares by the Company during the years ended 31 December 2017 and 2016 are as follows:

	Number of shares	Share capital US$'000
Issued and fully paid		
At 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 and 2017	7,093,386,381	1,285,158

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 2017.

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.

25. 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 in 2016 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 have been fully vested in 2017.

At 31 December 2017, the Option Shares granted to Tiger Capital Fund remained outstanding. No Option Shares granted were exercised or lapsed during the year ended 31 December 2017.

The fair value of the Option Shares granted in 2016 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.

26. 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 2016	(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)
Credit (charge) to profit or loss	27	(72)	(1,945)	4,806	87	2,903
Exchange adjustments	(39)	4	–	–	(5)	(40)
At 31 December 2017	(753)	26	49,279	(52,075)	(100)	(3,623)

At 31 December 2017 and 2016, the Group had unused tax losses of US$380 million and US$373 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$1,945,000 have been utilised in 2017 in respect of US$140 million of unused tax losses and US$5,257,000 have been recognised in 2016 in respect of US$144 million of unused tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$240 million (2016: US$229 million) due to the unpredictability of future taxable profit streams.

At 31 December 2017, the Group had deductible temporary difference of US$25.1 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 (2016: US$31.7 million in respect of temporary differences arising on 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). No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future taxable 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 the Russian Corporate tax rate of 20%. Unremitted earnings that would be subject to taxation comprised an aggregate of US$3.6 million and US$3.7 million at 31 December 2017 and 2016, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED...)

For the Year ended 31 December 2017

27. BORROWINGS

	2017 US$'000	2016 US$'000
Bank loans		
Industrial and Commercial Bank of China ("ICBC")	**221,578**	219,739
Sberbank of Russia PJSC	**1,450**	1,430
	223,028	221,169
Other loans		
Polisko LLC	–	12,466
Uzhuralzoloto Group of Companies JSC ("Uzhuralzoloto JSC")	–	9,348
	–	21,814
Total	**223,028**	242,983
Secured	**223,028**	230,517
Unsecured	–	12,466
	223,028	242,983
Carrying amounts repayable		
Within one year	**60,950**	65,744
More than one year, but not exceeding two years	**55,344**	39,387
More than two years, but not exceeding five years	**106,734**	118,160
More than five years	–	19,692
Total	**223,028**	242,983

27. BORROWINGS (CONTINUED)

Bank loan from ICBC

The Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") on 13 December 2010 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. 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. On 27 February 2017, ICBC 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 a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US$8,500,000 to an amount equal to US$42,500,000.

The loan is carried at amortised cost and is interest bearing at an effective interest rate of 6.41% (2016: 6.13%) per annum. The outstanding loan principal was US$233,750,000 as at 31 December 2017 and 2016. As at 31 December 2017 and 2016, the Group had no undrawn finance facility available under the ICBC Facility Agreement.

As at 31 December 2017, a required balance of US$1,977,000 (2016: US$1,977,000) was deposited in a debt service reserve account ("DSRA") with ICBC under a security deposit agreement ("DSRA Agreement") related to the ICBC Facility agreement without replenishment. Hence, the deposits was presented as restricted deposit under non-current assets.

Details of guarantee granted by Petropavlovsk PLC in relation to the ICBC Facility Agreement are set out in note 36.

Bank loan from Sberbank of Russia PJSC

On 17 November 2016, Ariti HK Ltd., a wholly-owned subsidiary of the Company, obtained a 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 2017, the Group drew down an aggregate of US$27,374,000 from this facility in several tranches on a rolling basis and US$27,354,000 was repaid in aggregate during the year.

As at 31 December 2017, the Group had an undrawn loan facility of US$8,550,000 with Sberbank of Russia PJSC. The loan was secured against a helicopter owned by LLC GMMC.

The Group has initiated the process of refinancing and obtaining an amendment and extension of its credit facilities. The amendment includes changes to the financial covenants and the repayment terms. The execution of the amendment is subject to finalisation of required approval and documentation.

Loan from Polisko LLC and Uzhuralzoloto

The loan from a subsidiary of Petropavlovsk PLC, a substantial shareholder of the Company, through Polisko LLC and the loan from Uzhuralzoloto were fully repaid in January 2017.

28. OTHER FINANCIAL LIABILITIES

	Current	
	2017	2016
	US$'000	US$'000
Other financial liabilities		
Derivatives under hedge accounting		
Cash flow hedges – Commodity Swap Contracts	**1,852**	–
	1,852	–

Cash flow hedges

At the end of the reporting period, the Group had the following commodity swap contracts designated as highly effective hedging instruments in order to manage the Group's iron ore price exposure in relation to iron ore forecast sales.

The terms of the commodity swap contracts have been negotiated to match the terms of the respective designated hedged items. The major terms of these contracts are as follows:

31 December 2017

Notional amount	Maturity	Swap price
Sell 450,000 tonne iron ore 62% Fe	30.4.2018	US$59.95 to US$75.00
Sell 630,000 tonne iron ore 62% Fe	31.8.2018	US$63.30 to US$74.50

During the year ended 31 December 2017, fair value losses of US$1,852,000 (2016: NIL) have been recognised in other comprehensive income and accumulated in equity and are expected to be reclassified to profit or loss.

The fair value of commodity swap contracts at the end of the reporting period are provided by counterparty financial institutions.

During the year, the losses on changes in fair value of the commodity swap contracts under cash flow hedges amounting to US$2,145,000 has been recognised in other comprehensive income, and the fair value changes of the hedging instruments amounting to US$293,000 were reclassified from hedging reserve to profit or loss in the same period when the hedged item affects profit or loss and upon the settlement.

29. PROVISION FOR CLOSE DOWN AND RESTORATION COSTS

	2017 US$'000	2016 US$'000
At the beginning of year	**10,115**	6,449
Unwinding of discount	**795**	732
Exchange adjustments	**579**	1,506
Change in estimates	**2,541**	1,428
At the end of year	**14,030**	10,115

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 2017 and 2016 represents the provision recognised for Kuranakh Project discounted at 6.8% (2016: 8%) 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 7.4% (2016: 8.3%) per annum with the expected timing of cash outflow on the closure of mining operation to be after 2029.

30. SHARE-BASED PAYMENTS TRANSACTIONS

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.

30. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

Share Option Scheme (Continued)

Share Options granted in 2015

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.

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 25 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. 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. 40,388,008 share options) shall now only vest in 2017. As such, 40,388,003 share options were vested in 2016 and are exercisable. Further, one-third (37,288,055 share options) of the remaining share options (111,864,152 share options) due to vest in 2017 has been cancelled as approved by the remuneration committee of the Company and the effect of accelerating the expense is not significant.

At 31 December 2017, 15,499,783 (2016: NIL) share options were forfeited and 189,540,197 share options (2016: 242,328,035 share options) granted remained outstanding under the scheme. The number of exercisable share options under the scheme is 114,964,100 (2016: 40,388,003) as at 31 December 2017. No share options were exercised during the years ended 31 December 2017 and 2016.

30. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

Share Option Scheme (Continued)

Share Options granted in 2017

On 29 September 2017, 296,400,000 share options were granted to the Company's selected employees and directors. The exercise price is HK$0.2728 per share, which is higher than the closing price of the Company's shares on the date of grant of HK$0.248 per share.

Of the total 296,400,000 share options, 111,600,000 share options were granted to directors of the Company, and 184,800,000 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 28 September 2018;

– one-third of the Options granted to each Grantee shall vest on 28 September 2019; and

– one-third of the Options granted to each Grantee shall vest on 28 September 2020.

Each one-third tranche of the share options granted in 2017 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.

At 31 December 2017, 296,400,000 share options that were granted on 29 September 2017 remained outstanding under the scheme and not exercisable. No share options were exercised or lapsed during the year ended 31 December 2017.

30. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

Share Option Scheme (Continued)

Share Options granted in 2017 (Continued)

The fair value of the share options granted during the year ended 31 December 2017 was approximately HK$34,829,000 and was determined using the Binomial valuation model by an independent valuer, RSM Consulting (Hong Kong) Limited with value per option in the range of HK$0.1096 to HK$0.1236. The significant inputs into the model are as follows:

Share price, at the grant date (HK$)	0.248
Exercise price (HK$)	0.2728
Expected volatility (%)	62.50
Expected dividend yield (%)	–
Expected share option life (years)	5
Annual risk-free interest rate (%)	1.29

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 at the date of the valuation.

The Binomial 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 5 years.

The amount expensed under the Share Option Scheme during the year ended 31 December 2017 totalled US$1,515,000 (2016: US$1,130,000).

31. 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 2017 amounted to US$41,000 (2016: US$40,000) and represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2017, contributions of US$5,000 (2016: US$5,000) due in respect of the year ended 31 December 2017 (2016) 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 2017 is US$105,000 (2016: US$104,000).

32. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of loss before taxation to cash used in operations

	2017 US$'000	2016 US$'000
Profit (loss) before taxation	**112,625**	(18,812)
Adjustments for:		
Depreciation of property, plant and equipment	**14,618**	8,009
Financial income	**(114)**	(413)
Financial expenses	**22,410**	1,189
Net gain on disposal of property, plant and equipment	**(539)**	(2,743)
Impairment charges (reversed) recognised	**(129,614)**	47
Inventory written down	**–**	2,368
Share-based payments and LTIP expense	**1,515**	1,130
Share of result of a joint venture	**–**	(47)
Net foreign exchange loss	**857**	3,519
Write off doubtful debts	**–**	177
Depreciation capitalisation	**–**	(7,044)
Other non-cash adjustments	**18**	206
Operating cash flows before movements in working capital	**21,776**	(12,414)
(Increase) decrease in inventories	**(8,665)**	6,715
Decrease in trade and other receivables	**2,295**	6,644
Increase in trade and other payables	**6,312**	61
Net cash generated from operations	**21,718**	1,006

32. NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

(b) Major non-cash transactions

For the year ended 31 December 2016, property, plant and equipment were acquired but not yet been settled was US$1,360,000 (2017: NIL).

There were no other major non-cash transactions during the years ended 31 December 2017 and 2016.

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings US$'000 (Note 27)	Amount due to Petropavlovsk PLC included in other payables US$'000	Total US$'000
At 1 January 2017	242,983	3,396	246,379
Financing cash flows	(36,038)	(1,147)	(37,185)
Interest expense	16,083	–	16,083
Loan guarantee fee	–	4,128	4,128
At 31 December 2017	223,028	6,377	229,405

33. OPERATING LEASE

The Group as a lessee

	2017 US$'000	2016 US$'000
Minimum lease payments paid under operating leases during the year	**3,163**	1,306

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:

	2017 US$'000	2016 US$'000
Within one year	**121**	–
In the second to fifth year inclusive	**259**	–
	380	–

Operating lease payments as at 31 December 2017 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.

The Group as a lessor

The Group earned property rental income of approximately US$2,535,000 during the year ended 31 December 2017 (2016: US$1,386,000), relating to the sub-let of part of the floor space of buildings owned by OJSC Giproruda, machineries and wagons subleased by LLC KS GOK, subsidiaries of the Group. At 31 December 2017 and 2016, 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$657,000 and US$976,000 as at 31 December 2017 and 2016 respectively.

	2017 US$'000	2016 US$'000
Within one year	**436**	431
In the second to fifth year inclusive	**221**	545
	657	976

34. CAPITAL 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 27 in relation to the bank credit facilities.

35. FINANCIAL INSTRUMENTS

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 2017 US$'000	Carrying value as at 31 December 2016 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**25,718**	51,810
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	**(1,857)**	–
Amortised cost	**(261,317)**	(272,595)

Financial risk management objectives

The Group's activities expose it to other price risk, 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.

Other price risk

The Group's derivative financial instrument is measured at fair value at the end of the reporting period. Therefore, the Group is exposed to commodity price risk in relation to this financial instrument.

35. FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity analysis

The Group's sensitivity to the derivative financial instrument has not changed significantly.

Foreign currency risk management

The group entities undertake certain transactions denominated in foreign currencies, principally Pounds Sterling, US$, Euros, Hong Kong Dollars ("HK$") and Russian Roubles, which exposed the Group to exchange rate risk associated with fluctuations in the relative values of Pounds Sterling, US$, Euros, HK$ 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.

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	
	2017	2016	**2017**	2016
	US$'000	US$'000	**US$'000**	US$'000
Russian Roubles	**2,621**	4,251	**22,139**	7,826
US$	**45**	27	**–**	–
Pounds Sterling	**26**	25	**1**	155
Euros	**–**	3	**–**	–
HK$	**11,522**	31,787	**–**	43

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate movements between US$ and Russian Roubles. The following table details the Group's sensitivity to a 25% (2016: 25%) change in exchange rate of functional currency (i.e. US$) of the group entities against the relevant foreign currency (i.e. Russian Roubles) for the year. The percentage change analysed represents management's assessment of a reasonably possible change in foreign currency rates. No sensitivity analysis is presented for foreign currency fluctuation between US$ against HK$ because HK$ is pegged to US$.

A positive number below indicates an increase in post-tax profit 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	
	2017	2016
	US$'000	US$'000
Profit or loss	**3,904**	715

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.

35. 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 27 for details) and cash flow interest rate risk in relation to variable-rate borrowings (see note 27 for details of these borrowings). The Group's policy is to maintain borrowings at variable rates.

The Group's exposure 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, time deposits and borrowings. 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 profit for the year ended 31 December 2017 would decrease/increase by US$60,000 (2016: US$15,000).

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. Amounts held on deposit as at 31 December 2017 and 2016 with these banks located in Russia were approximately US$1,007,000 and approximately US$2,205,000, representing 4% and 7% of total monetary assets held by the Group respectively.

Trade receivables consist mostly of amounts outstanding from the sales of iron ores 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 2017 is included in note 20.

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.

35. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with management. At 31 December 2017, the Group's principal financial liabilities was trade and other payables, borrowings, construction costs payable and other financial liabilities. 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.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	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 2017
	%	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 31 December 2017							
Non-derivative financial liabilities							
Trade and other payables	**–**	**22,220**	**–**	**–**	**–**	**22,220**	**22,220**
Borrowings	**6.4**	**71,116**	**66,902**	**122,361**	**–**	**260,379**	**223,028**
Construction costs payable	**8.2**	**–**	**9,099**	**9,099**	**–**	**18,198**	**16,069**
		93,336	**76,001**	**131,460**	**–**	**300,797**	**261,317**
Derivatives – net settlement							
Commodity swap contracts		**1,857**	**–**	**–**	**–**	**1,857**	**1,857**
As at 31 December 2016							
Non-derivative financial liabilities							
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

35. FINANCIAL INSTRUMENTS (CONTINUED)

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 fair value of derivative financial instruments is determined as detailed in note 28.

The fair value of derivative instruments are measured using quoted swap price and discounted using applicable yield for the duration of the instruments.

36. 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. Dr. Pavel Maslovskiy, a shareholder of Petropavlovsk PLC, is a close family member of Yury Makarov, a director of the Company.

Asian Pacific Bank ceased to be a related party on 22 June 2017 as Mr. Peter Hambro, who held interests and had significant influence on the Asian Pacific Bank, retired from the Board of Directors of Petropavlovsk PLC on 22 June 2017.

As disclosed in 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.

36. RELATED PARTY DISCLOSURES (CONTINUED)

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)]	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	**–**	–	**4,128**	4,625
LLC NPGF Regis	**15**	13	**–**	–
CJSC Albynsky Rudnik	**408**	396	**–**	–
CJSC Pokrovsky Rudnik	**1,165**	1,230	**–**	–
MC Petropavlovsk	**361**	273	**83**	53
LLC Gidrometallurgia	**113**	95	**–**	–
LLC Helios	**–**	–	**–**	1

	Interest on outstanding capital contribution[(c)]	
	2017 US$'000	2016 US$'000
Transaction with other related party		
General Nice	**4,562**	4,583

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.

As disclosed in the Company's 2016 annual report, a fee equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement should be paid to Petropavlovsk PLC when Petropavlovsk PLC ceased to be the parent company of the Company. During the year ended 31 December 2017, amount of US$4,128,000 has been charged to the Group for the provision of the guarantee by Petropavlovsk PLC (for the year ended 31 December 2016: US$4,625,000). As at 31 December 2017, the outstanding balance of guarantee fee payables to Petropavlovsk PLC is US$6,377,000 (2016: US$3,396,000).

(c) Amount represents interest charged on outstanding capital contribution (see note 25 for details).

36. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions (continued)

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

For the years ended 31 December 2017 and 2016, 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)]	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Petropavlovsk PLC and its subsidiaries				
Peter Hambro Mining Treasury UK Limited	**–**	–	**–**	12,466[(c)]
Petropavlovsk PLC	**–**	–	**6,390**	3,416
OJSC Irgiredmet	**–**	–	**2**	2
LLC NPGF Regis	**18**	50	**105**	99
CJSC Pokrovsky Rudnik	**156**	806	**–**	–
CJSC Albynsky Rudnik	**162**	702	**–**	–
MC Petropavlovsk	**188**	144	**1,975**	1,886
LLC Gidrometallurgia	**3**	2	**–**	–
Outstanding balances with other related parties				
General Nice	**12,971**	8,480	**1,592**	–
	13,498	10,184	**10,064**	17,869

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) 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. The balance was repaid in January 2017 (see Note 27).

36. RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Compensation

The remuneration of directors, which represents members of key management, during the year was as follows:

	2017 US$'000	2016 US$'000
Short-term benefits	**1,979**	1,802
Post-employment benefits	**105**	104
Share-based payments	**576**	431
	2,660	2,337

The remuneration of key management personnel is determined by the remuneration committee regard to the performance of individuals and market trends.

37. 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 2017[c]	2016[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$64,017	**100%**	100%	Investment holding
Dardanius Limited	Cyprus 16 October 2006	US$5,689	**100%**	100%	Investment holding
Esimanor Limited	Cyprus 15 March 2008	US$4,461	**100%**	100%	Investment holding
Expokom Limited	Cyprus 22 December 2005	US$311,818	**100%**	100%	Investment holding
Guiner Enterprises Ltd	Cyprus 25 August 2007	US$369,719	**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$27,368	**100%**	100%	Investment holding

37. 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 2017[c]	2016[c]	Principal activities
Metellus Limited	Cyprus 21 August 2006	US$7,800	**100%**	100%	Investment holding
Rumier Holdings Ltd	Cyprus 3 October 2007	US$430,809	**100%**	100%	Investment holding
Russian Titan Company Limited	Cyprus 10 November 2003	US$270,996	**100%**	100%	Investment holding
Tenaviva Limited	Cyprus 31 December 2007	US$5,859	**100%**	100%	Investment holding
Thorholdco (Cyprus) Limited	Cyprus 3 October 2013	US$1,120	**100%**	100%	Investment holding
Caedmon Ltd	Cyprus 29 September 2011	US$1,547	**50.1%**	50.1%	Financing and investment holding
Aricom Limited	United Kingdom 12 September 2003	GBP1,324,627	**100%**	100%	Investment holding
Aricom UK Limited	United Kingdom 1 March 2007	GBP242,305,401	**100%**	100%	Investment holding
Heilongjiang Jiatai Titanium Co. Limited[d]	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$53,143,001	**100%**	100%	Investment holding
Thorholdco Limited	Cayman Islands 18 May 2010	US$8,464	**100%**	100%	Investment holding
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

37. 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 2017[c]	2016[c]	Principal activities
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	RUR8,400,000	**50.1%**	50.1%	Exploration and mining

(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 2017 and 2016, 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.

At the end of the reporting period, the Company did not have subsidiaries that have material non-controlling interests.

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 US$'000	2016 US$'000
NON-CURRENT ASSET		
Investment in subsidiaries	**244,535**	121,357
	244,535	121,357
CURRENT ASSETS		
Prepayment and other receivables	**11,677**	8,648
Amounts due from subsidiaries	**25,109**	2,496
Cash and cash equivalents	**741**	28,345
	37,527	39,489
TOTAL ASSETS	**282,062**	160,846
CURRENT LIABILITIES		
Amounts due to subsidiaries	**(22,637)**	(22,351)
Amount due to a shareholder	**(6,377)**	(3,416)
Accruals and other payables	**(1,604)**	(1,465)
	(30,618)	(27,232)
NET CURRENT ASSETS	**6,909**	12,257
NET ASSETS	**251,444**	133,614
CAPITAL AND RESERVES		
Share capital	**1,285,158**	1,285,158
Capital reserve	**592**	592
Share-based payment reserve	**3,081**	1,566
Other reserves	**13,759**	9,197
Accumulated losses	**(1,051,146)**	(1,162,899)
TOTAL EQUITY	**251,444**	133,614

The Company's statement of financial position was approved and authorised for issue by the board of directors on 27 March 2018.

Yury Makarov	**Danila Kotlyarov**
DIRECTOR	*DIRECTOR*

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Capital reserves US$000	Share-based payment reserve US$000	Other reserves US$000	Accumulated losses US$000	Total US$000
At 1 January 2016	592	436	3,815	(1,144,332)	(1,139,489)
Loss for the year	–	–	–	(18,567)	(18,567)
Total comprehensive expenses for the year	–	–	–	(18,567)	(18,567)
Grant of share options (note 25)	–	–	802	–	802
Transaction costs attributable to grant of share options (note 25)	–	–	(3)	–	(3)
Share-based payment	–	1,130	–	–	1,130
Deemed contribution from a shareholder	–	–	4,583	–	4,583
At 31 December 2016	592	1,566	9,197	(1,162,899)	(1,151,544)
Profit for the year	–	–	–	111,753	111,753
Total comprehensive income for the year	–	–	–	111,753	111,753
Share-based payment	–	1,515	–	–	1,515
Deemed contribution from a shareholder	–	–	4,562	–	4,562
At 31 December 2017	592	3,081	13,759	(1,051,146)	(1,033,714)

FINANCIAL SUMMARY

	Results of the Group for the year ended 31 December				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	**2017 US$'000**
Revenue	160,854	122,414	81,910	16,467	**109,265**
Loss (profit) attributable to owners of the Company	(41,613)	(317,644)	(508,969)	(18,226)	**113,254**

	Assets and liabilities of the Group as at 31 December				
	2013 US$'000	2014 US$'000	2015 US$'000	2016 US$'000	**2017 US$'000**
Total assets	1,095,678	874,228	420,635	432,845	**546,282**
Less: Total liabilities	(232,840)	(294,323)	(299,459)	(299,231)	**(294,838)**
Total net assets	862,838	579,905	121,176	133,614	**251,444**

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
CEO	Chief Executive Officer
CFO	Chief Financial Officer
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

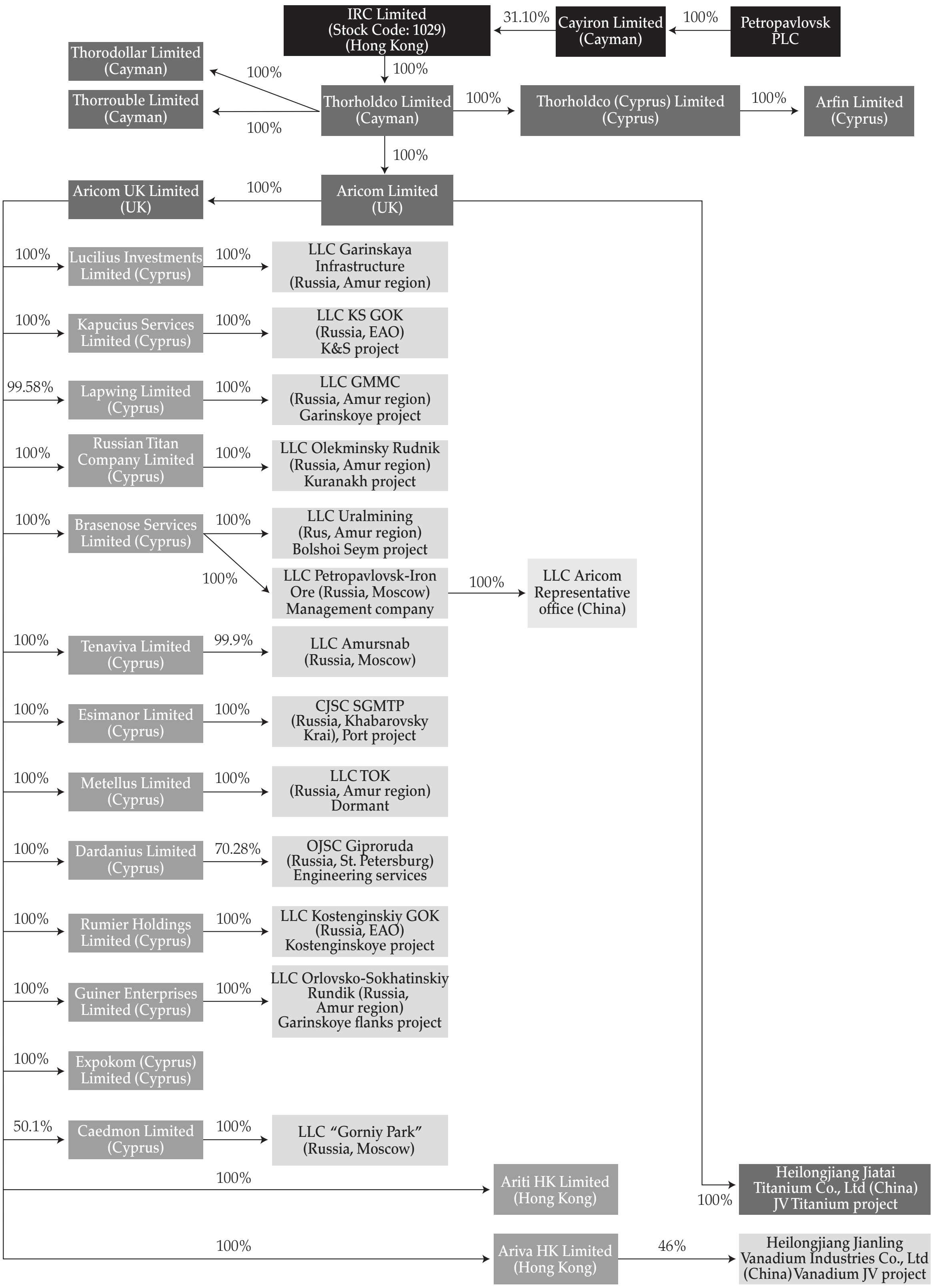
LIST OF ABBREVIATIONS

°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

Headquarters, registered address and principal place of business in Hong Kong:

6H, 9 Queen's Road Central, Central District
Hong Kong Special Administrative Region
of the People's Republic of China

Telephone: +852 2772 0007
Facsimile: +852 2772 0329
Corporate Website: www.ircgroup.com.hk

Hong Kong Business Registration number: 52399423
Hong Kong Company Registration number: 1464973

PRINCIPAL PLACE OF BUSINESS IN RUSSIA

Bulvar Entuziastov, Building 2
7/F, Business Center "Golden Gate"
Moscow
109544
Russia

CHAIRMAN

G.J. Hambro

DEPUTY CHAIRMAN

D.R. Bradshaw

EXECUTIVE DIRECTORS

Chief Executive Officer: Y.V. Makarov
Chief Financial Officer: D. Kotlyarov

NON-EXECUTIVE DIRECTORS

G.J. Hambro
B.T.F. Ng
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*
R.K.T. Woo

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 2017 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: http://www.ircgroup.com.hk/html/ir_report.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
IRC Ltd
6H, 9 Queen's Road Central
Hong Kong SAR

We welcome comments on our Annual Report and Communications activities at all times. We can be contacted by mail, phone, email and social media:

6H, 9 Queen's Road Central, Hong Kong
+(852) 2772 0007
ir@ircgroup.com.hk
ircgroup.com.hk
Facebook (facebook.com/IRCLimited)
LinkedIn (linkedin.com/company/irc-limited-1029-hk–/)
Twitter (twitter.com/irclimited?lang=en)

Our Future	K&S	Full capacity to 3.2mt per year Doubling production (Phase II)
	Garinskoye	Trial production
2017	K&S	Commercial production (Phase I) 90%-capacity Loading Test Full year produced over 1.5 million tonnes
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

IRC Limited

6H, 9 Queen's Road Central
Hong Kong
office@ircgroup.com.hk
www.ircgroup.com.hk
T: (852) 2772 0007
F: (852) 2772 0329

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