



# ANGARA MINING PLC

*(incorporated with limited liability in England and Wales with registered number 5508246)*

**U.S.\$50,100,000**

**7.00 per cent. Bonds due 2008**

**(with conditional conversion rights into shares of Angara Mining Plc)**

The U.S.\$50,100,000 7.00 per cent. Bonds due 2008 (with conditional conversion rights into shares of Angara Mining Plc) (the "**Bonds**") will be issued by Angara Mining Plc (the "**Issuer**") on 10 April 2006 (the "**Issue Date**") in denominations of U.S.\$100,000 each (the "**Offering**"). In accordance with the terms and conditions of the Bonds (the "**Conditions**"), unless previously redeemed or converted, each Bond will be convertible in certain circumstances into fully-paid ordinary shares in the share capital of the Issuer (the "**Shares**") upon the occurrence of an Initial Public Offering (as defined herein) for a limited period following the Initial Public Offering Date (as defined herein).

Holders of the Bonds benefit from the security arrangements described in these Listing Particulars ("**Listing Particulars**").

Unless previously redeemed or converted, the Bonds will be redeemed by the Issuer on 10 April 2008 (the "**Maturity Date**") at their principal amount together with accrued interest. Provided that no Initial Public Offering has occurred prior to the IPO Cut Off Date (as defined herein) the Bonds will be redeemed on the Maturity Date at 140 per cent. of their principal amount together with accrued interest.

Interest on the Bonds is payable at the rate of 7.00 per cent. per annum, payable semi-annually in equal instalments in arrear on 10 October and 10 April in each year, commencing on 10 October 2006. Payments under the Bonds will be made without withholding or deduction for any present or future taxes imposed unless required by law, as described in "Terms and Conditions of the Bonds—Taxation".

Provided the Initial Public Offering occurs on or before the IPO Deadline, the Issuer may on or after the date falling 60 days after the Initial Public Offering Date redeem the Bonds in whole but not in part at their principal amount together with interest accrued to the date fixed for redemption.

In addition, the Issuer will at the option of the holder of any Bond (i) redeem such Bond at any time after the day following the last day of the Conversion Period (as defined herein) at its principal amount and (ii) redeem such Bond at any time following a Licence Event on the Licence Event Put Date (each as defined herein) at its Accreted Principal Amount (as defined herein), together in each case with any accrued and unpaid interest.

These Listing Particulars are issued in compliance with the listing rules made under section 74 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the UK Listing Authority. Applications have been made to the UK Listing Authority for the Bonds to be admitted to listing on the Official List of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange for the Bonds to be admitted to trading on the Professional Securities Market ("**PSM**") of the London Stock Exchange ("**London Admission**").

If such applications are approved, it is expected that London Admission will become effective at 8.00 a.m. London time on or about 11 April 2006. However, there can be no assurance that the applications for London Admission will be approved.

The Bonds will be represented initially by a temporary global bond (the "**Temporary Global Bond**") without interest coupons, which will be deposited with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking société anonyme, Luxembourg ("**Clearstream, Luxembourg**") on or about the Issue Date. The Temporary Global Bond will be exchangeable for interest in a permanent global bond (the "**Global Bond**"), without interest coupons, not earlier than 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership.

None of the Bonds or the Shares issuable upon conversion of the Bonds have been or will be registered under the United States Securities Act of 1933 (the "**Securities Act**") or with any securities regulatory authority of any other jurisdiction. The Bonds are being offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the Securities Act and, except in a transaction exempt from the registration requirements of the Securities Act, may not be offered, sold or delivered within the United States or to or for the benefit of U.S. persons as defined in Regulation S under the Securities Act.

The Bonds are not currently rated by any rating agency. The Issuer does not intend to seek a rating for the Bonds and believes it is unlikely that the Bonds will be rated.

See "**Risk Factors**" for a discussion of certain factors that should be considered by prospective investors.

**Issue Price: 100 per cent.**

*Joint Lead Managers and Joint Bookrunners*

**Nomura International**

**URALSIB Financial Corporation**

The date of these Listing Particulars is 6 April 2006.

The Issuer and Joint Stock Company “Vasilevsky rudnik Gold mine” (the “Company” or “VRG”), having taken all reasonable care to ensure that such is the case, confirm that the information contained in the Listing Particulars (the “Listing Particulars”) is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

SRK Consulting (UK) Ltd. (“SRK”) of Windsor Court, 1-3 Windsor Place, Cardiff CF10 3BX, Wales, United Kingdom accepts responsibility for its report contained in “Appendix 2: Independent Expert’s Report”. To the best of the knowledge of SRK (who has taken all reasonable care to ensure that such is the case) the information contained in this report is in accordance with the facts and does not omit anything likely to affect the import of such information. SRK has authorised the contents of “Appendix 2: Independent Expert’s Report” and the references herein to its report and its name in the form and context in which they appear. Such report is included, in the form and context in which it is included, with the consent of SRK.

Neither the Issuer nor any of Nomura International plc (“Nomura”) and Uralsib Securities Limited (“Uralsib”) (together, the “Joint Lead Managers” and, each, a “Joint Lead Manager”) makes any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the Bonds by such offeree or purchaser.

**The contents of these Listing Particulars are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.**

**Prior to making any decision as to whether to purchase the Bonds, prospective investors should read these Listing Particulars. In making an investment decision, prospective investors must rely upon their own examination of the Issuer and the Company and the terms of these Listing Particulars, including the risks involved.**

**The distribution of these Listing Particulars and the offering and sale of the Bonds in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. These Listing Particulars do not constitute or form part of any offer or investigation to purchase any of the Bonds in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering to be made in any jurisdiction.**

This communication is directed solely at persons who (A) (i) are outside the United Kingdom or (ii) are qualified investors within the meaning of section 86(7) of the Financial Services and Markets Act 2000 (the “FSMA”) or (iii) are persons to whom such communication may otherwise lawfully be made in accordance with the FSMA or (iv) who are investment professionals falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (v) who are entities falling within Article 49(a) to (d) of the Order (all such persons together being referred to as “relevant persons”) and (B) are outside the United States and its possessions. This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will only be engaged in with relevant persons.

These Listing Particulars do not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Joint Lead Managers to subscribe for or purchase any of the Bonds or the Shares. The distribution of these Listing Particulars and the offering of the Bonds and the Shares in certain jurisdictions may be restricted by applicable law. Persons into whose possession these Listing Particulars come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and the Shares and distribution of these Listing Particulars, see “Subscription and Sale” below.

**Prior to making an investment decision, all prospective purchasers of the Bonds should carefully consider the investment considerations set out herein under “Risk Factors” in addition to the other information contained in these Listing Particulars.**

No person is authorised to give any information or to make any representation not contained in these Listing Particulars and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Company or the Joint Lead Managers. Neither the delivery of these Listing Particulars nor any offer, sale or delivery made in connection with the issue of the Bonds shall, under any circumstance, constitute a representation that there has been no change or development likely to involve a change in the condition (financial or otherwise) of the Issuer or

the Company since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof or the date as of which that information is stated herein to be given. These Listing Particulars may only be used for the purposes for which they have been published.

None of the Issuer, the Company and the Joint Lead Managers is providing any advice or recommendation in these Listing Particulars on the merits of the purchase, subscription for, or investment in, the Bonds or the Shares or the exercise of any rights conferred by the Bonds or the Shares.

No representation or warranty, express or implied, is made by the Joint Lead Managers as to the accuracy, completeness or sufficiency of the information set out in these Listing Particulars, and nothing set out in these Listing Particulars is, or shall be relied upon as a promise, representation or warranty by the Joint Lead Managers. These Listing Particulars are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Company or the Joint Lead Managers that any recipient of these Listing Particulars should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information set out in these Listing Particulars and its purchase of Bonds should be based upon such investigations as it deems necessary.

In connection with the issue of the Bonds, Nomura International plc (the “Stabilising Manager”) or any person acting on behalf of the Stabilising Manager may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds.

Unless otherwise specified or the context requires, references to “£”, “pounds” or “pence” are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the “United Kingdom”), references to “CR£” are to the lawful currency of the Republic of Cyprus (“Cyprus”), references to “U.S. dollars”, “USD” “US\$” are to the lawful currency of the United States of America, its territories and possessions, and those to “RUR” or “Roubles” are to the lawful currency of the Russian Federation (“Russia” or the “State”). Unless the context otherwise requires, references herein to “Government” or “government” are to the Government of Russia (or agencies thereof). The “Group” means the Issuer, the Company and Brownypool Trading Limited (“Brownypool”).

Terms not otherwise defined in these Listing Particulars shall bear the meanings ascribed to them in Appendix 3.

## LIMITATION ON SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Most of the Issuer's and the Company's directors and executive officers named in these Listing Particulars reside outside the United Kingdom. All or a substantial portion of their and the Company's assets are located outside the United Kingdom, principally in the Russian Federation. As a result, it may not be possible for you to:

- (i) effect service of process within the United Kingdom upon any of the Issuer's and the Company's directors and executive officers named in these Listing Particulars; or
- (ii) enforce, in the United States or the United Kingdom, court judgments obtained in courts of the United Kingdom, as the case may be, against the Company or any of the Issuer's or the Company's directors and executive officers named in these Listing Particulars in any action.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. No such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- (i) the inexperience of Russian courts in international commercial transactions;
- (ii) official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors; and
- (iii) corruption and/or Russian courts' inability to enforce such orders.

For a further description of the legal risks relating to an investment in the Bonds, see "Risk Factors—Risks relating to the Russian Federation—Risks relating to the Russian legal system and Russian legislation could subject the Company to material liabilities".



## SUMMARY OF THE OFFERING

The following is only a summary of the principal features of the issue and is to be read in conjunction with the other information contained in these Listing Particulars. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the Terms and Conditions of the Bonds.

<b>Issuer</b>	Angara Mining plc.
<b>Issue</b>	U.S.\$50,100,000 7.00 per cent. Bonds due 2008.
<b>Final Redemption</b>	Unless previously redeemed or converted, each Bond will be redeemed on 10 April 2008 (the “ <b>Maturity Date</b> ”) at 100 per cent. of its principal amount together with accrued interest, PROVIDED THAT if no Initial Public Offering has occurred prior to the IPO Cut Off Date, each Bond will be redeemed on the Maturity Date at 140 per cent. of its principal amount together with accrued interest.
<b>Issue Date</b>	10 April 2006.
<b>Issue Price</b>	The Bonds will be issued at 100 per cent. of their principal amount.
<b>Interest</b>	The Bonds will bear interest from and including the Issue Date at the rate of 7.00 per cent. per annum payable semi-annually in equal instalments in arrear on 10 April and 10 October in each year.
<b>Status of Bonds</b>	The Bonds will constitute direct, conditional, unsubordinated and secured obligations of the Issuer as described in “Terms and Conditions of the Bonds – Status, Form, Denomination and Title – Status”.
<b>Security</b>	<p>The obligations of the Issuer under the Bonds are secured by the following security interests (the “<b>Security</b>”) in favour of the Trustee for the benefit of itself and the Bondholders:</p> <ul style="list-style-type: none"><li>(i) a pledge under Cypriot law by the Issuer over all its rights, benefit and title in 275 ordinary shares, representing 27.555 per cent. of the ordinary shares, of Brownypool;</li><li>(ii) a pledge under Russian law by Brownypool over all its rights, benefits and title in 20,941 shares, representing 27.555 per cent. of the ordinary shares, of the Company;</li><li>(iii) a first fixed charge over all sums stand credit to the Escrow Account (other than interest from time to time earned thereon);</li><li>(iv) a first fixed charge over:<ul style="list-style-type: none"><li>(a) all principal, interest and additional amounts now or hereafter payable by the Company to the Issuer as lender under the Loan Agreement; and</li><li>(b) the right to receive all sums which may be or become payable by the Company under any claim, award (including any arbitral award) or judgment relating to the Loan Agreement; and</li></ul></li><li>(v) an assignment by the Issuer by way of security of all the rights, title, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, all moneys payable to the Issuer and any claims, awards (including any arbitral awards) and judgments in favour of the Issuer in connection with the Loan Agreement and the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Company thereunder) other than any rights, title, interests and benefits charged in favour of the Trustee by way of first fixed charge under (iv) above.</li></ul>

## **Conversion Rights**

On or after an Initial Public Offering the Bonds will be convertible into Shares at the then applicable Conversion Price on or after the Initial Public Offering Date up to and including the close of business on the day falling six weeks following the Initial Public Offering Date (the “**Final Conversion Date**”) (such period being the “**Conversion Period**”).

“**Initial Public Offering**” means a public offering to retail and/or institutional investors by the Issuer and/or the shareholders of the Issuer for the subscription or sale of Shares for cash and, if and to the extent that the Shares are not already listed and admitted to trading on AIM or an Alternative Stock Exchange, accompanied by the grant of listing on AIM or an Alternative Stock Exchange which complies with the following conditions:

- (i) the aggregate gross issue or offer price, before deduction of or in respect of commissions, fees and expenses, as determined by the Mandated Underwriter (translated into U.S. dollars at the IPO Exchange Rate) is not less than U.S.\$50,100,000;
- (ii) the aggregate public float of the Shares on the Initial Public Offering Date as calculated in accordance with the rules of AIM or the Alternative Stock Exchange is not less than 30 per cent. of the aggregate market capitalisation of the Issuer on such date, as determined by the Mandated Underwriter;
- (iii) two directors of the Issuer shall have certified in writing to the Trustee that, immediately after giving effect to the offering, no Event of Default hereunder, and no event which, with the giving of notice or the passage of time would constitute an Event of Default, shall have occurred and be continuing; and
- (iv) if then required, the Issuer shall have obtained approval from AIM or the Alternative Stock Exchange to list the Shares into which the Bonds are convertible.

An offering shall not constitute an Initial Public Offering for the purposes of the Conditions unless, on the Initial Public Offering Date, the Mandated Underwriter shall have delivered a certificate to the Issuer and the Trustee that the above conditions are satisfied.

The Issuer has undertaken that (i) it will use all reasonable endeavours to list, and thereafter to maintain a listing of, its Shares on AIM or an Alternative Stock Exchange before 10 July 2007 (the “**IPO Deadline**”) and (ii) prior to any such listing it will effect a 2000:1 share split in relation to its shares.

## **Conditional Right of First Refusal**

The Issuer and the Company have confirmed that, subject to (i) satisfactory execution, in the reasonable opinion of the Issuer and the Company, by Nomura of the Offering and (ii) Nomura offering terms for executing the Initial Public Offering which are at least as favourable to the Issuer as competing bids, provided such terms are in line with those then prevailing in the market, they will grant Nomura the exclusive right of first refusal to act as bookrunner and lead manager of the Initial Public Offering.

## **Redemption at the Option of the Issuer**

Provided the Initial Public Offering occurs on or before the IPO Deadline, the Issuer may, on or after the date falling 60 days after the Initial Public Offering Date, redeem the Bonds, in whole but not in part, at their principal amount together with interest accrued to the date fixed for redemption.

See “Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption at the Option of the Issuer”.

<b>Redemption at the Option of the Bondholders</b>	<p>The Issuer will, at the option of the holder of any Bond, (i) redeem such Bond on the relevant Put Date at any time on or after the day following the last day of the Conversion Period at its principal amount and (ii) at any time following a Licence Event redeem such Bond on the Licence Event Put Date at its Accreted Principal Amount in each case together with any accrued and unpaid interest.</p> <p>See “Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption at the Option of the Bondholders”.</p>
<b>Covenants</b>	<p>For a description of certain covenants entered into by the Issuer, Brownypool and the Company, see “Terms and Conditions of the Bonds – Covenants”.</p>
<b>Events of Default</b>	<p>For a description of certain events that will permit acceleration of the Bonds, see “Terms and Conditions of the Bonds – Events of Default”. Upon acceleration for any such event the Bonds will become immediately due and repayable at their Accreted Principal Amount together with accrued but unpaid interest.</p>
<b>Trust Deed</b>	<p>The Bonds will be constituted by a Trust Deed to be dated on or about the Closing Date between the Issuer, the Company, Brownypool and the Trustee.</p>
<b>Form and Denomination</b>	<p>The Bonds will be in bearer form in the denomination of U.S.\$100,000 each with Coupons attached on issue.</p> <p>The Bonds will be represented initially by a single temporary global bond in bearer form, without Coupons or Conversion Rights, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg on or about 10 April 2006. The temporary global bond will be exchangeable on or after a date which is expected to be 20 May 2006 for a single permanent global bond in bearer form (the “Global Bond”), without Coupons, upon certification as to non-U.S. beneficial ownership.</p> <p>The Global Bond will be exchangeable for definitive Bonds in bearer form, with Coupons attached, in the limited circumstances set out in the Global Bond.</p>
<b>Listing of the Bonds</b>	<p>Applications have been made for the Bonds to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the Professional Securities Market of the London Stock Exchange plc.</p>
<b>Lock-up</b>	<p>The Issuer, Brownypool and the Company have agreed, subject to certain exceptions, not to issue or offer, sell, contract to sell or otherwise dispose of any Shares or any securities convertible, exchangeable or exercisable for Shares (including any warrants), from the date of the Subscription Agreement (as defined herein) to but excluding the date falling 12 months after the Initial Public Offering Date or, in the event that no Initial Public Offering occurs, the Maturity Date, without the prior written consent of Nomura on behalf of the Joint Lead Managers (such consent not to be unreasonably withheld). Mr. I Preys, Mr. V Preys, Mr. P Golovinov and Mr. A Chugveusky have also agreed, subject to certain exceptions, not to issue or offer, sell, contract to sell or otherwise dispose of any Shares or any securities convertible, exchangeable or exercisable for Shares (including any warrants) without the prior written consent of Nomura on behalf of the Joint Lead Managers (such consent not to be unreasonably withheld) for the same period.</p>



<b>Selling Restrictions</b>	There are restrictions on the offer, sale and/or transfer of the Bonds in, among others, the United Kingdom, the United States, Russia and Cyprus. For a description of the selling restrictions on offers, sales and deliveries of the Bonds, see “Subscription and Sale”.
<b>Clearing Systems</b>	Clearstream, Luxembourg and Euroclear.
<b>Governing Law</b>	The Bonds, the Coupons and the Trust Deed will be governed by English law.
<b>Trustee</b>	The Bank of New York.
<b>Principal Paying, Transfer and Conversion Agent</b>	The Bank of New York.
<b>ISIN</b>	XS0249558932
<b>Common Code</b>	024955893
<b>Use of Proceeds</b>	The net proceeds of the Offering after deduction of related commissions payable by the Issuer and estimated expenses of the Offering will be lent to the Company by the Issuer to be used as described in “Use of Proceeds”.

## RISK FACTORS

*In addition to other information about the risks related to an investment in the Bonds as set out elsewhere in these Listing Particulars, the following specific risk factors should be considered carefully in evaluating whether to make an investment in the Bonds. If any of the following risks actually occur, the Group's business, prospects, financial condition or results of operations could be materially adversely affected.*

*Those risk factors which should be taken into account in assessing the Group's activities and the suitability of the investment offered in these Listing Particulars are set out below. Other risks, including those the Group currently is not aware of or deems immaterial, could have the effects set forth above.*

*The risk factors set forth below have been organised into five categories:*

- *Risks related to the Issuer;*
- *Risks related to the Company's operations;*
- *Risks related to the gold mining industry;*
- *Risks related to the Russian Federation; and*
- *Risks related to the Bonds and the Shares.*

### **Risks relating to the Issuer**

***The Issuer of the Bonds is a holding company, with no revenue generating operations of its own. The Issuer depends on the performance of the Company and its ability to make distributions.***

The Issuer is a holding company with no business operations, sources of income, indebtedness or assets of its own other than its ownership interests in its subsidiaries. Because all the Issuer's operations are conducted by its subsidiaries, its cash flow and its ability to repay debt that it may incur after this Offering may be dependent upon cash dividends and distributions or other transfers from its subsidiaries.

The Issuer's subsidiaries are separate and distinct legal entities. Any right that it has to receive any assets of or distributions from any of its subsidiaries upon the bankruptcy, dissolution, liquidation or reorganisation of any such subsidiary, or to realise proceeds from the sale of their assets, will be junior to the claims of that subsidiary's creditors, including trade creditors and holders of debt issued by that subsidiary.

### **Risks relating to the Company's operations**

***The profitability of the Company's operations and the cash flows generated by the Company's operations are affected by changes in the market price for gold, which in the past has fluctuated widely.***

The market price for gold can fluctuate widely. These fluctuations are caused by numerous factors beyond the Company's control including:

- speculative positions taken by investors or traders in gold;
- changes in the demand for gold use in jewellery, for industrial uses and for investment;
- changes in the supply of gold from production, disinvestment, scrap and hedging;
- financial market expectations regarding the rate of inflation;
- the strength of the U.S. dollar (the currency in which the gold price trades internationally) relative to other currencies;
- changes in interest rates;
- actual or expected gold sales from central banks;
- gold sales by gold producers in forward transactions;
- global or regional political or economic events; and
- the cost of gold production in major gold-producing nations, such as South Africa, the United States, Australia and the Russian Federation.

Sustained downward movements in gold market prices could render less economic, or uneconomic, any of the gold extraction and/or exploration activities to be undertaken by the Company.

If gold prices fall below and remain below the Company's cost of production for any sustained period, the Company may experience losses and may be forced to curtail or suspend some or all of the Company's mining operations. In addition, the Company would also have to assess the economic impact of low gold prices on the Company's ability to recover any losses the Company may incur during that period and on the Company's ability to maintain adequate reserves.

***The Company has no significant production history.***

The Company commenced production in September 2005 and therefore has no significant history of gold production. The Company's development strategy will require the construction or rehabilitation and operation of mines, processing plants and related infrastructure. The Company is required to develop the entire corporate and operational infrastructure to mine gold in a remote location and is subject to all of the risks inherent in the establishment of new mining operations and business enterprises. There can be no assurances that the Company will successfully establish mining operations or profitably produce gold at any of its properties.

***If the Company fails to acquire or find and develop additional reserves, the Company's reserves and production will decline materially from their current levels.***

Unless the Company conducts successful exploration and development activities or acquires properties containing reserves or both, the Company's reserves will decline as gold is produced and reserves are depleted. In addition, the volume of production from gold properties generally declines as more productive reserves are depleted. The Company's future production growth is dependent upon the Company's success in finding or acquiring and developing additional reserves. If the Company is unsuccessful in this, the Company's total reserves and production will decline, which would materially adversely affect the Company's business, prospects, results of operations or financial condition.

***The Company may fail to meet its operational goals or suffer operational setbacks.***

The Company's operational targets, including its expansion plans, are subject to the completion of planned operational goals on time and according to budget, and are dependent on the Company's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets and expansion plans with a consequent adverse effect on the Company's financial performance and outlook.

The location of the Company's current gold operations in Siberia means that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment, power supply and fuel as well as gold production. Scheduling of activities is accordingly complex and there is a risk that gold production levels may fluctuate and that the Company's results of operations and financial condition may be materially adversely affected.

Unscheduled plant shut-downs at the Company's operations due to mechanical or other failures or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

***The Company's planned capital expenditures might not take place as a result of an inability to finance them or for other reasons.***

The Company's business, if it is to expand, requires significant capital expenditure, including in relation to exploration and development, production, transport and refining. The Company expects to finance a substantial part of these capital expenditures out of cash flows from the Company's operating activities and through the funding to be raised through the issue of the Bonds and through an IPO. No assurance can be given that the Company will be able to raise any additional financing required for the Company's planned capital expenditures on acceptable terms or at all.

The final decisions as to the Company's key development plans relating to the Nikolaevsky deposit, the Gerfed deposit and the Ilyinsky and Nizhne-Talovsky ore occurrences remain to be taken. Such decisions will depend on various factors including the completion of feasibility studies and their conclusions. If the Company is unable to raise any necessary additional financing, or if a decision was otherwise taken not to proceed with these developments, this could materially adversely affect the Company's prospects and ability to expand its business.

***The Company's mining operations may yield less gold under actual production conditions than indicated by the Company's gold reserve figures, which are estimates based on a number of assumptions as to mining and recovery factors, production costs and the price of gold.***

The mineral resource estimates contained in these Listing Particulars are estimates of the contained quantity and grade of gold in the Company's deposits. The estimates presented have been calculated using the Company's assessment of available exploration data, and not all of the figures presented have been audited by independent mining engineers. These estimates represent the amount of gold that the Company estimates can be mined, processed and sold at prices at least sufficient to recover the Company's estimated total costs of production, remaining investment and anticipated additional expenditures. Reserve estimates may require revisions based on actual production experience. Further, a sustained decline in the market price of gold may render mineral resources containing relatively lower grades of gold mineralisation uneconomic to recover and ultimately result in a restatement of reserves. The failure of the reserves to meet the Company's recovery expectations may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***The Company is dependent on obtaining and maintaining licences necessary for the operation of its business.***

The Company's exploration, mining and processing activities are dependent upon obtaining and maintaining appropriate licences, concessions, leases, permits and other regulatory consents. There can be no assurance that when granted they will be renewed or, if so, on what terms. In particular, there can be no assurance that the Company will obtain the mineral exploitation licences necessary to successfully develop the resources of the Arkhangelsky deposit. Failure to obtain licences and other regulatory consents necessary for the Company's operations may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

Rights granted by subsoil licences may be subject to limitations, suspensions or termination under certain circumstances. The Company's subsoil rights may be terminated if, among other things, the Company fails to start production by the required date, meet annual production requirements, make timely payments of levies and taxes or fulfil any capital expenditure or production obligations set forth in the Company's licence agreements. See "Description of the Company—The Company's Principal Licence Interests". The Company may not be able to remain in compliance with some or all of these or other requirements. If the Company fails to fulfil the specific terms of its licences, government regulators may limit, suspend or terminate the Company's subsoil rights granted by the licences. Any such limitation, suspension or termination of the Company's subsoil rights could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***Power supply problems and complications resulting from reforms in the Russian electric power industry may adversely affect the Company's results of operations.***

The Company's operations are dependent on the continuous supply of electricity. The availability of electricity is influenced by a number of factors many of which are beyond the Company's control including, but not limited to, supply interruptions, price fluctuations and natural disasters. There is no guarantee that power shortages to the Company's mine will not occur.

The Company currently receives its electricity from OAO Krasnoyarskenergo, a subsidiary of the state-owned electric power monopoly, RAO UES. Plans have been adopted to reform Russia's electric power industry, including plans for the restructuring or reorganisation of RAO UES. Complications arising from the reform and restructuring process affecting the Company's electricity supplier may result in disruptions of access to electricity and adverse changes in energy supply or price, which may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***The Company is dependent on its key personnel. If the Company is unable to attract and retain key personnel, its business may be harmed.***

The Company's growth and future success depends in significant part upon the continued contributions of a number of the Company's key senior management and personnel and on newly recruited mining experts. If the Company is not successful in retaining or attracting highly qualified individuals in key management positions, its business may be harmed. The loss of any of the Company's key personnel could adversely impact its ability to execute its business plan.

***The Company's business is hazardous and insurance coverage may prove inadequate to satisfy future claims against the Company or to protect the Company against natural disasters or operational catastrophes.***

Exploration for, production and refining of gold is hazardous. Natural disasters, operator error or other occurrences or accidents can result in spills of hazardous chemicals, fires and equipment failure, which can injure or kill people, damage or destroy pits, mines or equipment and production facilities, and damage property and the environment. Operations are subject to governmental regulations as well as interruptions or termination by governmental authorities based on environmental and other considerations.

Mining insurance in Russia is relatively undeveloped and, accordingly, the available local cover is relatively limited. Many forms of insurance designed to protect against the above-noted perils, common in other parts of the world, are not yet generally available in the areas where the Company operates. The Company does not have full coverage for all of its plant facilities, for business interruption, for third-party liability in respect of property, or for environmental damage arising from accidents on its property or relating to its operations. Until the Company is able to obtain full insurance coverage on acceptable terms, there is a risk that losses and liabilities arising from such events could significantly increase its costs and have a material adverse effect on its business, prospects, results of operations or financial condition.

***The Company has been and will continue to be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the Bonds and, upon conversion, the Shares.***

The Company is currently indirectly controlled, and, upon conversion of the Bonds, will continue to be controlled, by a group of majority shareholders of the Issuer who are currently members of the Company's board of directors. The Company believes that the involvement of such shareholders in its operations has been, and will continue to be, important in the pursuit and implementation of its strategy. However, there can be no assurance that they will remain controlling shareholders in the future. The Company's business could suffer if such shareholders ceased to participate actively in its operations. Such shareholders have the power to control the outcome of most matters to be decided by vote at a shareholders' or directors' meeting and, as long as they hold, directly or indirectly, the majority of the Company's Shares, will control the appointment and removal of directors, any proposed amendment to the foundation documents of the Company, merger proposal, proposed substantial sale of assets or other major corporate transactions. The Company's controlling shareholders have interests in other companies, some of which may conduct business with the Company. Thus, the interests of the Company's controlling shareholders could conflict with those of the holders of Bonds and, upon conversion, with the holders of Shares, which could adversely affect a prospective investor's investment in the Issuer's securities. Any such conflict could have a material adverse effect on the Company's business, prospects, results of operations or financial condition and the market price of the Bonds and, upon conversion, the Shares.

***The Company's business may be materially adversely affected if it fails to comply with its obligations under the Gold Credit Agreement with the Russian Government.***

The Company has outstanding indebtedness in the amount of approximately U.S.\$29 million under the Gold Credit Agreement (as defined below in "Description of the Company—Material Contracts and Transactions—Gold Credit Agreement") with the Russian Government. In the past, the Company failed to comply with its obligations under the Gold Credit Agreement. The Gold Credit Agreement was restructured in December 2004 and a new repayment schedule was agreed. The Company is now required to repay the loan in instalments during the period from 2005 to 2015. If the Company fails to comply with the repayment schedule under the Gold Credit Agreement, the Company's business, prospects, results of operations and financial condition may be materially adversely affected.

### **Risks relating to the Gold Mining Industry**

***Risks inherent in mining and processing of minerals could materially adversely affect the Company's results of operations and financial condition.***

There are risks inherent in the development and exploitation of mineral deposits. The business of mining, by its nature, involves risks and hazards often outside the Company's control including geological, geotechnical and seismic factors, industrial and mechanical accidents, unscheduled plant shutdowns or other processing problems, technical failures, labour disputes and environmental hazards. The exploration, development and production of natural resources is an activity that involves financial risk. As is common with all mining operations, there is uncertainty and therefore risk associated with the

Company's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Company's control.

***The Company faces competition from other gold mining companies in all areas of its operations, including the acquisition of licences and exploration prospects and assets.***

In conducting its exploration activities, the Company competes with other mining companies in connection with the search for and acquisition of properties producing or possessing the potential to produce gold. Some of these companies have significantly greater resources than the Company. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.

***Exploration is speculative and involves numerous risks, including the risk that the Company will encounter no commercially productive gold deposits.***

Exploration for gold is speculative in nature. The Company's long-term growth and profitability will depend, in part, on its ability to identify and acquire additional mineral rights, and on the costs and results of its continued exploration and development programmes. Many exploration programmes, including some of the Company, may not result in the discovery of mineralisation and any mineralisation discovered may not be of sufficient quantity or quality to be profitably mined. The Company's mineral exploration rights may not contain commercially exploitable reserves of gold. Uncertainties as to the metallurgical recovery of any gold discovered may not warrant mining on the basis of available technology.

***The Company faces foreign exchange risks that could materially adversely affect its results of operations and financial condition.***

The Company's assets are principally Rouble denominated assets and a reduction in value in U.S. dollar terms, as a result of currency exchange movements, could require the Company to make a provision for currency translation losses. The Company's revenues are denominated in U.S. dollars and Roubles and most of the Company's costs are denominated in Roubles. The Company's obligations in relation to debt repayment are U.S. dollar and Rouble denominated.

Any changes in the relative exchange rates between U.S. dollars and Roubles could positively or negatively affect the Company's results of operations and financial condition.

***The Company's operations expose it to the risk of material environmental liabilities.***

The Company's operations are subject to environmental regulation (including regular environmental impact assessments and permits) in the jurisdiction in which it operates. Russian environmental legislation consists of numerous federal and regional regulations which quite often conflict with each other and cannot be consistently interpreted. As a result, full environmental compliance cannot always be ensured. The Company's production facility generates or releases hazardous and toxic substances, chemicals, pollutants and other waste capable of causing damage to human and animal life or to the environment. The Company accrues the estimated environmental rehabilitation/restoration costs over the operating life of a mine; however, estimates of ultimate rehabilitation/restoration costs are subject to revision as a result of future changes in regulations and cost estimates.

Environmental regulation in Russia is likely to evolve in a manner which will require stricter standards and enforcement, increased penalties for non-compliance, more stringent environmental assessment of proposed projects and a heightened degree of responsibility for companies and their directors and employees. Uncertainty remains regarding the Company's current and future compliance obligations under waste disposal regulations and other environmental permits. These uncertainties or changes may subject the Company to increased costs of environmental compliance.

**Risks relating to the Russian Federation**

***Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.***

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out in these Listing Particulars may become outdated relatively quickly. Accordingly, investors should exercise particular

care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Investors are urged to consult their own legal and financial advisers before making an investment in the Bonds.

***The Company is exposed to social and business environment risks.***

The Company's assets are located in Russia, a country which is still moving from a command to market-driven economy. While this process of change is establishing a more developed business environment in Russia, there are still substantial differences between it and the West, and both some of these differences and the ongoing process could adversely affect the Company and its operations. Ethnic, religious, historical and other divisions have, on occasion, given rise to communal tensions, military conflict and terrorist activity. Any spread of violence or terrorism, or political measures taken to counter them, could hinder the operation and the expansion of the Company's business.

Recent high-profile cases against prominent businessmen and major companies have caused some concern in relation to the investment climate in Russia and no assurances can be given that these cases will not affect the public perception of investment into Russia.

***The Company's exploration, development and production licenses may be suspended or revoked prior to their expiration, which could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.***

The licensing regime in Russia for the exploration, development and production of gold is governed primarily by the Subsoil Law (as defined below in "Regulatory Matters—Overview of the Mining Regulatory Framework in Russia") and regulations promulgated thereunder. All of the Company's licenses are issued for a period of up to 20 years and the Company will have to terminate all works on the licensed territory on the license expiry date unless an extension is granted.

Most of the Company's licenses provide that they may be terminated if the Company fails to comply with the license requirements, does not make timely payments of levies and taxes for the use of the subsoil, systematically fails to provide information or fails to fulfil any of its capital expenditure or production obligations.

In addition, under each of the Company's licenses it is required to produce a certain volume of gold over the life of the license. There can be no assurance that these production requirements can be met. In some cases, required production volumes may exceed the amount of estimated proven-plus-probable reserves with respect to the deposit to which the license relates.

The Company may not be able to remain in compliance with some or all of these or other license requirements. If the Company fails to fulfil the specific terms of any of its licenses or government approved development plans or if it operates in the license areas in a manner that violates Russian law, government regulators may impose fines or suspend or terminate its licenses. Should any of the licenses be terminated prior to their expiration, the Company will have to bear conservation/rehabilitation costs of the respective extraction infrastructure and territory.

Any suspension or termination of the Company's licenses prior to their expiration could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***Proposed changes in the law could have a material adverse effect on the Company's ability to participate in certain future auctions for exploration and production licenses.***

A draft subsoil law is currently being developed which may introduce changes to the existing licensing regime in Russia. In particular, the current draft provides that Russian legal entities directly or indirectly controlled by foreign persons may not be permitted to participate in auctions/tenders for subsoil fields of federal significance, as may be determined on a case-by-case basis by the Russian Government (e.g. subsoil fields with balance reserves of vein gold of 700 tons or more) (for further information on the proposed changes see "Regulatory Matters—Overview of the Mining Regulatory Framework in Russia"). The Company is owned by Brownypool and is indirectly owned by the Issuer, which are foreign legal entities. In addition, the conversion of the Bonds into the Issuer's Shares, as described in these Listing Particulars, will likely result in a number of foreign persons beneficially owning the Issuer's Shares. If the draft subsoil law becomes effective, there can be no assurance how it may be interpreted or applied and thus whether or not the Company might be determined to be directly or indirectly controlled by foreign persons. As a result, the Company could be prevented from obtaining

further subsoil use rights, which could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***The Company's operations are subject to extensive government regulations, which could cause the Company to incur costs that could materially adversely affect its business, prospects, results of operations and financial condition.***

The Company's mining facilities and operations are subject to significant federal and regional government laws and regulations concerning, among others, mine safety, licences, land use and environmental protection. The Company may incur substantial capital and operating costs to comply with increasingly complex laws and regulations covering the protection of the environment, human health and safety, exploration operations, use of explosives, air quality, water pollution, noxious odour, noise and dust controls, reclamation, solid waste, hazardous waste and wildlife as well as laws protecting the rights of other property owners and the public. As the Company increases its production capacity, it will also be required to update existing permits or approvals or obtain new permits or approvals under ecological and environmental regulations. Any failure on the Company's part to be in compliance with these laws, regulations, and requirements with respect to the Company's properties could result in the Company being subject to substantial penalties, civil lawsuits, criminal prosecutions, fees and expenses, significant delays in the Company's operations or even the complete shutdown of the Company's operations. The costs associated with compliance with government regulations could have a material adverse effect on the Company's business, prospects, results of operations and financial condition.

The Company is also subject to certain obligations regarding social and economic cooperation programmes. The Company must provide funding for education, transportation and other public projects, and must enter into socio-economic agreements with local and regional administrative authorities. These obligations may subject the Company to costs and liabilities that may adversely affect its business, prospects, results of operations and financial condition. The competent authorities have the right to restrict, suspend or withdraw the Company's licences for failure to comply with its social and economic obligations. If the Company fails to comply with its social and economic obligations, or if its relationships with local and regional authorities deteriorate, its business, prospects, results of operations and financial condition may be materially adversely affected.

***The Russian tax system imposes substantial burdens on the Company.***

The Company is subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to income tax, mineral extraction tax, value-added tax, property tax and payroll taxes. Differing interpretations of tax regulations exist both among and within authorities at the federal, regional and local levels, creating uncertainties and inconsistent enforcement.

Laws related to these taxes, such as the tax code, have been in force for a short period relative to tax laws in more developed market economies, therefore, the implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. This uncertainty potentially exposes the Company to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of the Company's licenses.

***Some of Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.***

Russia's physical infrastructure largely dates back to Soviet times and much of it has not been adequately funded and maintained over the last ten years. Road conditions throughout Russia are poor. The Russian government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, each of which could have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***Risks relating to the Russian legal system and Russian legislation could subject the Company to material liabilities.***

Weaknesses in the Russian legal system and Russian legislation could create an uncertain environment for investment and for business activity. Russia is still developing the legal framework



required by a market economy. Several fundamental Russian laws have only recently become effective. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. The limited experience of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Company or the Company's investors from obtaining effective redress in court proceedings, including in respect of expropriation or nationalisation.

The risks associated with the Russian legal system include (i) the untested nature of the independence of the judiciary, (ii) the inconsistencies among laws, presidential decrees and governmental and ministerial orders and resolutions, (iii) the lack of judicial or administrative guidance on interpreting the laws, (iv) a high degree of discretion on the part of the governmental authorities, (v) conflicting local, regional and federal laws and regulations, (vi) the relative inexperience of judges and courts in interpreting new legal norms and (vii) the unpredictability of enforcement of foreign judgements and arbitral awards.

In particular, during Russia's transition from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of the Company's assets, potentially without adequate compensation, would have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***Difficulty in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.***

After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continuously over the following years; more than one hundred federal laws, presidential decrees and governmental resolutions were issued. Almost all Russian regions passed their own real estate legislation. Until recently, the land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land. In 2001, the Russian Civil Code was amended and the new Russian Land Code, as well as a number of other federal laws regulating land use and ownership, were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. The Company may not have properly obtained or registered the rights to its land plots and buildings, constructions and other real properties located therein. The Company is currently in the process of re-registration of its property rights. However, because of Russia's vast territory, difficulties associated with the country's transitional phase, and the severe climatic conditions of and difficult access to the territory where the Company's land plots and other real properties are located, the process of surveying and title registration may be complicated and last for many years. These uncertainties may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***Non-compliance with governmental and administrative real estate regulations in Russia could materially adversely affect the Company's business, prospects, results of operations or financial condition.***

In order to use and develop land or other real property in Russia, approvals and consents of various federal, regional or local governmental authorities, including various environmental, sanitation and epidemiological control authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory and are subject to change without public notice and are occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. Failure to obtain the required approvals and consents may lead to severe consequences to landowners and leaseholders or other property holders. The Company may not have been, and no assurance can be given that it will at all times be, in full compliance with all governmental and administrative real estate regulations in Russia. If any of the Company's existing or prospective sites is found not to be in compliance with applicable regulations, the Company may be subject to fines or penalties or the Company's rights to such properties may be affected which could have

a material adverse effect on the Company's business, prospects, results of operations or financial condition.

***Selective or arbitrary government action may have a material adverse effect on the Company's business, prospects, results of operations or financial condition.***

The Company operates in an uncertain regulatory environment. Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. In this environment, the Company's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over the Company.

In addition, in 2003 and 2004, the Ministry for Taxes and Levies aggressively brought tax evasion claims on certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at the Company, could have a material adverse effect on the Company's business, prospects, results of operations or financial condition and on the price of the Bonds.

***Lack of developed corporate and securities laws and regulations in Russia may limit the Company's ability to attract future investment.***

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Ministry of Finance;
- the Federal Service for the Financial Markets;
- the Federal Anti-Monopoly Service;
- the Central Bank of the Russian Federation; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always co-ordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations and their interpretation or application can change rapidly, which may materially adversely affect the Company's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Company. As a result, the Company may be subject to fines or other enforcement measures despite its best efforts at compliance.

***The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Company's ordinary shares.***

Ownership of Russian joint stock company shares is determined by entries in a shareholders' register and is evidenced by extracts from that register. If the shares are held by a depository (i.e. custodian) acting as a nominee, ownership is determined by an extract from the accounts held with such depository. Currently, there is no central share registration system in Russia. Shareholders' registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low

levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets.

***Russian currency control regulations could hinder the Company's ability to conduct its business.***

Over the past several years, the Rouble has fluctuated dramatically against the U.S. dollar. The Central Bank of the Russian Federation (the "Central Bank") has from time to time imposed various currency control regulations in attempts to support the Rouble, and may take further actions in the future. For example, Central Bank regulations currently require companies to convert into Roubles 10 per cent. of their export proceeds. Furthermore, the government and the Central Bank may impose additional requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia, which could prevent the Company from carrying on necessary business transactions, or from successfully implementing its business strategy.

A new framework law on exchange controls took effect in June 2004. This law empowers the government and the Central Bank to further regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. The new law also abolishes the need for companies to obtain transaction-specific licences from the Central Bank, envisaging instead the implementation of generally applicable restrictions on currency operations. According to the new law, the existing restrictions on currency operations will be abolished from 1 January 2007. As the evolving regulatory regime is very recent and untested, it is unclear whether it will be more or less restrictive than the prior laws and regulations it has replaced.

***Changes in Russian securities laws may make it more difficult for non-Russian companies with Russian assets to list their shares outside of Russia, and the unfavourable opinion of the Russian state authorities of the Offering may result in arbitrary government action against the Issuer or the Company.***

The Russian Federal Service for Financial Markets (the "FSFM") has publicly expressed its disapproval of listings of shares of non-Russian companies in circumstances where the main assets of the companies are shares or other direct or indirect interests in Russian companies, and legislation to address this concern was recently proposed in Russia and then withdrawn after discussion in the State Duma, the lower chamber of the Russian parliament. Although current Russian legislation does not prevent the listing of shares of the Issuer on the London Stock Exchange, and the recently-withdrawn legislation as proposed would not have strictly applied to the Issuer, there can be no assurance that should the FSFM take an unfavourable opinion of the Offering, it will not result in selective, arbitrary or unlawful governmental action against the Issuer or the Company.

**Risks relating to the Bonds and the Shares**

***The Bonds may not be a suitable investment for all investors***

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in these Listing Particulars or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the Bonds and be familiar with the behaviour of financial markets in which they participate; and
- (iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***There can be no assurance that an initial public offering which meets the criteria prescribed by the Conditions of the Bonds will take place by the IPO Deadline.***

Each Bond will be convertible at the option of the relevant Bondholder into Shares of the Issuer, upon the occurrence of an initial public offering of the Issuer whereby its shares will be listed on AIM or such other stock exchange of similar standing as is determined by the Issuer and approved by the Trustee and which meets certain size and liquidity requirements described in “Terms and Conditions of the Bonds—Conditional Conversion Right” (an “**Initial Public Offering**” or “**IPO**”).

The Issuer has undertaken to use all reasonable efforts to effect an Initial Public Offering on or before 10 July 2007 (the “**IPO Deadline**”). However the ability of the Issuer to effect an Initial Public Offering in accordance with the terms of the Bonds by the IPO Deadline will be subject to a variety of factors, including stock exchange approval of the listing and equity market conditions. There can be no assurance that the Issuer will be able to effect an IPO by the IPO Deadline or at all nor, if an Initial Public Offering does occur, that it will meet the requirements prescribed by the terms of the Bonds. There can therefore be no assurance that the Bonds will be converted or convertible into Shares.

In the event that no Initial Public Offering meeting the requirements set out in the Bonds occurs, the Bonds will be repayable on the Maturity Date at 140 per cent. of their principal amount together with accrued interest and there can be no assurance that on the Maturity Date the Issuer will have sufficient funds to pay any such principal amount together with accrued interest.

***The value of the Shares may decline following the IPO.***

Following the occurrence of an Initial Public Offering meeting the requirements of the Conditions, each Bond will be convertible into Shares at an initial Conversion Price calculated as provided in “Terms and Conditions of the Bonds – Conditional Conversion Right – Conversion Price”. However, there can be no assurance that the then market value of the Shares delivered upon conversion will not be different from such Conversion Price or that the value of the Shares will not fall following their delivery to the converting Bondholder. The current market value and trading price of the Shares will be influenced, amongst other things, by the financial position and results of operations of the Issuer and the Company and political, economic, financial and other factors.

***No prior market; currency translation.***

Although application has been made to list the Bonds on the London Stock Exchange’s Professional Securities Market, there can be no assurance regarding the future development of a market for the Bonds, or the ability of holders of the Bonds to sell their Bonds, or the price at which such holders may be able to sell their Bonds. If a market for the Bonds were to develop, the Bonds could trade at prices that may be higher or lower than the initial placing price depending on many factors, including prevailing interest rates, the Issuer’s operating results and the market for similar securities. Therefore, there can be no assurance as to the liquidity of any trading market for the Bonds or that an active market for the Bonds will develop.

In addition, the Bonds are denominated in U.S. dollars, and the Shares issued on conversion of the Bonds will be denominated in Sterling. Accordingly, any devaluation of Sterling against U.S. dollars could have an adverse impact on the market price, in U.S. dollar terms, of the Bonds.

***Volatility of the market for the Bonds and the Shares.***

The market price of the Bonds and (when admitted to trading) the Shares could be subject to wide fluctuations in response to numerous factors, many of which are beyond the control of the Issuer and/or the Company. These factors include, among other things, actual or anticipated variations in operating results, earnings releases by the Company and its competitors, changes in financial estimates by securities analysts, market conditions in the industry and the general state of the securities markets, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as recessions.

***There is a limited period for, and costs associated with, the exercise of Conversion Rights.***

Following the occurrence of an Initial Public Offering, Bondholders have the right to convert their Bonds into Shares on or after the Initial Public Offering Date up to and including the close of business (in the place where the relevant Bond is deposited for conversion) on the day falling six weeks following the Initial Public Offering Date. Thereafter, Bondholders will have no right to convert their Bonds into Shares.

Bondholders will be required to pay certain taxes and capital duties arising upon conversion (other than such taxes payable in the United Kingdom or, if relevant, in the jurisdiction of the Alternative Stock Exchange) and Bondholders will be required to pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion.

See “Terms and Conditions of the Bonds – Conditional Conversion Right – Conversion Procedure”.

***The Bonds may be redeemed prior to maturity***

From the date falling 60 days after the Initial Public Offering Date, the Issuer may elect to redeem the Bonds at their principal amount together with interest accrued to the redemption date. In such event the Bondholders will have no right to convert their Bonds into Shares prior to such redemption. In addition, upon such redemption an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the Bonds.

***Bondholders have no shareholder rights before conversion***

An investment in the Bonds will not convey any voting rights, any right to receive dividends or other distributions or any other rights with respect to any Shares until such time, if any, as the relevant Bondholder converts his or her Bond and becomes registered as the holder of Shares.

***Upon conversion Bondholders will be required to undertake not to sell their Shares for a short period***

Bondholders who elect to convert their Bonds will be required to undertake in the relevant Conversion Notice not to sell or otherwise transfer or dispose of the Shares deliverable upon conversion for a period ending 3 months following the Initial Public Offering Date. There can be no assurance that the market price of the Shares will not fall between any Bondholder electing to convert his Bonds and the first date on which such Bondholder is entitled to sell the Shares receivable upon conversion.

***Upon a default, the Trustee may not be able to realise all of the Security and, if realised, the realisation proceeds of the Security may not be sufficient to cover all loss suffered by the Bondholders by reason of the relevant default***

The obligations of the Issuer under the Bonds are secured by the following security interests (the “Security”) in favour of the Trustee for the benefit of itself and the Bondholders:

- (a) a pledge (the “**Brownypool Share Pledge**”) under Cypriot law by the Issuer over all its rights, benefit and title in 275 ordinary shares, representing 27.555 per cent. of the ordinary shares, of Brownypool;
- (b) a pledge (the “**VRG Share Pledge**”) under Russian law by Brownypool over all its rights, benefits and title in 20,941 shares, representing 27.555 per cent. of the ordinary shares, of VRG;
- (c) a first fixed charge over all sums standing credit to the Escrow Account (other than interest from time to time earned thereon);
- (d) a first fixed charge in favour of the Trustee over:
  - (i) all principal, interest and additional amounts now or hereafter payable by the Company to the Issuer as lender under the Loan Agreement; and
  - (ii) the right to receive all sums which may be or become payable by the Company under any claim, award (including any arbitral award) or judgment relating to the Loan Agreement; and
- (e) an assignment by the Issuer by way of security of all the rights, title, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, all moneys payable to the Issuer and any claims, awards (including any arbitral awards) and judgments in favour of the Issuer in connection with the Loan Agreement and the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Company thereunder) other than any rights, title, interests and benefits charged in favour of the Trustee by way of first fixed charge under (c) above.

However, it may be difficult or impossible for the Trustee to enforce the Security.

In particular, it may be difficult for the Trustee to enforce the VRG Share Pledge under Russian law. Under Russian law, security arrangements (which include, *inter alia*, pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically

terminate if the secured or guaranteed obligation becomes void. Furthermore, foreclosure under Russian law generally requires a court order and a public sale of the collateral. A court may delay such public sale for a period of up to one year upon a pledgor's application. Russian law has no pledge perfection system for collateral other than mortgages, which may lead to unexpected and/or conflicting claims or of secured creditors upon the pledged property. The Trustee may therefore face difficulties and legal uncertainties associated with Russian law on pledges if it seeks to enforce the VRG Share Pledge against Brownypool.

In addition, the VRG Share Pledge will not be registered in the register of shareholders of the Company by the Issue Date. Such registration is necessary for the VRG Share Pledge to be effective. Failure to complete such registration by 3 June 2006 will entitle the Trustee to call an event of default under the Bonds, but in such event the Bondholders will not benefit from the security over the shares in the Company constituted by the VRG Share Pledge.

Accordingly, investors should not place undue reliance on the Security.

### ***No Tax Gross Up***

The Issuer is not required to make any additional or further payments to Bondholders in the event that any amount is required to be withheld or deducted on account of tax from any payment in respect of the Bonds.

### ***Because the Global Bond is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Bonds will be represented initially by a single temporary global bond in bearer form, without Coupons or Conversion Rights, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg on or about 10 April 2006 for credit against payment to the accounts designated by the relevant subscribers with Euroclear or Clearstream, Luxembourg. The temporary Global Bond will be exchangeable on or after a date which is expected to be 20 May 2006 for a single permanent global bond in bearer form (the "**Global Bond**"), without Coupons, upon certification as to non-U.S. beneficial ownership.

Except in certain limited circumstances described in the Global Bond, investors will not be entitled to receive Bonds in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bond. While the Bonds are represented by the Global Bond, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

### ***Enforcement of the Security***

If, as a result of the Trustee's enforcement of the security that the Issuer and Brownypool grant to it under the Security Documents and the Trust Deed, the Trustee receives income from Russia payable to it for the benefit of the non-resident holders (e.g. interest under the Loan or the proceeds from sale of shares in the Company) such income will be treated as income from Russian source subject to Russian withholding tax. It is likely that the Trustee due to its conduit nature can not apply any tax treaty provisions to avoid Russian withholding tax. At the same time it is not clear whether the Bondholders can rely on any benefits of Russian tax treaties in respect of income received as a result of the enforcement of the security.

### ***Modification and waivers***

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such.

***Residual Investments***

There is a limited period for Bondholders to claim Residual Investments, if such Residual Investments are deliverable upon maturity. In addition, to the extent the Issuer fails to deliver such Residual Investments, little or no effective sanction will be available.

## TERMS AND CONDITIONS OF THE BONDS

*The following other than the words in italics is the text of the Terms and Conditions of the Bonds which will appear on the reverse of the Bonds in definitive form:*

The issue of U.S.\$50,100,000 in aggregate principal amount of 7 per cent. Bonds due 2008 (the “**Bonds**”) of Angara Mining plc (the “**Issuer**”), was authorised by a resolution of the Board of Directors of the Issuer passed on 30 March 2006. The Bonds are constituted by a trust deed (as amended or supplemented from time to time) (the “**Trust Deed**”) dated 10 April 2006 (the “**Issue Date**”) and made between the Issuer, Brownypool Trading Ltd. (Cyprus) (“**Brownypool**”), Vasilevsky Rudnik Gold Mine (“**VRG**”) and The Bank of New York as trustee (the “**Trustee**”, which term shall, where the context so permits, include all other persons for the time being acting as trustee or trustees under the Trust Deed) for the holders of the Bonds (the “**Bondholders**”). The Issuer has entered into a paying and conversion agency agreement (as amended or supplemented from time to time, the “**Agency Agreement**”) dated the Issue Date with the Trustee, The Bank of New York, as principal paying and conversion agent (the “**Principal Paying and Conversion Agent**” or the “**Principal Agent**”), and the other paying and conversion agents appointed under it (each a “**Paying and Conversion Agent**”, and together with the Principal Agent, the “**Agents**”) relating to the Bonds. References to the “**Principal Agent**” and “**Agents**” below are references to the principal agent and agents for the time being for the Bonds. The statements in these terms and conditions (these “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Bonds, and the coupons relating to them (the “**Coupons**”), and the Security Documents (as defined in Condition 2). Unless otherwise defined, terms used in these Conditions have the meaning specified in Condition 19 or in the Trust Deed. Copies of the Trust Deed, the Agency Agreement, the Security Documents and the Loan Agreement are available for inspection at the registered office of the Trustee being at the date hereof at One Canada Square, London E14 5AL and at the specified offices of each of the Agents. The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the “**Couponholders**”) are entitled to the benefit of the Trust Deed and the Security Documents and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Security Documents and the Agency Agreement applicable to them.

### 1. STATUS, FORM, DENOMINATION AND TITLE

#### (a) Status

The Bonds constitute direct, secured (in the manner described in Condition 2), unsubordinated and unconditional obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves.

#### (b) Form and Denomination

The Bonds are serially numbered and in bearer form in the denomination of U.S.\$100,000 each with Coupons attached on issue.

#### (c) Title

Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder. In these terms and conditions,

*The Bonds will be represented initially by a single temporary global bond in bearer form, without Coupons or Conversion Rights (as defined in Condition 5(a)), which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg on or about 10 April 2006 for credit against payment to the accounts designated by the relevant subscribers with Euroclear or Clearstream, Luxembourg. The temporary global bond will be exchangeable on or after a date which is expected to be 20 May 2006 for a single permanent global bond in bearer form (the “**Global Bond**”), without Coupons, upon certification as to non-U.S. beneficial ownership.*

*The Global Bond will be exchangeable for definitive Bonds in bearer form, with Coupons attached, in the limited circumstances set out in the Global Bond.*



*Bonds and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code".*

## **2. SECURITY**

The obligations of the Issuer under the Bonds are secured by the following security interests (the "**Security**") in favour of the Trustee for the benefit of itself and the Bondholders:

- (a) a pledge (the "**Brownypool Share Pledge**") under Cypriot law by the Issuer over all its rights, benefit and title in 275 ordinary shares, representing 27.555 per cent. of the ordinary shares, of Brownypool;
- (b) a pledge (the "**VRG Share Pledge**") under Russian law by Brownypool over all its rights, benefits and title in 20,941 shares, representing 27.555 per cent. of the ordinary shares, of VRG;
- (c) a first fixed charge over all sums standing credit to the Escrow Account (other than interest from time to time earned);
- (d) a first fixed charge in favour of the Trustee over:
  - (i) all principal, interest and additional amounts now or hereafter payable by the Company to the Issuer as lender under the Loan Agreement; and
  - (ii) the right to receive all sums which may be or become payable by the Company under any claim, award (including any arbitral award) or judgment relating to the Loan Agreement; and
- (e) an assignment by the Issuer by way of security of all the rights, title, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, all moneys payable to the Issuer and any claims, awards (including any arbitral awards) and judgments in favour of the Issuer in connection with the Loan Agreement and the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Company thereunder) other than any rights, title, interests and benefits charged in favour of the Trustee by way of first fixed charge other than (c) above.

The documents constituting the Security (including the Trust Deed) shall together be referred to as the "**Security Documents**".

The Issuer has on or prior to the Issue Date deposited or procured to be deposited the sum of U.S.\$1,753,500 in the Escrow Account.

The Security Documents contain provisions relating to the release of Security following redemption or conversion of Bonds in accordance with the Conditions.

## **3. COVENANTS**

### **(a) Encumbrances**

The Issuer shall not, and shall procure that none of its Subsidiaries shall, create or purport to create or permit to subsist any Security Interest in, over, or in respect of any of its property, assets or revenues or any part thereof to secure any Indebtedness or any guarantee or indemnity in respect of any Indebtedness, except for:

- (i) the security constituted by or arising pursuant to the terms of the Security Documents;
- (ii) any other Security Interest created with the approval of an Extraordinary Resolution of the Bondholders;
- (iii) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any Security Interest referred to in paragraphs (i) and (ii) above provided that the extended, renewed or replacement Security Interest does not cover any assets other than the original assets subject to the original Security Interest and that the principal amount secured thereby is not increased; or
- (iv) a Russian law pledge to be granted by Brownypool in respect of up to 17,058 shares, representing 22.455 per cent. of the ordinary shares, of VRG as security for a loan of up to U.S.\$40,000,000 to be entered into in or around June 2006 between VRG and Gazprombank or such other bank of similar repute as VRG may determine.

(b) **Limitation on Indebtedness**

So long as any Bond remains outstanding, the Issuer shall not incur any further Indebtedness if, following the occurrence of such Indebtedness the ratio of the Issuer's JORC Resources to Total Indebtedness (being at the Issue Date 3.2 divided by 162), rounded to four decimal places, is less than 0.0198.

The Trustee shall rely on the semi-annual certification by the Issuer delivered pursuant to Clause 9.5 of the Trust Deed that it is in compliance with its obligations under this Condition 3 and the Trustee assume until it has actual knowledge to the contrary that no breach of the same has occurred and shall have no liability for monitoring the compliance of the Issuer with those obligations otherwise nor any liability for not doing so.

(c) **Initial Public Offering**

The Issuer undertakes that (i) it will use all reasonable endeavours to list its Shares on AIM, a market operated by the London Stock Exchange plc ("**AIM**"), or such other stock exchange of similar standing as is selected by the Issuer and approved by the Trustee (the "**Alternative Stock Exchange**"), before the IPO Deadline and (ii) prior to any such listing it will effect a 2000:1 share split in relation to its Shares.

(d) **Non-disposals Covenant**

The Issuer will not, and will not permit its Subsidiaries to, enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to dispose, sell, lease or transfer any of its or their assets other than in the ordinary course of business and on arm's length commercial terms.

(e) **Use of Proceeds**

The Issuer undertakes to lend the net proceeds of the Bonds to VRG on the Issue Date pursuant to the Loan Agreement and the Issuer and VRG further undertake that the net proceeds from the issue of the Bonds shall be used by VRG only:

- (i) to increase the general working capital of VRG and/or any other Subsidiaries of the Issuer in an amount between U.S.\$10,020,000 and U.S.\$12,525,000;
  - (ii) to repay existing Indebtedness in an amount between U.S.\$7,515,000 and U.S.\$10,020,000;
  - (iii) for general corporate purposes in an amount not to exceed U.S.\$2,500,000; and
  - (iv) for capital expenditure and acquisitions in an amount not to exceed U.S.\$27,555,000,
- such sum not to exceed U.S.\$50,100,000.

**4. INTEREST**

(a) **Interest Rate**

The Bonds bear interest from and including the Issue Date at the rate of 7.00 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in equal instalments in arrear on 10 October and 10 April in each year (each an "**Interest Payment Date**"), commencing with the Interest Payment Date falling on 10 October 2006.

Where interest is required to be calculated for any period which is not an Interest Period it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the number of days elapsed.

(b) **Accrual of Interest**

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Issue Date or (ii) in the case of a redemption of the Bonds, from the due date for redemption thereof unless, upon due presentation thereof, payment of the principal amount or Accreted Principal Amount of the Bonds is improperly withheld or refused, and in such event interest will continue to accrue at the rate specified in Condition 4(a) (both before and after judgement) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days

after the Trustee or the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

## **5. CONDITIONAL CONVERSION RIGHT**

### **(a) Conversion Period and Conversion Price**

Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares (as defined below) at any time during the Conversion Period referred to below. For the avoidance of doubt, such right shall not arise prior to the occurrence of an Initial Public Offering.

The right of a Bondholder to convert any Bond into Shares is called the “**Conversion Right**”. Subject to and upon compliance with the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after the Initial Public Offering Date up to and including the close of business (in the place where the relevant Bond is deposited for conversion) on the day falling six weeks following the Initial Public Offering Date (the “**Final Conversion Date**”) (such period being the “**Conversion Period**”) provided that if the final such date for exercise of Conversion Rights is not a business day in such place, then the right to exercise Conversion Rights shall end on the immediately preceding business day in such place. The Issuer shall notify the Trustee and Bondholders in accordance with Condition 15 of the occurrence of an Initial Public Offering not later than the Initial Public Offering Date.

Conversion Rights may not be exercised following the giving of notice by the Trustee pursuant to Condition 9.

The number of Shares to be issued on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted by the Conversion Price in effect on the Conversion Date (both as defined below). Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted and rounded down to the nearest whole number of Shares.

The initial price at which Shares will be issued upon conversion (as adjusted from time to time, the “**Conversion Price**”) will be determined as provided in Condition 5(b) below.

### **(b) Conversion Price**

The initial Conversion Price will be calculated by dividing U.S.\$100,000 by the Conversion Rate.

The Conversion Rate is subject to adjustment as follows: (i) if an Initial Public Offering does not occur on or prior to the IPO Deadline, but does occur on or prior to the date falling 14 weeks after the IPO Deadline, the Conversion Rate will be adjusted by multiplying it by 1.1, and (ii) if an Initial Public Offering does not occur on or prior to the date falling 14 weeks after the IPO Deadline but does occur on or prior to the IPO Cut-Off Date, the Conversion Rate will be adjusted by multiplying it by 1.2.

In the event that the Issuer does not procure that the Mandated Underwriter makes any determination required of it for any purpose in these Conditions, the Trustee may (at its absolute discretion and at the expense of the Issuer) select an Independent Financial Institution to make such determination.

### **(c) Conversion Procedure**

To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deliver to the specified office of any Paying and Conversion Agent at its own expense during normal business hours a completed notice of conversion in the form as set out in the Agency Agreement (the “**Conversion Notice**”) by way of facsimile, by close of business on any business day at the place of the specified office of the Paying and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

The conversion date in respect of a Bond (the “**Conversion Date**”) must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject

to the provisions of Condition 5(a) above) and will be deemed to be the business day immediately following the date of delivery of the Conversion Notice and subject to, if applicable, any payment required to be made or indemnity required to be given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents to such withdrawal. Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

Bondholders will be required to undertake in the Conversion Notice, as a condition to the relevant conversion, not to sell or otherwise transfer or dispose of the Shares deliverable upon exercise of the relevant Conversion Right for a period ending 3 months following the Initial Public Offering Date.

A Bondholder depositing a Conversion Notice must pay to the Issuer any taxes and capital, stamp, issue and registration duties, stamp duty reserve tax or other similar taxes or duties arising on the relevant conversion (other than any capital or stamp taxes or duties or similar taxes or duties payable in the United Kingdom or, if relevant, in the jurisdiction of the Alternative Stock Exchange, by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on AIM, or, if applicable, the Alternative Stock Exchange, on conversion) and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion.

If the Conversion Date in relation to any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 5(e), but before the relevant adjustment becomes effective under the relevant Condition (such adjustment, a “**Retroactive Adjustment**”), the Issuer shall procure in respect of such Bond and upon the relevant adjustment becoming effective the issue to or as directed by the converting Bondholder in the relevant Conversion Notice of such additional number of Shares (if any) (“**Additional Shares**”) as, together with the Shares issued or to be issued on conversion of the relevant Bond, is equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and had become effective immediately after the relevant record date.

The Shares will not be available for issue (i) to, or to a nominee or agent for, Euroclear or Clearstream, Luxembourg or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the “abolition day” as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

Shares to be issued on conversion of the Bonds (including any Additional Shares) will be issued in uncertificated form through the dematerialised securities trading system operated by CRESTCo Limited, known as CREST, unless the relevant Bondholder elects to receive the Shares in certificated registered form or, at the time of issue, the Shares are not a participating security in CREST. Where Shares are to be issued through CREST, they will be delivered to the account specified by the relevant Bondholder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Shares, not later than seven London business days following the Reference Date). Where Shares are to be issued in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the recipient) to the relevant Bondholder or as it may direct in the relevant Conversion Notice within 14 days following the relevant Conversion Date or, as the case may be, the Reference Date.

(d) **Conversion Certification and Cash Settlement**

Bondholders will be required to certify in the relevant Conversion Notice that (i) they are not, and are not acting on behalf of, a competitor in the precious metal mining industry of the Issuer, Brownypool, VRG or (to the best of their knowledge and belief) any other Subsidiary of the Issuer and (ii) upon receipt of the Shares to be delivered upon conversion, they will hold no more than 17.5 per cent. of the aggregate number of Existing Shares and Bond Shares. In the event that any Bondholder does not make such certification, the Issuer may pay directly to the relevant Bondholder an amount of cash in sterling equal to the Cash Settlement Amount per Bond in order to satisfy such Conversion Right (the “**Cash Settlement**”). The Issuer shall pay the Cash Settlement Amount by sterling cheque drawn on, or by transfer to a sterling account maintained with, a bank in

London specified in the relevant Conversion Notice no later than two London business days following the relevant Conversion Date.

(e) **Adjustments to Conversion Price**

After the Initial Public Offering, the Conversion Price will be subject to adjustment upon the occurrence of the following events:

- (i) **Consolidation, Subdivision or Reclassification:** If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

- (ii) **Capitalisation of Profits or Reserves:**

If and whenever the Issuer shall issue any Shares credited as fully paid to the holders of the Shares (the “Shareholders”) by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares.

- (iii) **Rights Issues of Shares or Options over Shares:** If and whenever the Issuer shall issue Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class, by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares, in each case at a price per Share which is less than 95 per cent. of the Current Market Price (as defined below) per Share on the last Trading Day preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

C is the number of Shares issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights.

Such adjustment shall become effective on the first date on which Shares are traded ex-rights, ex-options or ex-warrants on AIM or, as the case may be, the Alternative Stock Exchange.

- (iv) **Rights Issues of Other Securities:** If and whenever the Issuer shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to Shareholders as a class, by way of rights, or the grant to all or substantially all Shareholders as

a class by way of rights, of any options, warrants or other rights to subscribe for or purchase or otherwise acquire, any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is first publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the first date on which the Shares are traded ex-rights, ex-options or ex-warrants on AIM or, as the case may be, the Alternative Stock Exchange.

- (v) **Issues at less than Current Market Price:** If and whenever the Issuer shall issue (otherwise than as mentioned in Condition 5(e)(iii) above) wholly for cash or for no consideration any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise as mentioned in Condition 5(e)(iii) above) wholly for cash or for no consideration options, warrants or other rights to subscribe or purchase Shares (other than the Bonds) in each case at a price per Share which is less than 95 per cent. of the Current Market Price on the last Trading Day preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or, as the case may be, the Shares to be issued or otherwise made available upon the exercise of such options, warrants or other rights would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued pursuant to such issue of Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

- (vi) **Other Issues at less than Current Market Price:** If and whenever the Issuer or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary) any other company, person or entity shall issue wholly for cash or for no consideration any securities (other than the Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or purchase of Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Shares, and the consideration per Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Share on the last Trading Day preceding the date of the first public announcement of the terms of issue of such securities (or the terms of such grant) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue (or grant) by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for or purchase of Shares which have been issued by the Issuer for the purposes of or in connection with such issue, less the number of such Shares so issued);
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription or purchase attached to such Securities or, as the case may be, for the Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription or purchase attached thereto at the initial conversion, exchange or subscription or purchase price or rate or, as the case may be, the maximum number of Shares which may be issued or arise from any such redesignation.

Provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this sub-paragraph (vi) the “**Specified Date**”) such number of Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this sub-paragraph (vi), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such Securities or, as the case may be, the grant of such rights.

(vii) **Modification of Rights of Conversion etc:**

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such Securities (other than the Bonds) as are mentioned in sub-paragraph (vi) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Share on the Trading Day immediately preceding the date of the first public announcement of the proposals for such modification the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Shares which have been issued, purchased or acquired by the Issuer or any Subsidiary of the Issuer (or at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) for the purposes of or in connection with such issue, less the number of such Shares so issued, purchased or acquired);
- B is the number of Shares which the aggregate consideration (if any) receivable by the Issuer for the Shares to be issued, or otherwise made available on conversion or exchange or on exercise of the right of subscription attached to the Securities so modified, would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such Securities; and
- C is the maximum number of Shares to be issued or otherwise made available on conversion or exchange of such Securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Institution

considers appropriate (if at all) for any previous adjustment under this sub-paragraph or sub-paragraph (vi) above.

Provided that if at the time of such modification (as used in this sub-paragraph (vii) the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or at such other time as may be provided) then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange or subscription had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such Securities.

- (viii) **Other Offers to Shareholders:** If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of, or pursuant to any arrangements with, the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall offer any Securities in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraphs (ii), (iii), (iv), (vi), (v) or (vii) above or (ix) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Share on the relevant Trading Day).

The Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such terms of such offer are first publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the relevant offer attributable to one Share.

Such adjustment shall become effective on the first date on which the Shares are traded ex-rights on AIM or the Alternative Stock Exchange.

- (ix) **Other Events:** If the Issuer determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 5(e), the Issuer shall at its own expense request an Independent Financial Institution to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination provided that an adjustment shall only be made pursuant to this sub-paragraph if such Independent Financial Institution is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises.

Notwithstanding the foregoing provisions, where the circumstances giving rise to any adjustment pursuant to this Condition 5(e) have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Institution and certified in writing to the Trustee to be appropriate to give the intended result.

- (f) For the purposes of these Conditions:

For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraphs (e) (iii), (iv), (vi), (vii) and (viii), the following provisions shall apply:



- (i) the aggregate consideration receivable or price for Shares issued for cash shall be the amount of such cash;
- (ii) (x) the aggregate consideration receivable or price for Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such Securities or, as the case may be, such options, warrants or rights, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (iii) if the consideration or price determined pursuant to (i) or (ii) above (or any component thereof) shall be expressed in a currency other than pounds sterling it shall be converted into pounds sterling at such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on the date of the first public announcement of the terms of issue of such Securities (or if no such rate is available on that date, the equivalent rate on the immediately preceding date on which such rate is available); and
- (iv) in determining consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Shares or Securities or otherwise in connection therewith.

On any adjustment, the relevant Conversion Price, if not an integral multiple of one cent, shall be rounded down to the nearest one cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to the Trustee, the Agents and the Bondholders in accordance with Condition 15 as soon as practicable after the determination thereof. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their nominal value or would require Shares to be issued in any other circumstances not permitted by applicable law.

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 5(e)(i) above or to correct an error.

If the Issuer fails to select an Independent Financial Institution when required for the purposes of these Conditions, the Trustee may (at its absolute discretion and at the expense of the Issuer) select such an Independent Financial Institution.

References to any issue or offer or grant to Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised

regulatory body or any other stock exchange in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

References to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Issuer or any of its Subsidiaries whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and any Shares held by or on behalf of the Issuer or any of its Subsidiaries (and which in the case of Condition 5(e)(iii) or 5(e)(iv) do not rank for the relevant right or entitlement) shall not be considered to be in issue.

(g) **Recycling of Shares**

The Issuer shall give notice to Bondholders in accordance with Condition 15 of its intention to effect an initial public offering not less than four weeks prior to the intended date of the initial public offering (the date on which such notice is given being the “**Notification Date**” and the intended date of such initial public offering specified in the Notice being the “**Intended Date**”). Bondholders may elect, by giving notice to the Issuer not less than two weeks prior to the Intended Date that the Shares which would otherwise be deliverable upon conversion of the Bonds held by such Bondholder be sold as part of the initial public offering.

In order to make such election, the relevant Bondholder must deliver to any Paying and Conversion Agent a duly completed notice in the form set out in the Agency Agreement (a “**Recycling Notice**”), a copy of which may be obtained from the specified office of any Paying and Conversion Agent, together with the relevant Bond(s). Each Bond should be delivered together with all Coupons relating to it which mature after the Intended Date.

The Issuer shall, not later than the seventh day prior to the Intended Date, notify each Bondholder who has delivered a duly completed Recycling Notice and a Bond as provided above, at the address indicated in the relevant Recycling Notice, of the intended IPO Price or the parameters within which it will be determined. Thereafter, each such Bondholder may elect to withdraw the relevant Recycling Notice by submitting a notice of withdrawal in the form set out in the Agency Agreement (a “**Withdrawal Notice**”) not later than the third day prior to the Intended Date whereupon the relevant Bond(s) will be returned (by uninsured mail and at the risk of the relevant Bondholder) to the Bondholder at the address specified in the Recycling Notice.

If such Bondholder does not submit a Withdrawal Notice, the Issuer shall pay to such Bondholder the Cash Settlement Amount on the Initial Public Offering Date (assuming for such purpose that the relevant Conversion Date is the Initial Public Offering Date and disregarding for such purpose the requirement for the relevant public offering to constitute an Initial Public Offering), subject as provided below.

The Cash Settlement Amount will be paid as provided in Condition 5(d).

In the event that no public offering occurs on or within 14 days of the Intended Date, or if the IPO Price is less than the valuation indicated by the Issuer, all Bonds so deposited for recycling will be returned (by uninsured mail and at the risk of the relevant Bondholder) to the relevant Bondholder at the address specified in the Recycling Notice.

In addition, in the event that more than 80 per cent. in aggregate principal amount of the outstanding Bonds are tendered for recycling, the Issuer shall be entitled not to pay the Cash Settlement Amount in respect of any Bond and may instead elect to return the relevant Bond (by uninsured mail and at the risk of the Bondholder) to the relevant Bondholder at the address specified in the Recycling Notice provided that (i) the Issuer shall pay the Cash Settlement Amount in respect of not less than 80 per cent. in aggregate principal amount of Bonds submitted for recycling and (ii) if the Issuer makes such an election in respect of more than one Bond in circumstances where more than one Recycling Notice has been given (and not withdrawn by means of a Withdrawal Notice), it shall use its reasonable endeavours to select the relevant Bonds *pro rata* to the relevant Recycling Notices.

**6. PAYMENTS**

(a) **Method of Payment**

Payment of the principal amount of the Bonds will be made against presentation and surrender (or, in the case of partial payment, endorsement) of Bonds and payment of any interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of partial payment, endorsement) of Coupons, at the specified office of any Paying and Conversion Agent by

U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank outside the United States of America (or, in the case of sums payable following an election by the Issuer to make payment in sterling of sums due on the Maturity Date pursuant to, and in accordance with, Condition 7(a), by sterling denominated cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London). Payments of interest due in respect of Bonds other than on an Interest Payment Date shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.

Payments of all other amounts will be made as provided in these Conditions.

**(b) Payments subject to fiscal laws**

All payments are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment. No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

**(c) Surrender of unmatured Coupons**

Each Bond should be presented for payment together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of the amount so paid in respect of the relevant Bonds bears to the total amount due in respect of the relevant Bonds) will be deducted from the sum due for payment. Each amount so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than ten years after the Relevant Date for the relevant payment in respect of the relevant Bonds.

For the purposes hereof and save as otherwise provided herein, “**unmatured Coupons**” means Coupons maturing after the due date for redemption of the Bonds to which they appertain.

**(d) Non-business days**

A Bond or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and in the case of payment by transfer to a U.S. dollar account, a business day in New York or, in the case of a payment on the Maturity Date where the Issuer has elected to make such payment in sterling pursuant to, and in accordance with, Condition 7(a), and such payment is to be made by transfer to a sterling account, a business day in London). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this paragraph (d) falling after the due date.

**(e) Paying and Conversion Agents, etc.**

The initial Paying and Conversion Agents and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying and Conversion Agent and appoint additional or other Paying and Conversion Agents, provided that it will (i) maintain a Principal Agent, (ii) so long as the Bonds are admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange’s Professional Securities Market and the rules of the London Stock Exchange or the UK Listing Authority so require, a Paying and Conversion Agent having a specified office in London and (iii) maintain a Paying and Conversion Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 15.

**(f) Fractions**

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

**(g) U.S. Paying Agent**

Payments in respect of the Bonds may only be made at the specified offices of Paying and Conversion Agents outside the United States of America, except that they may be made at the specified office of a Paying and Conversion Agent in New York City if (i) the Issuer shall have

appointed Paying and Conversion Agents with specified offices outside the United States of America with the reasonable expectation that such Paying and Conversion Agents would be able to make payment at such offices of the full amount of the principal amount, interest on or other amounts due under the Bonds in U.S. dollars when due, (ii) payment of the full amount thereof at all specified offices of the Paying and Conversion Agents outside the United States of America is illegal or effectively precluded by exchange controls or other similar restrictions, and (iii) the relevant payment is then permitted by applicable law of the United States of America without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## **7. REDEMPTION, PURCHASE AND CANCELLATION**

### **(a) Maturity**

Unless previously redeemed or converted, the Bonds will be redeemed on 10 April 2008 (the “**Maturity Date**”) at their principal amount together with accrued interest, PROVIDED THAT if no Initial Public Offering has occurred prior to the IPO Cut Off Date, the Bonds will be redeemed on the Maturity Date at 140 per cent. of their principal amount together with accrued interest and Condition 7(h) shall apply.

The amount to be paid by the Issuer on the Maturity Date will be payable in U.S. dollars unless the Issuer elects to make payment in pounds sterling, in which event the Issuer shall give not less than 20 nor more than 60 days’ notice in writing thereof before the Maturity Date to the Trustee and the Principal Agent and to the Bondholders in accordance with Condition 15. Such pounds sterling amount shall be calculated by multiplying the amount payable in respect of the Bonds (in U.S. dollars) on the Maturity Date by 1.005 and converting such U.S. dollar amount into pounds sterling at such rate of exchange as is determined by any leading bank of international repute (which may be the same person as the Trustee) selected by the Trustee to be the spot rate prevailing at the close of business on the second London business day prior to the Maturity Date and rounding the resultant figure (if necessary) to the nearest penny (with £0.005 being rounded upwards). Such calculation shall be made by the Issuer. If the Issuer so elects to pay in pounds sterling, the Issuer shall deliver to the Trustee on the Maturity Date a certificate signed by two directors of the Issuer stating the amount in pounds sterling to be paid in respect of each U.S.\$100,000 principal amount of Bonds and stating that such calculation complies with this Condition.

### **(b) Redemption at the Option of the Issuer**

Provided the Initial Public Offering occurs on or before the IPO Deadline, the Issuer may, on or after the date falling 60 days after the Initial Public Offering Date, redeem the Bonds, in whole but not in part, at their principal amount together with interest accrued to the date fixed for redemption.

To exercise such right, the Issuer must provide not less than 20 nor more than 30 days’ notice to the Bondholders in accordance with Condition 15 (the “**Call Option Notice**”).

A Call Option Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds on the date fixed for redemption specified in the Call Option Notice.

### **(c) Redemption at the Option of the Bondholders**

The Issuer will, at the option of the holder of any Bond, (i) at any time on or after the day following the last day of the Conversion Period redeem such Bond on the relevant Put Date at its principal amount, together with any accrued and unpaid interest and (ii) at any time following a Licence Event redeem such Bond on the Licence Event Put Date at its Accreted Principal Amount on such date together with any accrued and unpaid interest.

To exercise such right, the holder of the relevant Bond must present such Bond, together with all Coupons relating thereto in relation to Interest Payment Dates falling after the Put Date or the Licence Event Put Date, as the case may be, at the specified office of any Paying and Conversion Agent, together with a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying and Conversion Agent (a “**Put Option Notice**”) not earlier than 30 days and not later than 20 days prior to the Put Date or, as the case may be, the Licence Event Put Date.

Payment in respect of any such Bond shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account by such Bondholder with, a bank outside the United States of America specified in the relevant Put Option Notice.

A Put Option Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of a Put Option Notice delivered as aforesaid on the relevant Put Date or, as the case may be, Licence Event Put Date.

Following the occurrence of a Licence Event the Issuer (failing whom VRG) shall give notice thereof to the Trustee and the Bondholders in accordance with Condition 15 within seven days of the first day on which it becomes so aware.

The Trustee shall not be required to take any steps to ascertain whether a Licence Event has occurred and shall not have any liability in relation thereto.

(d) **Purchases**

Neither the Issuer nor any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise.

(e) **Cancellation**

All Bonds redeemed or converted will be cancelled forthwith (together with all unmatured Coupons attached thereto or surrendered therewith) and may not be reissued or resold.

(f) **Redemption Notices**

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will be given in accordance with Condition 15, and shall specify the date for redemption, the manner in which redemption will be effected, the aggregate principal amount and the Accreted Principal Amount of the Bonds outstanding and the current Conversion Price as at the latest practicable date prior to the publication of the notice.

(g) **Accreted Principal Amount**

In these Conditions, the “**Accreted Principal Amount**” in respect of each U.S.\$100,000 principal amount of Bonds means the amount which is determined to be the amount which, together with unpaid accrued interest from the immediately preceding Interest Payment Date or, if none, from the Issue Date, and after taking into account any interest paid in respect of such Bonds in preceding periods, represents for the holder thereof on the relevant date for determination of the Accreted Principal Amount (the “**Determination Date**”) a gross yield to maturity of 18 per cent. per annum (calculated on an annual basis) and shall be calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the Determination Date is an Interest Payment Date, the Accreted Principal Amount shall be as set out in the table below in respect of such Interest Payment Date):

$$\text{Accreted Principal Amount} = \text{Previous Accreted Principal Amount} \times (1 + r)^{d/p} - \text{AI}$$

where:

$$\text{Previous Accreted Principal Amount} = \text{the Accreted Principal Amount on the Interest Payment Date immediately preceding the Determination Date as set out below (or, if the Determination Date is prior to the first Interest Payment Date, U.S.\$100,000):}$$

<b>Interest Payment Date</b>	<b>Accreted Principal Amount (U.S.\$)</b>
10 October 2006 .. .. .	105,127.80
10 April 2007 .. .. .	110,698.03
10 October 2007 .. .. .	116,748.84
10 April 2008 .. .. .	123,321.70

r = 18.00 per cent. expressed as a fraction.

d = number of days from and including the immediately preceding Interest Payment Date (or, if the Determination Date is on or before the first Interest Payment Date, from and including the Issue Date) to but excluding the Determination Date, calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 360

AI = accrued interest on the principal amount of the Bonds from and including the immediately preceding Interest Payment Date (or, if the Determination Date is on or before the first Interest Payment Date, from and including the Issue Date) to but excluding the Determination Date, calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

If the Accreted Principal Amount payable in respect of any Bond upon its redemption pursuant to Condition 7(c) or upon it becoming due and payable as provided in Condition 9 is not paid when due, the Accreted Principal Amount due and payable in respect of such Bond shall be the Accreted Principal Amount of such Bond as described above, except that such Conditions shall have effect as though the reference therein to the date fixed for redemption, or, as the case may be, the date on which the Bond becomes due and payable, had been replaced by a reference to the Relevant Date, and interest shall accrue on the principal amount of such Bond to the Relevant Date. The calculation of the Accreted Principal Amount in accordance with this Condition 7(g) will continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be 140 per cent. of the principal amount of the Bonds together with interest (inclusive of interest payable pursuant to Condition 4) thereon at the rate of 7.00 per cent. per annum from and including the Maturity Date to but excluding the Relevant Date.

For the avoidance of doubt, the Issuer will be responsible for calculating or procuring the calculation of the Accreted Principal Amount and the Trustee will not be responsible for the accuracy of such calculation, nor have any liability to any person in relation to such calculation. Upon the Issuer making, or procuring the making of, such calculation it shall promptly certify in writing to the Trustee such Accreted Principal Amount.

(h) **Residual Rights**

In the event that no Initial Public Offering has occurred on or prior to the IPO Cut-Off Date, the Issuer shall on the Maturity Date deliver to each holder of a Bond an instrument by way of deed poll (the “**Residual Instrument**”) in the form annexed as Schedule 4 to the Trust Deed. The Residual Instrument shall entitle the holder to receive the Residual Payment in the event that the Issuer conducts an initial public offering (whether or not such initial public offering would constitute an Initial Public Offering for the purposes of these Conditions) or sells all or any part of Brownypool or VRG or any Relevant Licence (a “**Sale**”) in the period of 365 days following the Maturity Date (the “**Residual Period**”).

In order to obtain delivery of the Residual Instrument, the relevant Bondholder must deliver to the Paying and Conversion Agent to whom he presents his Bond for redemption on the Maturity Date (and, in any event, no later than 14 days after the Maturity Date) a duly completed notice in the form set out in the Agency Agreement (the “**Residual Instrument Notice**”), a copy of which may be obtained from the specified office of any Paying and Conversion Agent.

Each Residual Instrument shall state on delivery that the holder thereof will be entitled, in the event that the Issuer effects an initial public offering or a Sale in the Residual Period, to a cash payment in U.S. dollars (the “**Residual Payment**”) calculated in accordance with the formula below:

$$\text{Residual Payment} = \frac{[V - (W+X)] \times Y\% \times Z\%}{N}$$

where:

V = the Residual Valuation (as defined below)

W = U.S.\$200,000,000

X = U.S.\$70,140,000

Y = U.S.\$25.05%

Z = 50%

N = 501

“**Residual Valuation**” means, (i) in the case of an initial public offering, the market capitalisation of the Issuer at the initial public offering price and (ii) in the case of a Sale, the consideration (the “**Sale Consideration**”) received by the Issuer or any of its Subsidiaries for the relevant asset (in each case, if not in U.S. dollars, translated into U.S. dollars at such rate as may be determined in good faith (at the cost of the Issuer) by an independent financial institution acting as an expert selected in agreement with Nomura International plc (or, failing such agreement, selected by Nomura International plc) subject as provided below, all as further described in the Residual Instrument.

Each Residual Instrument shall contain an undertaking from the Issuer that, prior to the Issuer, Brownypool or VRG effecting any Sale, the Issuer will appoint (at the cost of the Issuer) an independent financial institution acting as an expert selected in agreement with Nomura International plc (or, failing such agreement, selected by Nomura International plc) for the purposes of determining whether the proposed Sale Consideration reflects the valuation available for the relevant asset in an arm’s length transaction in the open market. In the event that the relevant expert concludes that the proposed Sale Consideration does not reflect such valuation, it shall substitute its own valuation which shall serve as the Residual Valuation for the purposes of the above formula.

The Issuer may elect to pay any Residual Payment in sterling, in which case the amount payable shall be the Residual Amount translated into sterling at such rate as may be determined in good faith (at the cost of the Issuer) by an independent financial institution acting as an expert selected in agreement with Nomura International plc (or, failing such agreement, selected by Nomura International plc).

The Residual Payment shall (i) if to be paid in U.S. dollars, be paid by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank outside the United States of America and (ii) if to be paid in sterling, be paid by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London, in each case as specified in the relevant Residual Instrument Notice.

## **8. TAXATION**

All payments in respect of the Bonds or the Coupons by or on behalf of the Issuer will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event the relevant payment will be made subject to such withholding or deduction. The Issuer will not be required to pay any additional or further amounts in respect of such withholding or deduction.

## **9. EVENTS OF DEFAULT**

The Trustee at its discretion may, and if so requested by holders of not less than one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, subject in each case to being indemnified or having received security to its satisfaction (but, in the case of the happening of the events mentioned in sub-paragraph (iii) or, insofar as they relate to any Subsidiary of the Issuer other than Brownypool or VRG, sub-paragraph (iv), (v), (vi), (vii) or (viii), only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders) give written notice to the Issuer that all of the Bonds are, and they shall accordingly thereby become, immediately due and repayable at their Accreted Principal Amount on such date together with accrued but unpaid interest if any of the following events has occurred (each an “**Event of Default**”):

- (i) default is made in the payment of any amount payable in respect of the Bonds or under the Loan Agreement when due and such failure continues for a period of 7 days;
- (ii) default is made in the delivery of Shares as and when such Shares are required to be delivered following conversion of a Bond and such failure continues for 14 days;
- (iii) the Issuer, VRG or Brownypool does not perform or comply with one or more of its other obligations set out in the Conditions, the Trust Deed or the Loan Agreement which default is incapable of remedy or, if in the opinion of the Trustee it is capable of remedy, is not in the opinion of the Trustee remedied within 21 days after written notice of such default having been given to the Issuer by the Trustee;

- (iv) the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend, payment of all or, in the opinion of the Trustee, a material part of (or of, in the opinion of the Trustee, a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of the debts of the Issuer or any of its Subsidiaries;
- (v) (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (v) has occurred equals or exceeds U.S.\$3,000,000 or its equivalent (as determined on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank (which may be the same person as the Trustee) selected by the Trustee on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or was not paid under any such guarantee or indemnity).
- (vi) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any, in the opinion of the Trustee, material part of the property, assets or revenues of the Issuer or any of its Subsidiaries, and is not discharged or stayed within 30 days;
- (vii) an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders;
- (viii) an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any, in the opinion of the Trustee, material part of the property, assets or revenues of the Issuer or any of its Subsidiaries (as the case may be) and is not discharged within 30 days;
- (ix) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds;
- (x) the Security or any Security Document (or any part of any of them) is terminated or becomes void, illegal, invalid or unenforceable or the Issuer, Brownypool or VRG is entitled to terminate, rescind or avoid the Security Documents or (other than as provided herein or in the Security Documents) the Security ceases to be subject to the provisions of the relevant Security Document or such Security is not of the priority contemplated by such agreements or, in the case of the VRG Share Pledge, is not registered in the shareholders' register of VRG on or before 3 June 2006;
- (xi) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or, in the opinion of the Trustee, a material part of the assets of the Issuer or any of its Subsidiaries;
- (xii) the percentage direct shareholding of the Issuer in Brownypool shall fall below 100 per cent. or the percentage direct shareholding of Brownypool in VRG shall fall below 100 per cent.;
- (xiii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

## **10. UNDERTAKINGS IN RELATION TO CONVERSION**

From the Issue Date until the day following the last day of the Conversion Period, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee



where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) issue, allot and deliver Shares on exercise of Conversion Rights in accordance with these Conditions and at all times keep available for issue free from pre-emptive or other similar rights out of its authorised but unissued ordinary share capital such number of authorised but unissued Shares as would enable it to issue in full such number of Shares as are required to be issued by it upon exercise of Conversion Rights and all other rights of subscription and exchange for and conversion into Shares at the then current subscription prices or exchange prices;
- (b) not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves unless, in any such case, the same gives rise (or would, but for the provisions of Condition 5(f) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price, provided that the foregoing restrictions shall not apply to the issue or paying up of any Securities by way of capitalisation of profits or reserves:
  - (i) by the issue of fully paid Shares or other Securities to the Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Shares or other Securities on a capitalisation of profits or reserves; or
  - (ii) by the issue of fully paid equity share capital (other than Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Shares) on a capitalisation of profits or reserves;
- (c) not in any way modify the rights attaching to the Shares with respect to voting, dividends or liquidation nor issue any other class of equity ordinary share capital carrying any rights which are more favourable than such rights but so that nothing in this Condition 10(c) shall prevent:
  - (i) the issue of any equity ordinary share capital to employees or former employees or directors (including directors holding or formerly holding executive office or the personal service company of any such person) (or the spouse or relative of any such person) whether of the Issuer or any of the Issuer's subsidiaries or associated companies pursuant to any employees' share scheme as defined in Section 743 of the Companies Act 1985; or
  - (ii) any consolidation or subdivision of the Shares or the conversion of any Shares into stock or vice versa; or
  - (iii) any modification of such rights which is not, in the opinion of an Independent Financial Institution materially prejudicial to the interests of the Bondholders; or
  - (iv) without prejudice to any rule of law or legislation (including regulations made under Section 207 of the Companies Act 1989 of Great Britain or any other provision of that or any other legislation), the conversion of Shares into, or the issue of any Shares in, uncertificated form (or the conversion of Shares in uncertificated form to certificated form) or the amendment of the Articles of Association of the Issuer to enable title to securities of the Issuer (including Shares) to be evidenced and transferred without a written instrument or any other alteration to the Articles of Association of the Issuer made in connection with the matters described in this sub paragraph (iv) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of securities, including Shares, dealt with under such procedures); or
  - (v) any alteration to the Articles of Association of the Issuer made in connection with the matters described in this Condition 10 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Shares, dealt with under such procedures); or
  - (vi) any issue of equity ordinary share capital where the issue of such equity share capital results or would, but for the provisions of any other Condition, otherwise result in an adjustment of the Conversion Price; or
  - (vii) any issue of equity ordinary share capital or modification of rights attaching to the Shares where prior thereto the Issuer shall have instructed an Independent Financial Institution to determine what (if any) adjustments should be made to the Conversion Price as being fair and

reasonable to take account thereof and such Independent Financial Institution shall have determined either that no adjustment is required or that an adjustment to the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);

- (d) procure that no Securities (whether issued by the Issuer or any Subsidiary of the Issuer or procured by the Issuer or any Subsidiary of the Issuer to be issued or issued by any other person pursuant to any arrangement with the Issuer or any Subsidiary of the Issuer) issued without rights to convert into, or exchange or subscribe for, Shares shall subsequently be granted such rights exercisable at a consideration per Share which is less than 95 per cent. of the Current Market Price per Share at the close of business on the last Trading Day preceding the date of the announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 5(f) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Shares of differing nominal values, save where such Shares have the same economic rights;
- (e) not make any issue, grant or distribution or take any other action if the effect thereof would be that, on the conversion of Bonds, Shares would (but for the provisions of Condition 5(f)) have to be issued at a discount or otherwise could not, under any applicable law then in effect, be legally issued as fully paid;
- (f) not reduce its issued share capital, share premium account or capital redemption reserve or any uncalled liability in respect thereof or any non-distributable reserves except (i) pursuant to the terms of issue of the relevant share capital or (ii) as permitted by Section 130(2) of the Companies Act 1985 or (iii) where the reduction does not involve any distribution of assets or (iv) where the reduction results in (or would, but for the provisions of Condition 5(f) relating to the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made or (v) solely in relation to a change in the currency in which the nominal value of the Shares is expressed or (vii) by way of, or involving, a transfer to reserves under applicable law or (viii) to create distributable reserves;
- (g) ensure that the Shares issued upon conversion of the Bonds will be admitted to trading on AIM or to listing and trading on the Alternative Stock Exchange in accordance with their respective rules and will be listed, quoted or dealt in on any other stock exchange or securities market on which the Shares may then be listed or quoted or dealt in; and
- (h) not declare or pay any dividend or make any other distribution to its shareholders or make any other payment to its shareholders, and will not purchase, and will procure that none of its Subsidiaries will purchase, any Shares until after the date falling six months after the Initial Public Offering Date.

## **11. PRESCRIPTION**

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal, Accreted Principal Amount or any other amount payable under Condition 7(a)) and five years (in the case of interest) from the Relevant Date in respect thereof.

## **12. ENFORCEMENT**

- (a) **Enforceability of Security:** The Security shall become enforceable upon the Bonds becoming immediately due and payable pursuant to Condition 9 and/or if the Issuer fails to make payment of amounts due and payable under the Bonds on the date on which they are subject to redemption as applicable, whichever shall be the first to occur.
- (b) **Enforcement of Security:** At any time after the Security becomes enforceable, the Trustee may take such proceedings and/or other actions to enforce the provisions of the Security Documents and such action to enforce the Security as shall be:
  - (i) requested in writing or approved at a Bondholders' meeting by the holders of at least one-quarter in aggregate principal amount of the Bonds outstanding; or
  - (ii) directed by an Extraordinary Resolution of the Bondholders

subject to it having been indemnified, or received security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be properly incurred by it in connection therewith.

### 13. REPLACEMENT OF BONDS AND COUPONS

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Paying and Conversion Agent in London subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

### 14. MEETINGS OF BONDHOLDERS

- (a) **Meetings:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened the Issuer or the Trustee and shall be convened by the Trustee at the request of Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than one half in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which principal, interest, premium or fees is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or the Coupons and (iv) to modify the provisions in relation to the Security or cancel the Security, (v) to modify the Conversion Right or (vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed at any meeting of the Bondholders shall be binding on all the Bondholders (whether or not they were present at the meeting at which such resolution was passed and whether or not they voted in favour of such resolution) and on all Couponholders.
- (b) **Written Resolutions:** A resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds who for the time being are entitled to receive notice of a meeting in accordance with this Condition shall for all purposes be as valid as an Extraordinary Resolution passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Such resolution in writing may be contained in one document or several documents in like form each signed by or on behalf of one or more of the Bondholders.
- (c) **Modification and Waiver:** The Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification (except as mentioned in Condition 14(a) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement, the Trust Deed, the Loan Agreement or the Security Documents which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or Couponholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. The Trustee may, without the consent of the Bondholders or the Couponholders determine that any Event of Default or any Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter,
- (d) **Interests of Bondholders:** In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation, waiver or substitution) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and, in particular, but without limitation

shall not have regard to the consequences of any such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory of any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

- (e) **Certificates/Reports:** Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall in be conclusive and binding on all parties) notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Issuer in connection therewith contains a monetary or other limit on, or exclusion of, the liability of the relevant expert or person in respect thereof.

## 15. NOTICES

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

## 16. INDEMNIFICATION

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer without accounting for any profit.

## 17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

## 18. GOVERNING LAW

- (i) **Governing law:** The Bonds, the Coupons and the Trust Deed shall be governed by and construed in accordance with English law.
- (ii) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or Coupons and accordingly any legal action or proceedings arising out of or in connection with the Bonds or Coupons may be brought in such courts.

## 19. INTERPRETATION

In these Conditions:

“**Accreted Principal Amount**” has the meaning ascribed to it in Condition 7(g);

“**Additional Shares**” has the meaning ascribed to it in Condition 5(c);

“**AIM**” has the meaning ascribed to it in Condition 3(c);

“**Alternative Stock Exchange**” has the meaning ascribed to it in Condition 3(c);

“**Bondholder**” and (in relation to a Bond or Coupon) “**holder**” means the bearer of any Bond or Coupon (as the case may be);

“**Bond Shares**” means such number of Shares as would in aggregate be issued and/or delivered to Bondholders upon conversion of all of the Bonds outstanding on the Initial Public Offering Date at the initial Conversion Price (assuming for this purpose that the Conversion Rate is not adjusted as provided in Condition 5(b));

“**Brownypool Share Pledge**” has the meaning ascribed to it in Condition 2;

“**business day**” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in such place;

“**Call Option Notice**” has the meaning ascribed to it in Condition 7(b);

“**Cash Settlement**” has the meaning ascribed to it in Condition 5(d);

“**Cash Settlement Amount**”, in respect of a Bond, means an amount determined by the Issuer to be equal to the product of (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of a Bond in respect of which the Cash Settlement applies and (ii) the Volume Weighted Average Price of the Shares during the 5 consecutive Trading Days ending on the Trading Day immediately preceding the relevant Conversion Date (or such lesser number of Trading Days falling in the period from and including the Initial Public Offering Date to and including the Trading Day immediately preceding the Conversion Date) or, in the case where the Conversion Date is the Initial Public Offering Date, the IPO Price;

“**Closing Price**” for the Shares for any Trading Day shall be the closing market price quoted by AIM (or the Alternative Stock Exchange, as the case may be) for such Trading Day;

“**Conversion Rate**” means the number resulting from the following formula:

$$CR = \frac{(N/X) - N}{B}$$

where:

- CR = Conversion Rate
- B = 501
- N = Number of Shares in issue immediately prior to the Initial Public Offering Date (and, for the avoidance of doubt, excluding any new Shares issued as part of or pursuant to the Initial Public Offering)
- X = 1 - 0.2505, subject to adjustment as provided below.

In the event that the Valuation of the Issuer on the Initial Public Offering Date exceeds U.S.\$250,000,000, “X” will be adjusted as set out in the table below:

Valuation (U.S.\$ million)	“X”
Up to and including 400 .. .. .	0.7495
Above 400, to and including 500 .. .. .	0.7595
Above 500, to and including 550 .. .. .	0.7695
Above 550 .. .. .	0.7895

“**Conversion Date**” has the meaning ascribed to it in Condition 5(c);

“**Conversion Notice**” has the meaning ascribed to it in Condition 5(c);

“**Conversion Period**” has the meaning ascribed to it in Condition 5(a);

“**Conversion Price**” has the meaning ascribed to it in Condition 5(a);

“**Conversion Right**” has the meaning ascribed to it in Condition 5(a);

“**Current Market Price**” means, in respect of a Share on a particular date, the arithmetic mean of the closing prices quoted by AIM (or the Alternative Stock Exchange, as the case may be) for one Share for the five consecutive Trading Days ending on the Trading Day immediately preceding such date; provided that if at any time during the said five Trading Day period the Shares shall have been quoted ex-dividend or ex-any other entitlement and during some other part of that period the Shares shall have been quoted cum-dividend or cum-any other entitlement then:

- (i) if the Shares to be issued in such circumstances do not rank for the dividend or entitlement in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend or entitlement per Share; or
- (ii) if the Shares to be issued in such circumstances rank for the dividend or entitlement in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend or ex-any other

entitlement shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Shares on each of the said five Trading Days have been quoted cum-dividend or cum-any other entitlement in respect of a dividend or entitlement which has been declared or announced but the Shares to be issued do not rank for that dividend or entitlement, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend or entitlement per Share.

and provided further that:

- (i) if such closing prices are not available on each of the five Trading Days during such period, then the arithmetic average of such closing prices which are available in such period shall be used (subject to a minimum of two such closing prices); and
- (ii) if only one or no such closing price is available in the Relevant Period, then the Current Market Price shall be determined in good faith by an Independent Financial Institution;

“**equity share capital**” has the meaning given to it in Section 744 of the Companies Act 1985;

“**Escrow Account**” means an account opened by the Issuer with The Bank of New York (Account Number 043001) (or such other U.S. dollar account as may be agreed between the Issuer and the Trustee);

“**Existing Shares**” means such number of Shares as are in issue immediately prior to the Initial Public Offering (and, for the avoidance of doubt, (i) following completion of the share split referred to in Condition 3(c)(ii) and (ii) excluding any new Shares issued as part of or pursuant to the Initial Public Offering);

“**Extraordinary Resolution**” has the meaning provided in the Trust Deed;

“**Fair Market Value**” means with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Institution provided, that (1) the fair market value of a cash dividend paid or to be paid shall be the amount of such cash dividend; (2) the fair market value of any other cash amount shall be the amount of such cash; (3) where options, warrants or other rights are publicly traded in a market of adequate liquidity as determined by an Independent Financial Institution, the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five Trading Days on the relevant market commencing on the first such Trading Day such options, warrants or other rights are publicly traded, or such shorter period as such options, warrants or other rights are publicly traded, (4) where options, warrants or other rights are not publicly traded (as aforesaid), the fair market value of such options, warrants or other rights will be as determined by an Independent Financial Institution on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Share, the dividend yield of a Share, the volatility of such market price, prevailing interest rates and the terms of such options, warrant or other right, including as to the expiry date and exercise price (if any) thereof, and (5) in the case of (1) converted into sterling (if declared or paid in a currency other than sterling) at the rate of exchange used to determine the amount payable to shareholders who were paid or are to be paid the cash dividend in sterling; and in the absence of such a stated rate of exchange and in the case of (2), (3) and (4) converted into sterling (if expressed in a currency other than sterling at such rate of exchange determined by an Independent Financial Institution to be the spot rate at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available); provided that for the purposes of determining Fair Market Value under Conditions 5(e)(iii) and (e)(iv), references in this definition to options, warrants or other rights shall be deemed to be to the entitlement to such options, warrants or other rights as the case may be;

“**Final Conversion Date**” has the meaning ascribed to it in Condition 5(a);

“**Indebtedness**” means any indebtedness (whether present or future, actual or contingent, secured or unsecured) of any Person for, or in respect of, moneys borrowed or raised including (without limitation):

- (i) any amount raised by acceptance under any acceptance credit facility;

- (ii) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, debenture stock, loan stock or any similar instrument whether issued for cash or in whole or in part for a consideration other than cash;
- (iii) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with applicable law and generally accepted accounting principles in the jurisdiction of the relevant Person, be treated as a finance or capital lease;
- (iv) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (v) any amount raised pursuant to any issue of shares which are expressed to be redeemable;
- (vi) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (vii) any derivative transaction (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (viii) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (ix) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above;

“**Independent Financial Institution**” means an independent financial institution of international repute selected by the Issuer and approved by the Trustee (provided that no such approval will be required if the Issuer selects the Mandated Underwriter);

“**Initial Public Offering**” means a public offering to retail and/or institutional investors by the Issuer and/or the shareholders of the Issuer for the subscription or sale of Shares for cash and, if and to the extent that the Shares are not already listed and admitted to trading on AIM or an Alternative Stock Exchange, accompanied by the grant of listing on AIM or an Alternative Stock Exchange, which complies with the following conditions:

- (i) the aggregate gross issue or offer price, before deduction of or in respect of commissions, fees and expenses, as determined by the Mandated Underwriter (translated into U.S. dollars at the IPO Exchange Rate) is not less than U.S.\$50,100,000;
- (ii) the aggregate public float of the Shares on the Initial Public Offering Date as calculated in accordance with the rules of AIM or the Alternative Stock Exchange is not less than 30 per cent. of the aggregate market capitalisation of the Issuer on such date, as determined by the Mandated Underwriter;
- (iii) two directors of the Issuer shall have certified in writing to the Trustee that, immediately after giving effect to the offering, no Event of Default hereunder, and no event which, with the giving of notice or the passage of time could constitute an Event of Default, shall have occurred and be continuing; and
- (iv) if then required, the Issuer shall have obtained approval from AIM or the Alternative Stock Exchange to list the Shares into which the Bonds are convertible.

An offering shall not constitute an Initial Public Offering for the purposes of these Conditions unless, on the Initial Public Offering Date, the Mandated Underwriter shall have delivered a certificate to the Issuer and the Trustee that the above conditions are satisfied;

“**Initial Public Offering Date**” means the date on which the Shares are admitted to trading on AIM or, as the case may be, to listing and/or trading on the Alternative Stock Exchange;

“**Intended Date**” has the meaning ascribed to it in Condition 5(g);

“**Interest Payment Date**” has meaning ascribed to it in Condition 4(a);

“**Interest Period**” means the payment period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**IPO Cut-Off Date**” means the date falling 60 days prior to the Maturity Date;

“**IPO Deadline**” means 10 July 2007;

“**IPO Exchange Rate**” means the average of the spot rate of exchange for sterling into U.S. dollars on the Initial Public Offering Date quoted by four major investment banks of international repute selected by the Issuer and approved by and notified in writing to the Trustee;

“**IPO Price**” means the offer price of the Shares in the Initial Public Offering as certified by the Mandated Underwriter;

“**JORC Code**” means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2004 Edition;

“**JORC Resources**” means the total mineral resources (in millions of ounces) of the Issuer and its Subsidiaries classified in accordance with the JORC Code, (as determined by reference to the resources report dated 29 March 2006 prepared by SRK Consulting (UK) Ltd. (“**SRK**”) or any later independent resources report prepared by SRK, Micromine, Hatch, Minproc, AMC or A.C.A. Howe International or such other person of international repute as is selected by the Issuer and approved by the Trustee);

“**Licence Event**” means the occurrence of any one or more of the following events (which for the avoidance of doubt, shall not constitute an Event of Default, unless they would otherwise fall within the provisions of Condition 9):

- (i) the Licensing Authority gives VRG or any Subsidiary of VRG written notice of unconditional revocation of any Relevant Licence; or
- (ii) VRG or any Subsidiary of VRG agrees in writing with the Licensing Authority to any revocation or surrender of any Relevant Licence unless such revocation or surrender is made in contemplation of, and is followed immediately by a substitution or replacement of such Relevant Licence with a further licence, permit, permission, certificate, consent or approval or other authorisation on terms that are certified in writing by two directors of the Issuer and confirmed in writing by an expert selected by the Issuer and approved by the Trustee to be not materially prejudicial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders; or
- (iii) VRG or any Subsidiary of VRG sells, donates, transfers or otherwise disposes of any Relevant Licence (whether or not on a voluntary basis and whether or not for any consideration) to any other person unless such sale, donation, transfer or other disposal is made in contemplation of, and is followed immediately by, a substitution or replacement of such Relevant Licence with a further licence, permit, permission, certificate, consent or approval or other authorisation on terms that are certified in writing by two directors of the Issuer and confirmed in writing by an expert selected by the Issuer and approved by the Trustee to be not materially prejudicial to the interests of Bondholders or as shall be approved by an Extraordinary Resolution of Bondholders; or
- (iv) any legislation (whether primary or subordinate) is enacted terminating or revoking any Relevant Licence unless the enactment of such legislation is made in contemplation of a substitution or replacement of such Relevant Licence with a further permit, permission, certificate, consent or approval or other authorisation on terms that are certified in writing by two directors of the Issuer and confirmed in writing by an expert selected by the Issuer and approved by the Trustee to be not materially prejudicial to the interests of Bondholders or as shall be approved by an Extraordinary Resolution of Bondholders; or
- (v) any modification is made to the terms and conditions of any Relevant Licence unless such modification are certified in writing by two directors of the Issuer and confirmed in writing by an expert selected by the Issuer and approved by the Trustee to be not materially prejudicial to the interests of the Bondholders,

in each case unless, in the sole opinion of the Trustee, such revocation, surrender, enactment, modification or disposition is not materially prejudicial to the Bondholders. In deciding whether any event or circumstance as mentioned above is materially prejudicial to the interest of Bondholders, the Trustee may rely on, as sufficient evidence of the matters contained therein, the opinion of, without limitation, independent counsel selected by the Issuer and approved in writing by the Trustee and/or an Independent Financial Institution, and the Trustee shall not be liable for so doing;

“**Licence Event Put Date**” means the date specified in the relevant Put Option Notice which may be no earlier than seven days and no later than 30 days after the date of the relevant Put Option Notice;



“**Licensing Authority**” means the Committee for National Resources of the Krasnoyarsk Krai or the Russian Federal Ministry of Natural Resources or any successor or successors thereto or other authority or authorities performing substantially the functions thereof;

“**Loan**” means the loan advanced under the Loan Agreement;

“**Loan Agreement**” means the loan agreement to be dated 10 April 2006, between the Issuer and VRG whereby the Issuer has agreed to lend the proceeds of the issue of the Bonds to VRG on terms set out in the Loan Agreement as to aggregate principal amount, rate of interest, maturity and repayment and due dates for payment of interest that match the equivalent provisions of the Bonds;

“**Mandated Underwriter**” means Nomura International plc or such other investment bank as is mandated by the Issuer to act as lead manager or lead bookrunner of the relevant offering of Shares;

“**Maturity Date**” has the meaning ascribed to it in Condition 7(a);

“**Notification Date**” has the meaning ascribed to it in Condition 5(g);

“**Person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

“**Put Date**” means the date specified in the relevant Put Option Notice, which may be no earlier than seven days and no later than 30 days after the date of delivery of the relevant Put Option Notice;

“**Put Option Notice**” has the meaning ascribed to it in Condition 7(c);

“**Recycling Notice**” has the meaning ascribed to it in Condition 5(g);

“**Reference Date**” means the date the relevant Retroactive Adjustment takes effect or as at the date of issue of Shares if the adjustment results from the issue of Shares;

“**Relevant Date**” means in respect of any Bond or Coupon, whichever is the later of (i) the date on which payment in respect of it first becomes due and (ii) if any amount of the money payable is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Bondholders in accordance with Condition 15 that, upon further presentation of the Bond or Coupon being made, such payment will be made, provided that such payment is in fact made upon such presentation;

“**Relevant Licence**” means each or any of the following mineral extraction licences issued by a Licensing Authority: licence number 00711 for Vasilevsky gold field, licence number 00710 for Nikolaevsky gold field, licence number 01546 for Gerfed gold field or licence number 01547 for Illyinsky and Lower Talovsky gold fields or any licences, permits, permissions, certificates, consent, orders, approvals or other authorisations extending, supplementing, amending or replacing any of the above;

“**Residual Instrument**” has the meaning ascribed to it in Condition 7(h);

“**Residual Payment**” has the meaning ascribed to it in Condition 7(h);

“**Residual Period**” has the meaning ascribed to it in Condition 7(h);

“**Residual Valuation**” has the meaning ascribed to it in Condition 7(h);

“**Retroactive Adjustment**” has the meaning ascribed to it in Condition 5(c);

“**Sale**” has the meaning ascribed to it in Condition 7(h);

“**Sale Consideration**” has the meaning ascribed to it in Condition 7(h);

“**Securities**” means any securities including, without limitation, Shares or options, warrants or other rights to subscribe or purchase or acquire Shares;

“**Security Documents**” has the meaning ascribed to it in Condition 2;

“**Security Interest**” means any mortgage, standard security, pledge, lien, charge, assignment, assignation, hypothecation or security interest or any other agreement or arrangement having a substantially similar legal effect or having the effect of creating security over an asset in favour of any person;

“**Shareholders**” has the meaning ascribed to it in Condition 5(c);

“**Shares**” means ordinary shares with a par value of £1.00 in the share capital of the Issuer or shares of any class or classes resulting from any subdivision, consolidation or re-classification of the ordinary shares of the Issuer;

“**Subsidiary**” or “**subsidiary**” means any company or other business entity of which that person owns or controls (either directly or through one or more other subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under Russian law, regulations or generally accepted accounting principles from time to time, should have its accounts consolidated with those of that person;

“**Total Indebtedness**” means the aggregate of (i) the total consolidated indebtedness of the Issuer as determined by reference to the most recently published audited consolidated financial statements of the Issuer and (ii) any Indebtedness incurred by the Issuer or any Subsidiary of the Issuer since the balance sheet date of such audited consolidated financial statements, in each case expressed in millions of US dollars;

“**Trading Day**” means a day when AIM or, as the case may be, the Alternative Stock Exchange is open for business, other than a day on which AIM or, as the case may be, the Alternative Stock Exchange is scheduled to or does close prior to its regular weekday closing time;

“**Valuation**” means the aggregate value of the Existing Shares and the Bond Shares at the IPO Price, translated into U.S. dollars at the IPO Exchange Rate, as determined by the Mandated Underwriter;

“**Volume Weighted Average Price**” means, in respect of a Share on any Trading Day, the volume weighted average price of a Share appearing as a normal quote on Bloomberg’s AQR (average quote recap) (or such other source as shall be determined to be appropriate by an Independent Financial Institution) on such Trading Day as determined by an Independent Financial Institution, provided that:

- (i) if on any such Trading Day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such Trading Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined; and
- (ii) if any dividend or other entitlement in respect of the Shares is announced on or prior to the relevant Conversion Date in circumstances where the record date or other due date for the establishment of entitlement in respect of such dividend or other entitlement shall be on or after the relevant Conversion Date and if on such Trading Day the price determined as provided above is based on a price ex-dividend or ex-any other entitlement, then such price shall be increased by an amount equal to the Fair Market Value of any such dividend or entitlement per Share as at the date of announcement of such entitlement or dividend;

“**VRG Share Pledge**” has the meaning ascribed to it in Condition 2; and

“**Withdrawal Notice**” has the meaning ascribed to it in Condition 5(g).

## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

### 1 Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Global Bond on or after a date which is expected to be 20 May 2006 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for Definitive Bonds described below (i) if the Global Bond is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of a tax jurisdiction which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Directors of the Issuer is delivered to the Trustee for display to Bondholders. Thereupon (in the case of (i) above) the holder may give notice to the Trustee, and (in the case of (ii) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Global Bond for Definitive Bonds on or after the Global Bond Exchange Date (as defined below) specified in the relevant notice.

On or after the Global Bond Exchange Date the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying and Conversion Agent. In exchange for the Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Bond, the Issuer will procure that it is cancelled and returned to the holder together with any relevant Definitive Bonds.

“Global Bond Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying and Conversion Agent is located and, except in the case of exchange pursuant to (i) above, in the city or cities in which the relevant clearing system(s) is located.

### 2 Payments

Payments of principal and interest in respect of Bonds represented by the Global Bond will be made against presentation and endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Bond to or to the order of the Principal Paying and Conversion Agent or such other Paying and Conversion Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed on the appropriate schedule to the Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds.

### 3 Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system rather than by publication as required by the Conditions.

### 4 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

### 5 Meetings

The holder of the Global Bond will be treated at any meeting of Bondholders as having one vote in respect of each U.S.\$100,000 in principal amount of Bonds.

## **6 Purchase and Cancellation**

Cancellation of any Bond represented by the Global Bond which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Global Bond on its presentation to or to the order of the Principal Paying and Conversion Agent for notation in the appropriate schedule thereto.

## **7 Trustee's Powers**

In considering the interests of Bondholders while the Global Bond is held on behalf of a clearing system the Trustee may have regard to any information provided to it by such clearing system or its operator or a participant in such system as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond (or an interest in respect thereof) and may consider such interests as if such accountholders were the holder of the Global Bond.

## **8 Redemption at the option of Bondholders**

The option of the Bondholders provided for in Condition 7(c) may be exercised by the holder of the Global Bond giving notice to the Principal Paying and Conversion Agent within the time limits relating to the deposit of Bonds with a Paying and Conversion Agent set out in that Condition substantially in the form of the Put Option Notice available from any Paying and Conversion Agent and stating the principal amount of Bonds in respect of which the option is exercised and at the same time presenting the Global Bond to the Principal Paying and Conversion Agent for notation accordingly in the appropriate schedule.

## **9 Conversion Rights**

The Conversion Rights in respect of the Bonds will be exercisable by presentation of the Global Bond to or to the order of the Principal Paying and Conversion Agent for notation of exercise of the relevant Conversion Rights together with one or more duly completed Conversion Notices. Conversion Rights may not be exercised in respect of any Bond while such Bond is represented by the Temporary Global Bond.

## **10 Recycling**

The election of the Bondholders to recycle Shares (or to withdraw such election) in accordance with Condition 5(g) may be exercised by the holder of the Global Bond giving notice to the Principal Paying and Conversion Agent within the time limits relating to the deposit of Bonds with a Paying and Conversion Agent set out in that Condition substantially in the form of the Recycling Notice or, as the case may be, the form of the Withdrawal Notice available from any Paying and Conversion Agent and stating the principal amount of Bonds in respect of which the election is exercised or withdrawn and at the same time presenting the Global Bond to the Principal Paying and Conversion Agent for notation accordingly in the appropriate schedule.

## **11 Residual Instrument**

In order to obtain the Residual Instrument on maturity, if then deliverable in accordance with the Conditions, the holder of the Global Bond should give notice to the Principal Paying and Conversion Agent substantially in the form of the Residual Instrument Notice available from any Paying and Conversion Agent (such notice to include details of the persons entitled to the Residual Instruments and the addresses to which such Residual Instruments should be delivered and to be delivered not more than 14 days after the Maturity Date) and at the same time present the Global Bond to the Principal Paying and Conversion Agent.

## **USE OF PROCEEDS**

The net proceeds of the Offering are expected to be approximately U.S.\$47,063,500 after deduction of related commissions payable by the Issuer and estimated expenses of the placement. The net proceeds will be lent to the Company by the Issuer by way of an intercompany loan and will be used by the Company for capital expenditures and future acquisitions of, or investments in, additional gold mining or exploration assets that meet the Company's technical and economic criteria, to provide additional working capital across the Company's activities, for the repayment of certain of the Company's borrowings and for general corporate purposes. The Company is not currently in any negotiations with any third party regarding any material acquisition or investment.

## DESCRIPTION OF THE ISSUER

### History and Business

Angara Mining plc, the Issuer, is the indirect parent of the Company and was incorporated in England on 14 July 2005 as a company with limited liability under the Companies Act 1985, with registered number 5508246. The Issuer re-registered as a public limited company on 8 November 2005. The Issuer's objects include the lending of monies, the issue of shares, the borrowing of monies and the issue of debt securities. The objects of the Issuer are set out in full in clause 4 of its Memorandum of Association.

The Issuer is not a trading entity and relies upon its subsidiary, the Company, to generate and upstream cash so that it may meet its financial obligations. The Issuer has not engaged in any activities other than those incidental to its formation and the authorisation of the issue of the Bonds and the adoption of the Memorandum and Articles of Association. The Issuer's activities will comprise, *inter alia*, the issue of the Bonds, the holding of 100% of the issued share capital of Brownypool Trading Limited ("Brownypool") and the lending of the proceeds of the issue of the Bonds to the Company and all matters reasonably incidental to the issue of the Bonds.

Brownypool was incorporated as a limited liability company in Cyprus under the Cyprus Companies Law chapter 113 on 1 August 2005. The sole purpose of Brownypool is to act as a holding company. Brownypool's registered office is located at Thasou 3, Dadlaw House, P.C. 1520 Nicosia, Cyprus. As at 30 March 2006, its allotted, called up and fully paid share capital was 1,000 ordinary shares of CY£1 each. The directors of Brownypool are Harris D. Demetriades, Demetrios A. Demetriades, Ilya Preys and Vladimir Preys. Brownypool is a direct, wholly-owned subsidiary of the Issuer and is the sole shareholder of the Company.

On 28 October 2005, Brownypool borrowed U.S.\$1,910,000 on an unsecured basis from Elios Finance Ltd, a company controlled by the shareholders of the Issuer, in order to finance the purchase of the shares of VRG from those shareholders. Elios Finance Ltd released Brownypool from all obligations under this loan, including the obligation to pay accrued interest, and the loan was terminated with effect from 5 April 2006. Brownypool also borrowed U.S.\$40,500 on 21 October 2005 and U.S.\$84,000 on 15 February 2006, in each case on an unsecured basis, from Crosper Limited, an unrelated company. Crosper Limited released Brownypool from all obligations under these loans, and the loans were terminated with effect from 5 April 2006. As a result of the termination of these loans and the removal of the corresponding liabilities from its balance sheet, Brownypool will record income of U.S.\$2,055,680 for the financial year ending 31 December 2006. Since the date of its incorporation Brownypool has not engaged in any activities other than those described above.

Brownypool is not a trading entity, has no material assets or liabilities and is not at the date of these Listing Particulars significant to the business, financial condition or prospects of the Issuer or the Group.

The Issuer's registered office is located at Moorgate House, Clifton Moorgate, York, North Yorkshire YO30 4WY. The telephone number of the registered office is +44 (0)19 0469 8600.

### Directors and Company Secretary

The following sets out the current members of the Board of Directors of the Issuer as of the date hereof and their principal outside activities.

Name	Function within the Issuer	Principal outside Activity
John Fairley .. .. .	Director and Company Secretary	Director of J. Fairley Associates, Independent Consultants
Petr Golovinov .. .. .	Director	President of the Federal Deposit Bank Commercial Bank
Ilya Preys .. .. .	Director	First Deputy General Manager of Vtormet
Vladimir Preys .. .. .	Director	General Manager of Vtormet

The business address of the directors is Moorgate House, Clifton Moorgate, York, North Yorkshire YO30 4WY. There may be additions or other changes to the Board in due course.

The directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer. As a matter of English law, each director is under a duty to act honestly, in good faith and in the best interests of the Issuer, regardless of any other directorships he may hold. There are no potential conflicts of interests between any duties to the Issuer of the persons listed above and their private interests or other duties.

The company secretary of the Issuer is John Fairley.

**Directors’ Interests in the Issuer**

As at 30 March 2006, the interests of the directors in the issued share capital of the Issuer were as follows:

Name	Number of Ordinary Shares
John Fairley .. .. .	0
Petr Golovinov .. .. .	15,834
Ilya Preys .. .. .	15,832
Vladimir Preys .. .. .	15,834

**Financial Statements**

The accounting reference date of the Issuer is 31 July. The Issuer’s first financial period ended on 31 December 2005. The Issuer’s audited financial statements will be available for collection by Bondholders during usual business hours at the registered office of the Issuer. The financial statements of the Issuer have been prepared in accordance with IFRS as adopted by the EU. The Issuer has appointed Moore Stephens LLP, St Paul’s House, Warwick Lane, London EC4M 7BP as its initial auditors.

**Recent Developments**

Since incorporation, other than entering into contracts in connection with the issue of the Bonds, acquiring the share capital of Brownypool and agreeing to lend the net proceeds of the Offering to the Company, the Issuer has not commenced trading. No dividend has been declared or paid.

The Issuer does not have outstanding any borrowings or indebtedness in the nature of borrowings, loan capital issued or created but unissued, term loans, bank overdrafts, liabilities under acceptances or acceptance credits, mortgages, charges, hire purchase commitments, obligations under finance leases, guarantees or other material contingent liabilities.

## SHARE CAPITAL OF THE ISSUER

Set out below is certain information relating to the share capital of the Issuer including a brief summary of certain provisions of the Memorandum and Articles of Association of the Issuer (the “Articles”) and the Companies Act 1985 of England and Wales (the “Act”), the governing corporate law of the Issuer, in effect as of the date hereof. This summary does not purport to be complete and is qualified in its entirety by reference to the Issuer’s Memorandum and Articles of Association and applicable laws of England and Wales.

### General

The Issuer’s authorised capital consists of £50,000 divided into 50,000 shares of £1 each (the “Shares”). All the issued Shares are fully paid and are not subject to any future call or assessment. All the issued Shares rank equally as to voting rights, participation and distribution of the Issuer’s assets on liquidation, dissolution or winding-up and as to the entitlement to dividends. Holders of Shares are entitled to dividends if and when declared by the directors and, upon liquidation, to receive such portion of the assets of the Issuer as may be distributable to such holders.

### Voting rights

Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any Shares on a show of hands every member present in person or by proxy or in the case of a corporation by duly authorised representative shall have one vote and on a poll every member shall have one vote for each Share of which he is the holder.

In the case of joint holders unless such joint holders shall have chosen one of their number to represent them and so notified the Issuer in writing the vote of the most senior member who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of Shares in the Issuer of which he is the holder, or one of the joint holders, have been paid.

On a poll votes may be given either personally or by proxy.

### Dividends

The Issuer in general meeting may declare dividends but no dividend shall exceed the amount recommended by the directors in accordance with the respective rights of the members and the declaration of the directors as to the amount of the profits shall be conclusive.

The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the Issuer.

Directors may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

Provided the directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

The directors may before recommending any dividend set aside out of the profits of the Issuer such sums as they think proper as a reserve or reserves which shall at their discretion be applicable for any purpose to which the profits of the Issuer may be properly applied and pending such application may at the discretion of the directors either be employed in the business of the Issuer or be invested in such investments as the directors may from time to time think fit. The directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

The directors may deduct from any dividend payable to any member all such sums of money (if any) as may be due and payable by him to the Issuer on account of calls or otherwise.

No dividend shall bear interest against the Issuer.

All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of the Issuer until claimed. No unclaimed dividend shall bear interest against the Issuer. The payment by



the directors of any unclaimed dividend or other monies payable on or in respect of a share into a separate account shall not constitute the Issuer a trustee in respect thereof and any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Issuer.

### **Capitalisation of reserves**

Subject to any necessary sanction or authority being obtained the Issuer in general meeting may at any time and from time to time pass a resolution that any sum not required for the payment or provision of a fixed dividend with or without further participation in profits and (a) for the time being standing to the credit of any reserve fund of the Issuer including premiums received on the issue of any shares or debentures of the Issuer or (b) being undivided profits in the hands of the Issuer be capitalised and that such sum be appropriated as capital to and amongst the members in the shares and proportions in which they would have been entitled thereto if the same had been distributed by way of dividend and in such manner as the resolution may direct and the directors shall in accordance with such resolution apply such sum in paying up in full or in part (where permitted by the Act) any unissued shares or debentures of the Issuer on behalf of such members and appropriate such shares or debentures to and distribute the same credited as fully paid up or partly paid up (where permitted by the Act) amongst them in the proportions aforesaid in satisfaction of their shares and interest in the said capitalised sum or shall apply such sum or any part thereof on behalf of such members in paying up the whole or part of any uncalled balance which shall for the time being be unpaid in respect of any issued shares or debentures held by them.

### **Share capital**

Without prejudice to any special rights for the time being conferred on the holders of any shares or class of shares (which special rights should not be varied or abrogated except with such consent or sanction as contained in the Articles) any share or class of shares in the share capital of the Issuer may be authorised for issue with such preferred, deferred or other special rights or such restrictions whether in regard to dividend return of capital voting or otherwise as the Issuer may from time to time by special resolution determine.

The Issuer may by special resolution alter its share capital as stated in its Articles in any of the ways permitted or provided for under the Act.

Subject to confirmation by the court and the provisions of the Act the Issuer may by special resolution reduce its share capital in any way.

The Issuer may from time to time subject to the provisions of the Act issue or convert existing non-redeemable shares whether issued or not into shares which are to be redeemed or are liable to be redeemed at the option of the Issuer or the holder thereof.

The Issuer may from time to time subject to the provisions of the Act purchase its own shares (including any redeemable shares) in any manner authorised by the Act provided that in the event that the Issuer shall purchase any Shares which are admitted to listing or trading on any investment exchange such purchases shall be made in accordance with any relevant restrictions imposed by any such listing authority or exchange.

### **Modification of rights**

Subject to the Act whenever the share capital of the Issuer is divided into different classes of shares the special rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated at any time with the consent in writing of the holders of three quarters of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles relating to general meetings of the Issuer or to the proceedings thereat shall *mutatis mutandis* apply except that the necessary quorum shall be two persons holding or representing by proxy issued shares of that class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present one person present holding shares of that class or his proxy shall be a quorum) and that the holders of shares of that class or their duly appointed proxies shall on a poll have one vote in respect of every share of that class held by them respectively.

The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other special rights shall (unless otherwise expressly provided by the conditions of the issue of

such shares) be deemed not to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **Shares**

The unissued Shares shall be at the disposal of the directors who may, subject to the provisions of the Act and the Articles allot, grant options over, or otherwise deal with or dispose of them to such persons at such times and generally on such terms and conditions as they think proper.

The directors shall not, without approval of the Issuer in a general meeting allot or grant options over any shares representing 10% or more of the authorised (but unissued) share capital of the Issuer (from time to time) without first making an offer to each person who holds relevant shares or relevant employee shares to allot to him on the same or more favourable terms a proportion of those shares which is as nearly as practicable equal to the proportion in nominal value held by him of the aggregate of relevant shares and the directors shall not allot any of those shares to a person unless the period in which any such offer may be accepted has expired and the Issuer has received notice of the acceptance or refusal of every offer so made.

### **Interests in shares**

The directors shall have power by notice in writing to require any shareholder to disclose to the Issuer the identity of any person other than the shareholder (an “interested party”) who has any interest in the shares held by the shareholder and the nature of such interest. The Issuer shall maintain a register of interested parties.

### **Transfer of shares**

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a certificated share which (i) is not a fully paid share, provided that the refusal does not prevent dealings in shares of the class in the Issuer from taking place on an open and proper basis; or (ii) on which the Issuer has a lien.

The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

- (i) is lodged, duly stamped (if stampable), with the Issuer and (except where the shares are registered in the name of a recognised person (as defined in the Articles) and no certificate shall have been issued thereof) is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may require;
- (ii) is in respect of one class of share only;
- (iii) is in favour of not more than four persons;
- (iv) is in respect of a fully paid share; and
- (v) is in respect of a share on which the Issuer does not have a lien.

The Board may refuse to register a transfer of shares in the Issuer by a person if such shares represent an interest of at least a quarter of one per cent. in the Issuer’s shares or any class thereof and if, in respect of those shares, such person has been served with a direction notice after failure (whether by such person or by another) to provide the Issuer with information concerning interests in those shares required to be provided under the Act unless (i) the transfer is an approved transfer (as defined in the Articles), (ii) the relevant member is not himself in default as regards supplying the information required and he certifies that after due and careful enquiry he is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or (iii) the transfer of the shares is required to be registered by the CREST Regulations.

Notice of refusal to register a transfer must be sent to the transferee within two months after the date on which the instrument of transfer was lodged with the Issuer or the instruction to transfer shares was received by the Issuer from the Operator of a Relevant System (in each case, as defined in the CREST Regulations), as the case may be.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.

Shares may be transferred by means of a relevant system, including the Relevant System of which CRESTCo Limited is the Operator (in each case, as defined in the CREST Regulations).

Save as provided above or as required by the Act or other applicable law, there are no restrictions on the transfer of shares.

Other than as provided by sections 428 to 430 of the Act and the City Code on Takeovers and Mergers there are no rules or provisions relating to mandatory takeover bids and/or squeeze-out and sellout rules in relation to the Shares.

### **Lien and forfeiture**

The Issuer will have a first and paramount lien on every share (not being a fully paid share) for all monies payable to the Issuer (whether presently or not) in respect of that share. The Board may at any time (generally or in a particular case) waive any lien or declare any share to be wholly or in part exempt from such lien. The Issuer's lien on a share shall extend to any amount (including without limitation dividends) payable in respect of it.

Subject to the terms of allotment, the Board may from time to time make calls in respect of monies unpaid on shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the Board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Issuer by reason of such non-payment. If such notice is not complied with, any share in respect of which it was sent may, at any time before the payment required by the notice has been made, be forfeited pursuant to a resolution of the Board. The forfeiture shall include all dividends or other monies payable in respect of the forfeited share which have not been paid before the forfeiture.

### **General meetings**

The Issuer shall hold a general meeting as its Annual General Meeting once in every calendar year at such time and at such place as may be determined by the directors.

The directors may whenever they think fit convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on a requisition made in accordance with the Act in writing and signed by members holding in the aggregate not less than one tenth in nominal value of the shares carrying the right to vote at the meeting.

### **Appointment of Directors**

Unless otherwise determined by ordinary resolution, the number of directors shall be not less than two and shall not be subject to any maximum. Directors may be appointed by the Issuer by an ordinary resolution of shareholders. The Board may appoint a director either to fill a vacancy or as an additional director and in either case whether or not for a fixed term. Any director so appointed shall hold office only until the next following general meeting and shall not be taken into account in determining the directors who are to retire by rotation at such meeting. If not re-appointed at such meeting, such a director shall vacate office at its conclusion. A director shall not be required to hold shares in the capital of the Issuer.

### **Proceedings of Directors**

The directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit, and may determine the quorum necessary for the transaction of business which in default of such determination shall be two.

Any director may participate in a meeting of the directors or in a committee thereof by means of a conference telephone or similar communications equipment whereby all of the directors participating in the meeting can hear each other and the directors participating in this manner shall be deemed to be present in person at such meeting for all the purposes of the Articles.

The directors may elect a chairman of their meetings and determine the period for which he is to hold office, but if no such chairman is elected or if at any meeting the chairman is not present at the time appointed for holding the same, the directors present shall choose one of their number to be chairman of such meeting.

### **Directors' interests**

A director who has, directly or indirectly, an interest in a transaction entered into or proposed to be entered into by the Issuer or by a subsidiary of the Issuer which, to a material extent, conflicts or may conflict with the interests of the Issuer and of which he has actual knowledge shall disclose to the Issuer (by notice to the directors) the nature and extent of his interest. Subject thereto, any such director shall not be liable to account to the Issuer for any profit or gain realised by him on such transaction.

A notice in writing given to the Issuer by a director that he is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his interest in any such transaction entered into after the notice is given. Subject to the Articles, a director may vote in respect of any such transaction and, if he does so vote, his vote shall be counted and he shall be capable of being counted towards the quorum at any meeting of the directors at which any such transaction shall come before the directors for consideration.

Subject to the provisions of the Act, a director may act by himself or his firm in a professional capacity for the Issuer and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

### **Borrowing powers**

Subject to the provisions of the Articles, the directors may exercise all the powers of the Issuer to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Issuer or its parent undertaking (if any) or any subsidiary undertaking of the Issuer or of any third party.

The directors shall restrict the borrowings of the Issuer and exercise all voting and other rights or powers of control exercisable by the Issuer in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate amount at any one time owing by the group (being the Issuer and all its subsidiary undertakings from time to time) in respect of monies borrowed, exclusive of monies borrowed by the Issuer or any of its subsidiary undertakings from any other of such companies, shall not at any time, without the previous sanction of the Issuer in general meeting, exceed a sum equal to three times the aggregate of:

- (i) the nominal amount of the issued and paid-up share capital of the Issuer; and
- (ii) the amount standing to the credit of the consolidated capital and revenue reserves (including share premium account, capital redemption reserve fund and profit and loss account) of the Issuer and its subsidiaries and any sums set aside for the purpose of tax equalisation;

all as shown in a consolidation of the then latest audited balance sheets of the Issuer and each of its subsidiary undertakings but adjusted as may be necessary to take account of such deductions as are specified in the Articles.

### **Winding up**

Subject to the claims of any secured creditors and to the provisions of any enactment as to preferential payments, the Issuer's property shall on winding up be realised and applied in satisfaction of the Issuer's liabilities *pari passu* and subject thereto any surplus shall then be distributed amongst the members according to their rights and interests in the Issuer. Subject to the rights of the holders of shares issued upon special conditions, if the assets available for distribution to members shall be insufficient to pay the whole of the paid up capital, such assets shall be shared on a pro rata basis amongst members by reference to the number of fully paid up shares held by each member respectively at the commencement of the winding up.

If the Issuer shall be wound up, the liquidator, or where there is no liquidator the directors, may, with the sanction of a special resolution, divide amongst the members in *specie* any part of the assets of the Issuer or vest the same in trustees upon such trusts for the benefit of the members as the liquidator or the directors (as the case may be) with the like sanction shall think fit.

## OVERVIEW OF THE MINING ENVIRONMENT IN RUSSIA

Natural resources in Russia have supported the development of some of the world's largest natural resources groups producing, *inter alia*, oil, natural gas, aluminium, nickel and platinum group metals. However, despite having numerous large-scale underdeveloped and undercapitalised gold assets, the Russian gold mining industry has suffered from the slow evolution of the regulatory environment governing the gold industry in comparison with other minerals and resource sectors, and the significant political uncertainties which persisted during Russia's transition to a market economy.

Since 1998, the Russian gold industry has undergone a period of fundamental change which has created more favourable conditions for groups contemplating the development and operation of gold mines in Russia. The Company believes that certain of the key factors contributing to this include:

- the devaluation of the Rouble in 1998 which has made the Russian mining industry more competitive;
- the licensing in 1998 of Russian commercial banks to export gold;
- the significant changes in the taxation environment, including the reduction of corporate tax rates from 35% to 24% and income tax rates from 35% to 13%;
- the legislative and regulatory initiatives introduced by the Putin administration;
- the abolition of the 5% export duty on gold export sales in 2002;
- the increased availability of domestic and international bank finance on reasonable terms reflecting Russia's lower credit risk ratings;
- the reduction in the payable government gold royalty from 13% to 6%; and
- that 50% of Russia's resources are represented by ores (20% placers and 30% complex ores).

Whilst the Company cannot guarantee that such favourable conditions will be maintained in future, it believes that the new mining environment in Russia represents an opportunity for the exploitation of opportunities in the Russian gold sector.

### Key Competitors

The largest gold producer in Russia is Norilsk Nickel, including its subsidiary Polus, which in 2003 accounted for approximately 23% of gold production in Russia<sup>1</sup>. Other competitors include Peter Hambro and Highland Gold, which controlled 2% and 3% of total Russian gold production, respectively, in 2003. Buryatoloto is another competitor with a market share of nearly 3% in 2003, and is controlled by High River Gold of Canada. Other competitors include Polymetal (3%), Omolon/Kinross (3%) and Amur (3%).

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<sup>1</sup> Figures included in "—Key Competitors" are sourced from "Gold Fever", *IntelliNews—Russia This Week*, ISI—Intellinews, 30 August 2004.

## DESCRIPTION OF THE COMPANY

### **Incorporation and principal activities of the Company**

Joint Stock Company “Vasilevsky rudnik Gold mine” was incorporated in the settlement of Razdolinsk in the Motyginsky District of the Krasnoyarsk Kray of Russia on 21 September 1992, in accordance with the Law “On Enterprises and Entrepreneurial Activities” (abolished) and now operates under the law of the Russian Federation “On Joint Stock Companies” No. 208-FZ dated 26 December 1995, as amended (the “Russian Companies Act”). The Company was registered with the State Registration Chamber on 2 December 1998 with state registration number R-3323.16.3. On 2 December 2002 the Company was re-registered in accordance with the requirements of the law of the Russian Federation “On State Registration of Legal Entities and Individual Entrepreneurs” No. 129-FZ dated 8 August 2001 (as amended) in the Unified State Register of Legal Entities with the principal state registration number (OGRN) 1022401510340. The principal legislation under which the Company operates is the Russian Companies Act and the regulations made thereunder. The Company’s registered office and principal business address is 33A Pervomayskaya Street, Razdolinsk, Motyginsky District, Krasnoyarsk Kray, 663401, Russia. The Company’s telephone number is +7 495 783 8430.

The principal activities of the Company include the exploration and development of mineral properties in Russia.

### **History**

The Company was established to open pit mine and later underground mine primary (ore) deposits of gold in the Motyginsky District of the Krasnoyarsk Kray. Prospecting work in the area was conducted from 1992 to 1996. In 1994 and 1996, the Company acquired licences for two deposits (Vasilevsky and Nikolaevsky). In 1997-1998 the Company, using the proceeds of the state-provided Gold Credit Agreement (as defined in “—Material Contracts—Gold Credit Agreement”), commenced construction of a gold production and processing facility to develop gold ore deposits within the Partizansky ore cluster in the Motyginsky District of the Krasnoyarsk Kray, and by the end of 1998 was in the development stage. As a result of a Russian financial crisis in that year the Company suspended activity and remained dormant up until the end of 2003. In 2004, following the involvement of the Issuer’s current shareholders, the Company recommenced construction of the production facilities. A gold extraction complex aimed at processing at least 300,000 tonnes of ore per year was built near the settlement of Partizansky, in immediate proximity to the open pit of the Vasilevsky deposit. The Company commenced ore production at the Vasilevsky deposit facility in September 2005 and commenced full operations at the processing plant in December 2005. In 2005 the Company acquired two more licences: the Gerfed licence for the exploration and extraction of gold ore in the Gerfed gold deposit, and the Ilyinsky and Nizhne-Talovsky licence for geological prospecting, exploration and extraction of gold ore on the Ilyinsky and Nizhne-Talovsky gold ore occurrences. The Company also acquired a licence in 2005 for prognostic and prospecting works in respect of gold ore in the Vasilevsky-Udereysky zone in the Partizansky ore cluster.

## Corporate Structure

The following diagram sets out an overview of the current corporate structure:



\* The shareholders of Angara Mining plc are: Vladimir Yurievich Preys (31.67%), Petr Nikolayevich Golovinov (31.67%), Ilya Vladimirovich Preys (31.66%) and Andrei Yurievich Chuguevsky (5.00%).

\*\* The nominal shareholder holds one share of Brownypool's stock in trust for the benefit of the Issuer in order to comply with Russian law requirements.

\*\*\* The Company has one 100% subsidiary, Limited Liability Company "Nord 2005" ("OOO Nord 2005"). OOO Nord 2005 was formed on October 4, 2005, solely for the purposes of provision of security services to the Company. OOO Nord 2005 was registered in the Unified State Register of Legal Entities with the principal state registration number (OGRN) 1052454020695. OOO Nord 2005's registered office and principal business address is Razdolinsk, Motyginsky District, Krasnoyarsk Krai, 663415, Russia and its postal address is 24 Krasnoi Gvardii street, office 326, Krasnoyarsk, Russia. OOO Nord 2005 was duly registered with the Russian tax authorities and obtained licence No. 4398 for the provision of security services valid through to 28 October 2010. The charter capital of OOO Nord 2005 amounts to RUR 20,000. The general director of OOO Nord 2005 is Mr. Nikolai I Timofeev.

OOO Nord 2005 is not a trading entity, has no material assets or liabilities and is not at the date of these Listing Particulars significant to the business, financial condition or prospects of the Issuer or the Group.

## Competitive Strengths

The Company's competitive strengths include:

- **Efficient cost base.** The Company is able to take advantage of low labour, transportation and electricity costs.
- **Favourable pricing environment.** Current prices in the international gold market present a favourable opportunity for the Company's business.
- **Strong asset base.** The Company has a strong asset base in the resources and reserves present in the Vasilevsky, Nikolaevsky and Gerfed deposits and the Ilyinsky and Nizhne-Talovsky ore occurrences.
- **Experienced management team.** The Company employs a team of highly-qualified managers and specialists with extensive experience in the gold mining industry.
- **Strong relationships with local authorities.** The Company has been successful in obtaining licences from state authorities and has worked to maintain good relationships with the authorities responsible for these licences.
- **Geographic position.** The Partizansky area has access to good transportation networks for the transport of goods, materials, equipment and fuel.

## Strategy

The Company's strategy includes:

- increasing the plant's processing capacity to approximately 400,000 tpa of ore in 2006;
- steadily raising the production rate of ore mining and processing up to 1.0-1.2 million tpa within the next three to four years;
- expanding the Company's mineral resources base through further exploration of licensed areas;
- developing new gold-ore deposits within the Partizansky ore cluster;

- obtaining new subsoil licences;
- making acquisitions of, or investments in, additional gold mining or exploration assets that meet the Company's technical and economic criteria.

The Company aims to create a modern production complex that would meet the optimum Russian and international standards of modern equipment, profitability and environmental protection.

### **Business Overview**

The Company holds four mineral exploration and exploitation licences for the extraction and processing of gold ore in the Vasilevsky deposit, the Nikolaevsky deposit, the Gerfed deposit and the Ilyinsky and Nizhne-Talovsky ore occurrences in the Partizansky ore cluster. In addition, the Company has acquired a licence for prospecting and surveying of the nearby Vasilevsky-Uderevsky zone (also in the Partizansky ore cluster), where a primary deposit (Arkhangelsky) with a promising resource base has been identified for future open-pit mining. A summary of the Company's licences is set out below in "—The Company's Principal Licence Interests".

The Company has built a gold mill with at least 300,000 tpa ore processing capacity and all requisite support infrastructure (including a decontamination unit, an explosives store, a boiler house, and other repair shops, a tailings pit, a shift camp, roads, power lines and storehouses for fuel and lubricants). The Company is actively using various own or leased domestic and foreign-made mining equipment (excavators, drill rigs, mine trucks and other special and general-purpose equipment).

Preparatory work has been completed and pit mining commenced at the Vasilevsky deposit in September 2005. Active follow-up surveying of all licensed areas and delineation of prospective open pits is underway, including on the basis of independent audit data and practical recommendations by SRK. In addition the Company is currently securing the permits and approvals and processing the documentation required for commercial development of the Arkhangelsky deposit.

The Company commenced full operations at its processing plant in December 2005. In December 2005, the Company processed 2,850 tons of ore. In January 2006, the Company processed 23,000 tons of ore. In February 2006, the Company processed 24,000 tons of ore. In March 2006, the Company processed 26,000 tons of ore. The Company's mining and refining operations seek to capitalise on its competitive cost base. Based on current production assumptions processing 400,000 tonnes of ore, the Company's costs for drilling, explosives, loading, transportation, auxiliary equipment, salaries and other expenses amount to approximately U.S.\$6.37 per tonne of ore. The costs of refining amount to approximately U.S.\$12.8 per tonne of ore refined, which includes wages of workers, reagents used in refining, materials, equipment maintenance, electricity and overhead expenses.

Details of the Company's estimated reserves and resources as at March 2005 are set out below in "—Reserves and Resources".



## Location of the Company's Mining and Exploration Activities

The following maps show the location of the Company's mining and exploration activities:

**Figure 1: Location of the Partizansky Ore Cluster and the Company's Deposits and Ore Occurrences**



## Reserves and Resources

The table below provides a summary of the Company's estimated reserves and resources as at 1 March 2005:

### Summary Table of Reserves and Resources\*

	<b>Ore</b>	<b>Gold Content</b>	
	('000 t)	(kg)	('000 oz)
<b>Summary</b>			
C <sub>1</sub> .. .. .	4,990	28,706	924
C <sub>2</sub> .. .. .	9,206	37,502	1,207
P <sub>1</sub> .. .. .	16,069	131,148	4,216
P <sub>2</sub> .. .. .	4,632	11,603	373
<b>Sub-total</b> .. .. .	<b>34,897</b>	<b>208,959</b>	<b>6,720</b>
P <sub>3</sub> ** .. .. .	N/A	98,000	3,151
<b>Total</b> .. .. .	<b>34,897</b>	<b>306,959</b>	<b>9,871</b>

Source: Compiled from reports of independent Russian geological consultants and approved by the Regional Agency for Mineral Resources Krasnoyarsk.

\* See Appendix 1 for a discussion of Russian reserve classifications used in these Listing Particulars.

\*\* Russian category P<sub>3</sub> resources are the most speculative classification of resources and are characterised by gold content not by amounts of ore.

The table below provides a summary of the Company's reserves and resources by deposits and ore occurrences as at 1 March 2005:

### Table of Reserves and Resources by Deposits and Ore Occurrences

<b>Area</b>	<b>Ore</b>	<b>Gold Content</b>	
	('000 t)	(kg)	('000 oz)
<b>Vasilevsky</b>			
<b>C – Russian Reserves</b> .. .. .	4,893	27,205	875
<b>P – Russian Resources</b> .. .. .	7,872	61,502	1,977
<b>Nikolaevsky</b>			
<b>C – Russian Reserves</b> .. .. .	1,444	8,451	272
<b>P – Russian Resources</b> .. .. .	N/A	N/A	N/A
<b>Gerfed</b>			
<b>C – Russian Reserves</b> .. .. .	5,921	22,400	721
<b>P – Russian Resources</b> .. .. .	8,197	69,646	2,239
<b>Ilyinsky-N. Talovsky</b>			
<b>C – Russian Reserves</b> .. .. .	N/A	N/A	N/A
<b>P – Russian Resources</b> .. .. .	3,249	8,000	257
<b>Arkhangelsky</b>			
<b>C – Russian Resources</b> .. .. .	1,938	6,152	198
<b>P – Russian Reserves</b> .. .. .	1,383	3,603	116
<b>Vasilevsky-Udereysky Zone</b>			
<b>C – Russian Resources</b> .. .. .	N/A	2,000	65
<b>P – Russian Reserves*</b> .. .. .	N/A	98,000	3,151
<b>Total</b>	34,897	306,959	9,871
<b>C – Russian Reserves</b> .. .. .	14,196	66,208	2,131
<b>P – Russian Resources</b> .. .. .	20,701	240,751	7,740

Source: Compiled from reports of independent Russian geological consultants and approved by the Regional Agency for Mineral Resources of Krasnoyarsk

\* The category P resources at the Vasilevsky-Vdereysky Zone comprise category P<sub>3</sub> resources, the most speculative classification of resources.

In 2005, the Company commissioned Micromine Consulting (“Micromine”) to conduct a resource estimation for the Vasilevsky, Nikolaevsky and Gerfed gold deposits, using the Australian JORC code. The table below provides a summary of the Company’s resources as estimated under the JORC classification system as at March 2005:

#### Table of JORC Resources by Asset

Area	Category	Tonnes (Mt)	Grade (g/t Au)	Gold (kg)
Vasilevsky .. .. .	Indicated	2,215	5.00	11,075
	Inferred	12,987	1.88	24,478
	<b>Total</b>	<b>15,202</b>	<b>2.34</b>	<b>35,553</b>
Nikolaevsky .. .. .	Indicated	1,721	4.66	8,018
	Inferred	429	2.32	993
	<b>Total</b>	<b>2,150</b>	<b>4.19</b>	<b>9,011</b>
Gerfed .. .. .	Indicated	3,131	1.26	3,936
	Inferred	28,655	1.17	33,624
	Unclassified	8,810	1.86	16,382
	<b>Total</b>	<b>40,596</b>	<b>1.33</b>	<b>53,942</b>

Source: Report of Micromine consultants

The Company’s mineral resource statements for Vasilevsky, Nikolaevsky and Gerfed based on a cut-off of 1.5 g/t gold (Au) are presented in the tables below:

#### Vasilevsky Mineral Resource Statement

Resource Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (t)
Measured .. .. .	–	–	–
Indicated .. .. .	1.9	5.7	10.8
<b>Sub-total</b> .. .. .	<b>1.9</b>	<b>5.7</b>	<b>10.8</b>
Inferred .. .. .	2.8	4.5	12.5
<b>Total</b> .. .. .	<b>4.7</b>	<b>5.0</b>	<b>23.3</b>

Source: Report of SRK

#### Nikolaevsky Mineral Resource Statement

Resource Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (t)
Measured .. .. .	–	–	–
Indicated .. .. .	1.6	5.0	7.8
<b>Sub-total</b> .. .. .	<b>1.6</b>	<b>5.0</b>	<b>7.8</b>
Inferred .. .. .	0.3	2.8	0.9
<b>Total</b> .. .. .	<b>1.9</b>	<b>4.7</b>	<b>8.7</b>

Source: Report of SRK

#### Gerfed Mineral Resource Statement

Resource Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (t)
Measured .. .. .	–	–	–
Indicated .. .. .	0.8	3.4	2.5
<b>Sub-total</b> .. .. .	<b>0.8</b>	<b>3.4</b>	<b>2.5</b>
Inferred .. .. .	8.3	3.0	25.0
<b>Total</b> .. .. .	<b>9.1</b>	<b>3.0</b>	<b>27.5</b>

Source: Report of SRK

## **Resource Base**

The Company's gold assets (Vasilevsky, Nikolaevsky and Gerfed deposits and Ilyinsky and Nizhne-Talovsky ore occurrences) are part of the Partizansky ore cluster which is located in the Motygin'sky District of the Krasnoyarsk Krai of Eastern Siberia, Russia. The cluster takes the form of a triangle with sides of some 35 km by 25 km by 25 km.

The Vasilevsky deposit is situated approximately 85 km northwest of the settlement of Motygin, located on the north bank of the Angara River. It was discovered in 1949 and explored by major campaigns during 1953-1959 and 1974-1990, through an expedition made by the Siberian state institution for design and exploration ("Sibzoltorazvedka"). The Nikolaevsky deposit is located 7 km to the northwest of the Vasilevsky deposit and was discovered in 1957. The Gerfed, Ilyinsky and Nizhne-Talovsky deposits are located 7 km to the west, 8 km to the south-west and 9 km south-west of Vasilevsky respectively. Figure 1 above shows the location of the principal deposits within the Partizansky ore cluster.

The Partizansky ore cluster is located in the Enisey Gold Province (South-Enisey Gold Sub-Province) and within the Central Enisey Gold Belt, one of the leading gold producing regions in Russia. Gold mineralisation in the Central Enisey Gold Belt, and sub-parallel secondary structures, is controlled by a system of linear structures. Other well-documented deposits in the belt include Olimpiada, Eldorado and Veduga.

There are six known gold deposits in the Partizansky ore cluster, some 25 gold occurrences and almost all the rivers and streams in the region contain alluvial gold which has been the target of industrial alluvial mining for more than 160 years. Some 245 tonnes of gold are reported to have been mined in the area to date.

Two main zones of gold mineralisation make up the Partizansky ore cluster; the Gerfed-Nikolaevsky zone and the Udereysky-Vasilevsky zone. The latter is spatially controlled by the north-east striking axis of the Vasilevsky anticline while the Gerfed-Nikolaevsky zone is controlled by a zone of sub-parallel steep dipping faults.

The gold mineralisation in the Partizansky ore cluster has also been subdivided into the following mineralisation types:

- Gold-Quartz (Vasilevsky, Nikolaevsky and Gerfed);
- Gold-Quartz-Sulphide (Babushkina Gora);
- Gold-Sulphide (Babushkina Gora);
- Gold-Quartz-Antimony (Udereysky); and
- Supergene enrichment/residual (Gerfed, Ilyinsky and Nizhne-Talovsky and Samson).

## **The Company's Principal Licence Interests**

The Company has obtained the mineral exploration and extraction rights (together with auxiliary rights, such as construction) required to conduct its operations from the relevant Russian authorities. The final boundaries of land and mining allotments are being determined in co-ordination with the state authorities. The main terms and conditions of the principal subsoil licences are summarised below:

### ***Vasilevsky licence***

The Company holds subsoil licence type БЭ series KPP number 00711 for extraction and processing of gold ore at the Vasilevsky gold deposit (the "Vasilevsky Licence"). Originally, the Company held subsoil licence type БЭ series KPP number 00114 for extraction and processing of gold ore at the Vasilevsky deposit that was granted to the Company in February 1994 and registered with the Krasnoyarsk Krai Geological Fund on 2 March 1994. The Vasilevsky Licence was re-issued due to a formal requirement of Russian Law. The decision on re-issuance dated 7 May 1998 was taken by the Administration of the Krasnoyarsk Krai jointly with the Committee for Natural Resources of the Krasnoyarsk Krai. The Vasilevsky Licence was issued to the Company in May 1998 and registered with the Committee for Natural Resources of the Krasnoyarsk Krai on 24 June 1998. On 21 October 2005 the Company obtained mining allotment act No. 1069 (valid to 1 July 2006) allowing it to develop the first ore body of the Vasilevsky deposit (20.8 hectares). The Company is currently in material compliance with the terms and conditions of this licence. The Vasilevsky Licence expires on 1 January 2014. In accordance with the Subsoil Law (as defined below in the "Regulatory Matters—Overview of the Mining Regulatory

Framework in Russia”), the Company has the exclusive right to extract and process gold within the licensed territory of approximately 68.25 hectares situated 7 km east from the Partizansky settlement and 50 km north-west from the Razdolinsk settlement in the Motyginisky District of the Krasnoyarsk Kray. The Company must pay a mineral extraction tax at the rate of 6% of the value of gold sold. The Company has started mining gold ore from the Vasilevsky deposit. The licence provides that the Company must reach a production capacity of at least 300,000 tonnes of gold ore per year by 2007.

#### ***Nikolaevsky licence***

The Company holds subsoil licence type БЭ series KPP number 00710 for extraction of gold ore at the Nikolaevsky gold deposit (the “Nikolaevsky Licence”). Originally, the Company held subsoil licence type БЭ series KPP number 00360 for extraction of gold ore at the Nikolaevsky gold deposit that was granted to the Company in August 1996 and registered with the Krasnoyarsk Kray Geological Fund on 19 August 1996. The Nikolaevsky Licence was re-issued to the Company due to a formal requirement of Russian Law. The decision on re-issuance dated 7 May 1998 was taken by the Administration of the Krasnoyarsk Kray jointly with the Committee of Natural Resources of the Krasnoyarsk Kray. The Nikolaevsky Licence was issued to the Company in May 1998 and registered with the Committee for Natural Resources of the Krasnoyarsk Kray on 24 June 1998. The Company is currently in material compliance with the terms and conditions of this licence. The Nikolaevsky Licence expires on 1 January 2012. In accordance with the Subsoil Law, the Company has the exclusive right to extract gold within the licensed territory of 75 hectares situated 70 km north-west from the Motyginino settlement of the Krasnoyarsk Kray. The Company must pay a mineral extraction tax at the rate of 6% of the value of gold sold. The Company is presently carrying out delineation and exploratory well drilling and surveying under the Nikolaevsky Licence. Under the terms of the licence agreement, the Company must reach production capacity of no less than 500 kg of pure gold per year by 2011. The Company is planning to complete exploration and assessment of reserves and start production in September 2006.

#### ***Gerfed licence***

The Company holds subsoil licence type БЭ series KPP number 01546 for exploration and extraction of gold ore in the Gerfed gold deposit (the “Gerfed Licence”). The Gerfed Licence was issued to the Company in February 2005 and registered with the Krasnoyarsk Kray Regional Department of the Federal Agency for Subsoil Use on 1 March 2005. The Gerfed Licence expires on 31 March 2025. The Company is currently in material compliance with the terms and conditions of this licence. In accordance with the Subsoil Law, the Company has the exclusive right to explore for and extract gold within the licensed territory of 390 hectares situated 60 km north-west from the Motyginino settlement of the Krasnoyarsk Kray. To acquire the licence the Company made a lump sum payment of RUR 1,200,000, paid a licence fee of RUR 20,340 and a fee of RUR 10,000 for geological information. The Company must pay a mineral extraction tax at the rate of 6% of the value of gold sold and RUR 8,930 per 100 hectares of subsoil explored. The Company is currently in the process of development of design and estimate documentation. The Company expects to complete exploration works and reserve calculations by March 2007. The licence agreement sets an estimated production capacity of approximately 500 kg of pure gold per year, which is to be updated after the Company receives the geological prospecting results.

#### ***Ilyinsky and Nizhne-Talovsky licence***

The Company holds subsoil licence type БЭ series KPP number 01547 for geological prospecting, exploration and extraction of gold ore on the Ilyinsky and Nizhne-Talovsky ore occurrences (the “Ilyinsky and Nizhne-Talovsky Licence”). The Ilyinsky and Nizhne-Talovsky Licence was issued to the Company in February 2005 and registered with the Krasnoyarsk Kray Regional Department of the Federal Agency for Subsoil Use on 1 March 2005. The Ilyinsky and Nizhne-Talovsky Licence expires on 31 March 2020. The Company is currently in material compliance with the terms and conditions of this licence. In accordance with the Subsoil Law, the Company has the exclusive right to explore for and extract gold within the licensed territory of 270 hectares situated 3.5 km south-west from the Partizansky settlement and 110 km north from the Motyginino settlement of the Krasnoyarsk Kray. To acquire the licence the Company made a lump sum payment of RUR 240,000, paid a licence fee of RUR 20,340 and a fee of 10,000 RUR for geological information. The Company must pay a mineral extraction tax at the rate of 6% of the value of gold sold, RUR 8,930 per 100 hectares of subsoil explored and RUR 200 per 100 hectares of subsoil used for prospecting. The Company is currently in the process of surveying and developing an exploration plan. The Company expects to complete exploration works and reserve calculations by March 2008. The licence agreement sets an estimated production capacity of

approximately 100 kg of pure gold per year, which is to be updated after the Company receives the geological prospecting results.

### ***Prospecting works licence***

The Company holds subsoil licence type БЭ series KPP number 01565 for prognostic and prospecting works in respect of gold ore in the territory of Vasilevsky-Udereysky ore zone (the “Prospecting Works Licence”) where a primary deposit (“Arkhangelsky”) with a promising resource base has been identified for future open-pit mining. The Prospecting Works Licence was issued to the Company and registered with the Krasnoyarsk Krai Regional Department of the Federal Agency for Subsoil Use on 11 May 2005. The Company is currently in material compliance with the terms and conditions of this licence. The Prospecting Works Licence expires on 31 December 2006. In accordance with the Subsoil Law, as defined below, the Company has the exclusive right to carry out prognostic and prospecting works in respect of gold ore within the licensed territory of 9,420 hectares situated 60 km north from the Motygin settlement of the Krasnoyarsk Krai. The Company is currently in the process of developing plans and receiving estimates relating to these prospecting works. The Company expects to complete prognostic and prospecting works and identify prospective areas (for example, Arkhangelsky ore occurrence) by 2006. Pursuant to the Prospecting Works Licence the Company must pay RUR 245 per 100 hectares of prospected subsoil.

### ***Water intake licence***

The Company holds subsoil licence type БЭ series KPP number 00642 for intake of fresh water from subsoil in the Motygin District of Krasnoyarsk Krai for drinking and industrial supply (the “Water Intake Licence”). The Water Intake Licence was issued to the Company by the Committee for Geology and Subsoil Use of the Krasnoyarsk Krai and registered on 27 January 1998. The Company is currently in material compliance with the terms and conditions of this licence. The Company has the right to intake fresh water within the licensed territory of 1.12 hectares situated 7 km west from the Partizansky settlement of the Krasnoyarsk Krai. The Water Intake Licence expires on 15 December 2017. The Company must comply with limits regarding the use of freshwater, discharge of sewage and other regulations. The Water Intake Licence provides that the Company shall pay regular fees at the rate of 2% of the value of the water produced for household water supply and at the rate of 8% of the value of the water produced for industrial water supply.

### ***Other licences***

The Company holds licence D 564673 for construction of buildings and structures issued by the Federal Agency for Construction and Housing and Utilities Services on 3 May 2005. In December 2005, the Company was issued a licence for conducting explosive works and a licence for the use of hazardous chemicals, each valid through 2010.

## **Description of Mining Operations**

### ***Mining methods and equipment***

The deposits are to be principally mined by conventional open-pit mining, using a standard truck and shovel mining method. The Company uses a combination of conventional Russian mining equipment and more modern foreign-manufactured equipment. A hydraulic backhoe type excavator is used for ore loading in the narrower ore zones in an effort to reduce dilution, or contamination of ore. A certain quantity of equipment exists at site, including two rope shovels and various on-highway trucks of different sizes, but typically 20 or 30-tonne trucks. In addition, in 2005 the Company purchased four 20-tonne KAMAZ dumptrucks, four 30-tonne BelAZ dumptrucks and one Hitachi frontloader.

The Company plans to establish open pits at each of its deposits, including each of the three distinct ore zones present at the Vasilevsky deposit. The Company plans to use underground mining to continue the extraction of the ore at depths where the volume of overfill justifies the additional costs of underground mining. Currently, it is planned to establish underground mining at the eastern zone of the Vasilevsky deposit, once the open pit is sufficiently established, through a portal developed in the sidewall of the pit. All ore is planned to be trucked to the process facility located at Vasilevsky or tipped at an adjacent stockpile. Ore from the Nikolaevsky and Gerfed deposits as well as other satellites will be trucked along either established roads or new routes developed for this purpose. The Company will make use of a satellite trucking operation as appropriate to the distances and topography.

### ***Ore processing technologies***

The Company uses gravity concentration and leaching technologies for the processing of ore.

Gravity concentration is a method of recovering precious metals from ore by which the ore is combined with water and processed utilising gravity to separate the heavier precious metals from the waste material. Leaching is a process whereby gold is recovered from ore by heaping broken ore on sloping impermeable pads, repeatedly spraying the heaps with a diluted cyanide solution which dissolves the gold content in the ore, collecting the gold-laden solutions, stripping the solution of gold and using carbon towers to absorb the gold.

The Company's process flowsheet has been selected and approved by two independent and highly respected Russian mineral processing institutions. The selected process flowsheet incorporates recovery of gold into a high grade gravity concentrate "golden head" with the gravity tails processed by cyanidation. The production of the golden head for separate treatment is intended to reduce cyanide consumption when processing the gravity tails compared to cyanidation of the whole milled ore stream.

### ***Exploration and development activities***

Using specialised exploration companies from Krasnoyarsk and its own recently acquired resources, the Company is actively drilling ore wells in the eastern section of the Vasilevsky deposit and preparing ditches and cuts for core drilling and trenching. In 2005, the Company also purchased a high-efficiency Boart Longyear drill rig. Preliminary data analysis has led the Company to believe that there should be an increase in the ore volume and size and the resulting increase in the quantity (tonnage) and quality (average content) parameters of the Vasilevsky deposit.

At the same time the Company is in the process of analysing the data, as well as constructing a modular three-dimensional model of the Arkhangelsky deposit. Similar work is also planned for other licensed deposits, as they are prepared for the launch of development (Nikolaevsky, Gerfed, Ilyinsky, Nizhne-Talovsky).

The Company will set up a core storage and a laboratory for the recording and analysis of the samples collected in each deposit. After the staffing of the geological service with qualified personnel is completed, all technical activity related to selection, analysis and interpretation (including digital processing) of the collected data is expected to be performed directly at the mine.

## **Principal Deposits and Ore Occurrences; Land Rights and Real Property**

### ***Vasilevsky***

The Vasilevsky deposit belongs to the Partizansky ore cluster and comprises the eastern, central and western ore zones comprising numerous separate veins that dip from some 30° to sub-vertical. The deposit can be accessed by road that runs through the settlement of Partizansky and by a new gravel road. Typical vein widths vary from 2.5 metres to 20 metres and the ore zones are offset perpendicular to the principal strike direction over a distance of some 650 metres. Drilling has established the extension of the ore body at the eastern zone to some 350 metres in depth and the central and western zones to some 150 metres. Underground exploration development was undertaken at the eastern and central zone following the ore along the strike. At Vasilevsky, a much longer strike length of some 1 km was established at the 100 metres depth. Current investigations consider that separate open-pits will be established at each of the ore zones.

A feasibility study conducted by independent advisers calls for development of the pit with a subsequent transition to underground mining. On the surface, the pit measures 600 metres along the ore body strike, 300 metres wide and 105 metres deep. The open pit design provides for 20 metres final bench heights with conservative inter ramp slopes of some 34-40°. A single haul road has been planned at a width of 18 metres and an inclination of 7%. The conservative slope angles result in relatively high stripping ratios of 9 m<sup>3</sup>/tonne of ore, as well as the limited mining depth. The Company believes that a deeper open pit can be considered and that the underground mine can be developed to a depth of some 500 metres below surface.

On the basis of the level of technical analysis and geological study, mining began in the deposit's eastern zone in September 2005. Compressive strengths vary from 60-120 MPa in the slate waste to some 140 MPa in the quartz orebody. Water inflows to the open pit are low, at less than 10 m<sup>3</sup>/hr on average and the existing underground shafts can be used for drainage purposes.

### ***Nikolaevsky***

The Nikolaevsky deposit is located approximately 7 km north-west of the Vasilevsky deposit and belongs to the Partizansky ore cluster. The orebody geometry is simpler than that at Vasilevsky and the current area of interest is defined by a single vein over a longer strike length of some 1.5 km. The orebody dips at some 40-70°, with a more regular width of some 0.3-10.5 metres. Underground exploration development has been established in the north on two horizons to a depth of 50 metres below surface. The orebody is known to extend to some 500 metres in depth.

The Company plans to develop two open pits (one in the north and one in the south) along the single common ore body axis. The open pit will extend to a depth of 150-170 metres, with a later transition to underground mining. The same pit models as at the Vasilevsky deposit will be used at the Nikolaevsky deposit. The Company plans to establish a satellite hauling system for the transport of ore to the processing facility.

### ***Gerfed***

The Gerfed deposit is located some 7 km to the west of the Vasilevsky deposit and also belongs to the Partizansky ore cluster. It mainly consists of the main Magistralnya quartz vein, several parallel veins and a series of their branches. The branching veins are located in the hanging wall of the Magistralnya veins. Related to the Magistralnya vein is the Upper Borovaya vein which is located in the north. The deposit consists of 11 quartz lenses up to 20 metres thick with lengths varying from 40 to 800 metres long which strike north-south along a narrow (150-200 metres wide) strip, which marks a major thrust fault known as the Mejster thrust. The gold mineralisation of the Magistralnya vein is analogous to the Vasilevsky deposit while the branching veins contain more sulphide mineralisation. The gold mineralisation is distributed irregularly with a tendency to accumulate higher grades towards the footwall. The combined strike length of eleven lenses is some 3,260 metres along a total strike length of 5,000 metres.

The Gerfed deposit orebody strikes north-south for some 3.3 km and dips at some 40-50° to the southeast and east. The deposit geometry is similar to the Nikolaevsky deposit and the orebody has been defined to some 400 metres in depth. The Company considers that three open pits can be established along the strike length of the orebody and this broadly corresponds with the observed grade distribution along the strike. Similar open pits to those planned at Vasilevsky and Nikolaevsky are envisaged to depths of approximately 100-150 metres with the subsequent establishment of an underground operation where the economics allow.

### ***Ilyinsky and Nizhne-Talovsky***

The Ilyinsky and Nizhne-Talovsky deposits are part of a cluster of gold occurrences limited by the southern border of the Gerfed deposit and located some 8 km from the Vasilevsky plant. The cluster is divided into Western and Eastern zones. The Western zone consists of volcanogenic rock sediments of the Penchenga suite which contain deposits of the Ilyinsky group (Old Ilyinsky and New Ilyinsky). The Eastern zone, which accommodates the Nizhne-Talovsky gold deposit, consists of schists of the Korda suite. The gold mineralisation of the Ilyinsky occurrence group is gold-quartz and oxidized gold-sulphide. The Nizhne-Talovsky occurrence is specified by Russian standards as a gold residual mineralisation zone which is approximately 600 metres long, 150 metres wide and more than 70 metres deep.

### ***Land rights and real property***

The Company leases from the authorities of the Krasnoyarsk Kray approximately 35.1 hectares of land in the Motyginisky District of the Krasnoyarsk Kray. The Company is currently in the process of re-registration of its land rights and expects to enter into a lease agreement (or a number of lease agreements) with the authorities of the Krasnoyarsk Kray for approximately 89.3 hectares of land in the Motyginisky District of the Krasnoyarsk Kray by 2008. In addition, the Company intends to purchase an additional 169.1 hectares of land from the authorities of the Krasnoyarsk Kray in the Motyginisky District of the Krasnoyarsk Kray and expects to complete the registration process by 2008. See “Risk Factors—Risks relating to the Russian Federation—Difficulty in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered may have a material adverse effect on the Company’s business, prospects, results of operations or financial condition”.

The Company has a considerable number of buildings, structures, undeveloped constructions and other real properties located on its land plots. The Company expects to register its rights to these real properties after receiving approval for construction from the state acceptance commission and



registration of its land rights as described above. See “Risk Factors—Risks relating to the Russian Federation—Non-compliance with governmental and administrative real estate regulations in Russia could materially adversely affect the Company’s business, prospects, results of operations or financial condition”.

### **Material Contracts and Transactions**

The following is a brief summary of all material contracts that are not entered into in the ordinary course of the Company’s business, which could result in the Company being under an obligation or entitlement that is material to the Issuer’s ability to meet its obligations to security holders in respect of the Bonds being issued.

#### *Loan and credit agreements:*

The Company has entered into several loan and credit agreements with both commercial banks and other legal entities.

The Company entered into an agreement with ZKB “Monolit bank” dated 3 April 2006. Under this agreement, the Company was granted an overdraft facility in the amount of RUR 40,000,000 for the purposes of financing working capital requirements before the proceeds of the Offering are available. The interest rate is 12.9 per cent. The final maturity date of the overdraft facility is 2 October 2006, but the Company has the option to close the overdraft prior to the maturity date.

The Company entered into a credit agreement (the “Gazprombank Loan”) dated 17 March 2005 with Eurobank and ZAO Gazprombank. Under this agreement, the Company was granted a credit facility in the amount of U.S.\$9,000,000 with an interest rate of LIBOR plus 6 per cent. The Gazprombank Loan was provided for the purposes of equipment purchases and completion of construction of the gold processing plant. The term of the Gazprombank Loan is 17 months from the drawdown date. The Gazprombank Loan is secured by an assignment of rights to receive revenues under the contract for the supply of gold in the amount of U.S.\$14,310,000 and four agreements for the pledge of certain property in the amount of RUR 60,670,699, RUR 67,766,636.4, RUR 27,438,557.07, and RUR 40,032,260.13. Pursuant to the terms of the Gazprombank Loan, the Company began repayment of the loan in October 2005. To date, the Company has made payments of U.S.\$5,400,000 for principal and U.S.\$651,667 for interest amounts owed under the Gazprombank Loan.

The Company entered into credit agreement No. 040901-BP dated 1 September 2004 with OOO Makro-Invest (the “Makro Loan”). Under this agreement, the Company was granted an unsecured credit facility in the amount of RUR 150,000,000 to be repaid by 30 September 2005. According to amendment No. 1 to the Makro Loan, the term of the credit facility was extended until 1 September 2009. Under amendment No. 3 to the Makro Loan, the Company was permitted to incur additional indebtedness of up to RUR 1,000,000,000. The Company has the right to repay the Makro Loan at any time. Makro-Invest cannot enforce early repayment of the credit facility. The principal amount of indebtedness under the Makro Loan is approximately RUR 762,575,200 and the amount of accrued interest is approximately RUR 58,000,000. The Company expects to repay some or all of the Makro Loan with the proceeds of the Offering.

The Company entered into loan agreement No. 2203\2004-DZ dated 22 March 2004 with OOO Makro-Invest (the “Makro Loan 2”). Under this agreement, the Company was granted an unsecured loan in the amount of RUR 150,000,000 to be repaid by 31 December 2004. According to amendment No. 1 to the Makro Loan 2, the term of the loan was extended until 22 March 2009. The Company has the right to repay the Makro Loan 2 at any time. The principal amount of indebtedness under the Makro Loan 2, is approximately RUR 150,000,000 and the amount of accrued interest is approximately RUR 23,000,000. The Company expects to repay some or all of the Makro Loan 2 with the proceeds of the Offering.

#### *Gold Credit Agreement:*

On 3 March 1997, in accordance with the Order of the President of the Russian Federation No. 507-rp dated 16 October 1996, the Company executed a loan agreement (the “Gold Credit Agreement”) with the Russian Ministry of Finance (“Minfin”), the Government of the Krasnoyarsk Kray and OAO Bank Enisei. The amount of the loan was equal to the then market price of 1,600 kg of gold of U.S.\$17,957,828.73. The loan had to be repaid as follows:

- The Company had to supply 600 kg of gold free of charge, plus pay LIBOR plus 0.5% pa, to Gokhran (as defined below in “Regulatory Matters—Overview of the Precious Metals’ Regulatory Framework in Russia”) by 30 December 1999;
- The Company had to supply 1,000 kg of gold free of charge, plus pay LIBOR plus 0.5% pa, to Gokhran by 30 December 2000.

If the Company was unable to deliver gold bars, the Company was obligated to transfer their money’s worth to Gokhran.

The Gold Credit Agreement was secured by a guarantee from the Government of the Krasnoyarsk Kray and OAO Bank Enisei.

The Company failed to perform its obligations under the Gold Credit Agreement. In 2002, Minfin filed a claim in the state arbitrazh court and, on 4 November 2003, the court ruled that the Company had to pay Minfin U.S.\$25,140,389.52. The Company filed an appeal on the grounds that the Company’s indebtedness had been incorrectly calculated. The Company claimed that the amount due was U.S.\$25,000,672.40. On 20 January 2005, the court of appeal ruled to suspend hearings until the parties reach an agreement to restructure the debt.

On 22 December 2004, the Company, Minfin, the Government of the Krasnoyarsk Kray and OAO Bank Enisei executed an agreement for restructuring of the Company’s debt in accordance with Decree No. 406 of the Russian Government “On Restructuring of Indebtedness Due on State Gold Credit” dated 2 August 2004. The parties agreed that the principal amount of the Company’s debt was U.S.\$21,272,131.59 (the “Principal Amount”) and the interest (including the interest for late payment) (the “Interest”) was U.S.\$7,895,914.51.

The parties agreed on the following repayment schedule for the Principal Amount:

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
% of principal amount	2.5	2.5	2.5	2.5	7.5	7.5	7.5	7.5	20.0	20.0	20.0

The unpaid amount of the Principal Amount is subject to interest of 1% pa. The Interest must be paid by 31 December of each year. The Company began payment of the Principal Amount and Interest in December of 2005, in the amounts of RUR 15,287,855.54 and RUR 6,115,142.33 (U.S.\$531,803 and U.S.\$212,721), respectively.

The Interest must be repaid not later than 31 December 2015. Any Interest that is not repaid by this date is subject to interest of 1% pa.

If the Company duly repays 40% of the Principal Amount in accordance with the repayment schedule, 40% of the Interest and 40% of the interest amount accrued to the Interest shall be written off. If the Company duly repays the remaining 60% of the Principal Amount, the remaining amount of the Interest, and the remaining amount of interest accrued to the Interest will be written off.

On 22 December 2004, the Company, Minfin and the Government of the Krasnoyarsk Kray signed a surety agreement whereby the Government of the Krasnoyarsk Kray provided security for the Company’s indebtedness in the maximum amount of U.S.\$29,460,000. This surety agreement is conditional upon approval of this agreement by the Krasnoyarsk Kray legislature and amendments to the regional budget to reflect the liability of the Krasnoyarsk Kray.

On 18 March 2005, the Krasnoyarsk Kray legislature approved the restructuring agreement and the surety agreement. On 25 April 2005, Minfin confirmed that the restructuring agreement had come into force.

*Leasing agreements:*

The Company has entered into various leasing agreements with OAO KAMAZ-Leasing for leasing and subsequent purchase of trucks, other vehicles and machinery. The term of the lease agreements is 36 months and the purchase price must be paid by the Company in monthly instalments.

*Gold sales agreements:*

The Company entered into agreement No. 2005/017-DM with ZAO Gazprombank for the sale and purchase of gold. The Company undertakes to supply at least 1,050 kg of gold in 2005. The price of the

gold supplied under the agreement is based on the price of gold on the London Bullion Market. The agreement was registered with Gokhran on 15 March 2005.

The Company entered into agreement No. 2005/027-DM with ZAO Gazprombank for the sale and purchase of gold. The Company undertakes to supply at least 1,750 kg of gold in 2006. The price of the gold supplied under the agreement is based on the price of gold on the London Bullion Market. The agreement was registered with Gokhran on 15 March 2005.

The Company entered into an agreement with Eurobank for the assignment of rights to receive revenues under agreement No. 2005/017-DM with ZAO Gazprombank in the amount of 150% of the indebtedness. The value of the assigned rights is equal to U.S.\$14,310,000.

#### *Insurance arrangements:*

The Company entered into four insurance agreements with Moskovskaya Strakhovaya Kopaniya for the insurance of production equipment and facilities pledged under the Gazprombank Loan. The coverage amounts are RUR 60,670,699, RUR 67,766,636.40, RUR 27,438,557.07 and RUR 40,032,260.13.

Currently the Company participates in the obligatory state insurance programme for workplace injuries in accordance with Federal law No. 125-FZ dated 27 July 1998 "On Obligatory Social Insurance of Industrial Accidents and Professional Diseases". The Company is duly registered with the Social Insurance Fund (the "SIF") and makes monthly contributions to the SIF. The amount of the monthly contributions depends on the jobs performed by covered employees and varies (in 2005) from 0.2% to 8.5% of employees' salaries. Following the occurrence of any covered accident, the state pays compensation to the injured worker.

#### *Other agreements:*

In 2004 and 2005, the Company acquired construction materials, industrial machines and other equipment on the basis of a number of supply contracts. The majority of these supply contracts have been executed by the Company on the basis of 100% pre-payment.

On 14 March 2005, the Company entered into agreement No. 432/05 with OAO Krasnoyarsk Non-Ferrous Metals Plant for refining of the Company's gold. The Company undertakes to supply at least 1,035 kg of gold in 2005 and 1,750 kg of gold in 2006 for refining. The payments for refining depend on the quality of the gold supplied, ranging from 0.8% to 4.4% of the price of refined gold plus VAT. Additional payments are to be made for packaging services. The agreement expires on 31 December 2006.

The Company has entered into various agreements for geological and exploration services. The Company entered into an agreement with the Krasnoyarsk Scientific Institute for Geology and Mineral Resources for estimation of the gold mineralisation of the Vasilevsky-Udereysky mining zone. The Company entered into an agreement with OAO Sibzoltorazvedka for geological exploration works on the Nikolaevsky deposit. The Company entered into an agreement with OAO Krasnoyarskaya Gorno-Geologicheskaya Kompaniya for geological exploration of the Arkhangelsky ore occurrence. All information discovered as a result of these agreements is owned by the Company.

On 3 June 2004, the Company entered into an agreement with Micromine Proprietary Limited for the provision of the Micromine software licence, training of the Company's personnel and an audit of its deposits.

The Company entered into an agreement for the lease of certain production assets with OOO Samson dated 15 September 2004 and valid to 31 July 2007. The total amount payable under the agreement is approximately RUR 16,000,000 and may be amended upon agreement of the parties. The Company cannot assign its rights to third parties without OOO Samson's prior consent.

The Company has entered into three agreements with Krasnoyarskvzryvprom for conducting explosive works. The amounts of these agreements are, respectively, RUR 928,681, RUR 341,434.18 and RUR 220,290.26. The licence of Krasnoyarskvzryvprom for conducting explosive works was attached to these agreements.

## **Infrastructure**

### *Electrical Power*

The Company purchases electricity from OAO Krasnoyarskenergo (a subsidiary of RAO UES, the government-controlled national electricity provider). Electrical power to the processing plant is currently

supplied by a 35 kV line from the settlement of Partizansk with current consumption not exceeding 4 MW. The existing power supply at the processing plant is 5.7 MW. Emergency power supply to the plant can be provided by two diesel powered generators rated at 250 and 600 kW. These generators are sufficient to maintain heat and keep equipment from freezing.

#### *Water Supply*

Water is supplied to the processing plant from boreholes some 1.5 km distant from the processing plant site. These supply domestic, potable and process make-up water. In addition, water will be recovered from the tailings storage facility (TSF) throughout the year, and it is forecast that up to 60% of the water in the tailings can be reclaimed and returned to the processing plant. The supply of water from the boreholes is initially expected to be 1,220 m<sup>3</sup>/day maximum, which is generally sufficient to cater for water consumption at the processing plant (1,000 m<sup>3</sup>/day) and other areas until water is recovered from the TSF to supply the majority of the process water requirements. Future additional water supply for the increased throughput is planned from additional boreholes.

#### *Services*

Hot water is supplied on the site by a coal fired boiler. Other support services, including offices, maintenance facilities, warehouses, accommodation and canteen are available on site.

#### **Gold Sales**

The Company supplies fine dore bars (the finished product of the processing plant), by armoured car or helicopter, to OAO Krasnoyarsk Non-Ferrous Metals Plant for refining. Pursuant to a refining agreement (described in “—Material Agreements—Other agreements”, above), the refinery produces sterling gold for the Company. The sterling gold bars may be sold either to (i) Gokhran or other authorised state bodies or (ii) Russian or foreign commercial banks. In accordance with Russian Law, gold must be offered for sale to Gokhran and other authorised state bodies before it can be sold to private persons. See “Regulatory Matters—Overview of the Precious Metals’ Regulatory Framework in Russia”. Currently (and until August 2006), all gold produced by the Company will be sold to ZAO Gazprombank as security under the Gazprombank Loan. See “—Material Contracts and Transactions—Gold sales agreements”, above. In determining the price for gold sales, the Company uses the morning fixing price on the London Bullion Market on the day of the transaction, minus 0.5-2.0%, depending on the amount and terms of the sale.

#### **Employees**

The number of employees is currently approximately 640. The Company operates a “rotation scheme” whereby an employee works on the mine for a period of two months and receives his/her salary at the end of that period. Then the employee receives a month break (holiday) when no salary is paid. Currently, approximately 300 employees are working on the mine and about 150 are on holidays. The remaining employees include support staff, management and builders. In 2004, the average monthly salary in the Company was RUR 16,181 (approximately U.S.\$577). At present, there is no trade union membership among employees of the Company and there is no collective bargaining agreement between the Company and its employees. The Company is involved in labour disputes, mainly related to payment of salaries, and the total amount of such claims is not believed to be material.

#### **Intellectual Property**

No intellectual property rights are registered by the Company and the Company does not have any material intellectual property rights, nor is the Company dependent on patents or other intellectual property rights.

#### **Litigation**

Following the failure of the Company to perform certain obligations under the Gold Credit Agreement, as discussed in “—Material Contracts and Transactions—Gold Credit Agreement”, above, the Company was involved in arbitration proceedings with Minfin in the state arbitrazh court. On 13 October 2005, the court dismissed the case following the successful restructuring of the Company’s obligations under the Gold Credit Agreement. The decision has come into force, and Minfin has two months to request annulment of the decision.

The Company was previously involved in a number of litigation proceedings with its suppliers. The aggregate amount of claims facing the Company from such proceedings is approximately U.S.\$250,000.

The creditors in these proceedings have assigned their debts to OOO Transbusinessinvest, a company controlled by some of the shareholders of the Issuer.

In addition, the Company is involved in litigation and arbitration proceedings in the normal course of its business. The amounts involved in such proceedings are presently unquantifiable. The Company does not expect that such litigation and arbitration proceedings, individually or collectively, will have a material adverse effect on the Company's business, prospects, results of operations or financial condition.

## REGULATORY MATTERS

### Overview of the Mining Regulatory Framework in Russia

The Russian Federal Law No. 2395-1 “On Subsoil”, dated 21 February 1992, restated as Federal Law No. 27-FZ “On Subsoil”, dated 3 March 1995 (the “Subsoil Law”) provides that the subsoil is considered the property of the state. Subsoil cannot be the subject of sale, purchase, gift, pledge or other alienation.

The state authorities may grant subsoil use rights for individuals and legal entities. The subsoil may be used for geological research, exploration and extraction of minerals, erection and exploitation of underground facilities, the creation of protected geological objects and the collection of geological materials.

The rights to use the subsoil are subject to licensing. A subsoil licence certifies the right of a licensee to use the subsoil. Until recently, most subsoil licences were issued jointly by the Ministry of Natural Resources and the relevant authority of the regional government in which the deposit was located. Currently, such licences are issued solely by the Federal Agency for Subsoil Use (or its regional departments).

Under a mineral extraction licence, the licensee is provided with a mining allotment, i.e. a geometric block of subsoil. The possession of a mining allotment gives a licensee the exclusive right to use the subsoil within the boundaries of the mining allotment. A subsoil user is provided rights to the land pursuant to the land legislation of the Russian Federation and a subsoil user can either purchase or lease the land plot covering its mining allotment. The licence for extraction of minerals also includes the right to explore and develop minerals. The licensee has the right to carry out geological works within the mining allotment in connection with its extraction activities. Geological works require further approvals from the state authorities.

Under the Subsoil Law, the licence is granted for a limited period of time. A licence for extraction of minerals is usually granted for the expected operational life of the mine as determined by a feasibility study. The licence and related agreements impose certain obligations on the licence holder to reach agreed levels of production, provide employment, develop local infrastructure, pay local and federal taxes and meet certain environmental requirements, as well as other obligations that may be agreed between the licence issuer and the licence holder. A licensee must pay rent for the use of the subsoil.

A licence cannot be assigned to third parties and may be terminated, withdrawn, suspended or restricted prior to the expiry date due to a breach of a material licence term and in other cases such as:

- an immediate danger to the life or health of people working or living in the areas impacted by the mining operations;
- breach of the key terms of the licence;
- repeated breaches of any of the licence conditions;
- an emergency occurring such as a natural disaster, war etc;
- a failure to commence operations in accordance with the scope provided for in the licence;
- the licensee going into liquidation;
- the licensee requesting that the licence be terminated;
- the licensee failing to file a report as stipulated by Russian law; or
- the licensee providing unreliable information.

The extracted minerals may be owned by the state, the municipality or privately. The ownership to the extracted minerals should be specified in the mineral licence.

The Russian Federation has the general right to expropriate private property. However, Article 35 of the Russian Constitution provides protection from expropriation by providing that no one may be deprived of property other than by a court decision. The expropriation of property by the state may be carried out only on the basis that full compensation is made.

The Government of the Russian Federation by its Resolution 813-r, dated 15 June 2005, introduced Draft Federal Law “On Subsoil” to the State Duma, the lower chamber of the Russian parliament, for adoption (the “Draft Subsoil Law”). The Draft Subsoil Law contains a number of provisions that may

result in significant changes in the current regulatory regime for the gold mining industry, including, among other things, the following:

- subsoil use rights will be granted only on the basis of agreements for subsoil use or production sharing and not through licences, however, licences that have already been issued will continue to be valid and will not have to be replaced by contracts;
- agreements for subsoil use rights will generally be granted through auctions (as opposed to tenders, which will be used only for subsoil fields in inland marine waters, the territorial sea, the continental shelf and subsoil areas of federal significance) to avoid corruption potentially associated with tenders; if the auction does not take place due to availability of only one participant, the contract can be entered into with such participant;
- for purposes of national security, Russian legal entities directly or indirectly controlled by, controlling, or under common control with, foreign citizens and/or entities may not be admitted to participate in certain auctions/tenders for subsoil areas of federal significance, as may be determined on a case-by-case basis by the Russian government (e.g. subsoil fields with balance reserves of vein gold of 700 tons or more); and
- producers of strategic natural resources may be required to sell all or a portion of their production to the government.

### **Overview of the Precious Metals' Regulatory Framework in Russia**

The sales of gold and other transactions in precious metals are regulated by Russian Federal Law No. 41-FZ “On Precious Metals and Gemstones”, dated 26 March 1998, as amended, and certain other government regulations. This law requires that any gold offered for sale by gold producers must first be offered for sale to the State Institution For Creation of the State Fund of Precious Metals and Gemstones of the Russian Federation, Storage, Sale and Use of Precious Metals and Gemstones at the Ministry of Finance of the Russian Federation (“Gokhran”) and then to the authorised regional state body in charge of regional funds of precious metals and gemstones.

If Gokhran and/or other authorised bodies listed above do not exercise their rights to purchase, the licensee (producer of precious metals) may transfer these precious metals to any type of purchaser (usually, the Central Bank of Russia or commercial banks, including foreign banks). Precious metals, either refined or not, may be freely owned by any person.

#### *Right of Ownership to Precious Metals*

Precious metals are deemed the property of the Russian Federation until they are extracted from the subsoil on the basis of the special permission (licence). Only legal entities may obtain the relevant licence and engage in extraction of precious metals. As a general rule, all precious metals extracted from the subsoil, as well as the other products and incomes lawfully derived in the course of the extraction of precious metals, are deemed to be the property of the licensee, unless otherwise established in the licences for the extraction or provided for in the legislation.

#### *Extraction and refinery*

Extraction of precious metals may be performed exclusively by the organisations which have obtained special permits (licences) for subsoil use in accordance with the Subsoil Law. Extracted and produced precious metals, with the exception of precious metal nuggets, are forwarded, after the necessary treatment, for refining to the organisations which have been entered into the list approved by the Government of the Russian Federation. The title to the precious metals after refining remains with their initial owners, unless otherwise stipulated by the terms of the refinery agreements.

The Company sends its gold to OAO Krasnoyarsk Non-Ferrous Metals Plant, a state-owned refinery company included in such Governmental list.

#### *Export and import*

The import into the Russian Federation of precious metals is effected without any quantitative restrictions or licences. The procedure of export from the Russian Federation of precious metals depends on the type of precious metal or ore and may be subject to licensing and establishment of export quotas.

The quotas for the export of precious metals and raw-material goods are fixed by the Government of the Russian Federation on an individual basis annually on the basis of a proposal by Minfin agreed upon with the Ministry of Economic Development and Trade of the Russian Federation. In exceptional

cases the Government of the Russian Federation may fix individual long-term quotas (for a period not exceeding five years) with a breakdown by year. Assigned individual quotas are not subject to reassignment.

Licences for the export of precious metals are issued by the Ministry of Economic Development and Trade of the Russian Federation within one month from the day of registration of the application for the licence in the procedure established by the Government of the Russian Federation.

#### *Accounting and Reporting*

Precious metals are subject to an obligatory recording according to their mass and to their quality when extracted, and also during their production, use and turnover. The procedure for such recording and reporting is established by the Government of the Russian Federation.

#### *Security*

Organisations engaged in the geological study of, and in prospecting for deposits of precious metals, in extraction, production, use and turnover of precious metals and goods made from them, as well as individual entrepreneurs performing transactions in precious metals, are obliged to organise the guarding of the said valuables and goods made from them. These organisations and individual entrepreneurs are obliged to implement certain security measures at facilities where transactions in precious metals are performed and to equip them with special technical means of protection, signalling and communication. In addition, they are obliged to set up their own guard services or to contract for such services with organisations that specialise in providing such security services.

Transportation vehicles for precious metals and goods made from them should be equipped with corresponding protective and security measures and should be accompanied by armed guards. The requirements for the equipment of the specialised road transport vehicles (with the exception of special road transport vehicles of the banks' security and encashment services) are established by a specially authorised federal executive body in co-ordination with the internal affairs bodies.

#### **Environmental Regulation**

Environmental legislation in Russia requires businesses to, *inter alia*, provide measures for environmental protection and the restoration of the environment after use, and for obtaining the relevant and appropriate regulatory approvals, licences, permits and consents.

The Company makes various air emissions and is required by Federal Law No. 96-FZ "On Protection of Atmospheric Air" dated 4 May 1999 (Section 14), as amended, to obtain a permit regarding such air emissions.

The Company disposes of waste on its land. Under Federal Law No. 89-FZ "On Industrial and Consumer Waste" dated 24 June 1998, as amended, and its subordinate legislation, the Company must obtain a licence for waste management (Section 9) for collection, use, transport or disposal of waste.

The Company was originally permitted in 1995 for a 200,000 tpa mining operation and associated processing plant. These permits have now been amended, and the relevant Ecological Expertise approval was issued, to reflect a production rate of 300,000 tpa. A full OVOS (Russian equivalent of an Environmental Impact Assessment) was completed in 1993 by the experienced technical institute SibGiproZoloto and, having passed through the formal Expert Review process, was approved by the Krasnoyarsk Kray Regional Committee on Ecology. The approval was endorsed at a national level in 1997 by the Russian Federation Committee on Ecology.

Subsequent to the approval of the OVOS, the Russian regulatory system requires nine subsidiary permits to be issued covering the following areas: Sanitary Epidemiological Service, Labour Safety and Emergency Planning, Hunting Control, Fisheries Management, Industrial Safety, Forestry, Water Usage, Hazardous Materials Usage and Waste, Emissions and Discharges. Applications for these permits are usually made in conjunction with the development of detailed design criteria and operating practices. Eight of the nine permits were received by December 2004; the remaining permit, Hazardous Material Usage, was received in March 2005. The Company has developed, and is closely following, a time schedule for obtaining necessary permits and licences.

Formal approval will also be required for all changes to the original project, including the incorporation of additional open-pits and the increase in throughput capacity, will be required. However, informal discussions with the local regulatory authorities suggest that this will not be unduly problematic, although the approval process can be time-consuming and bureaucratic.



## DIRECTORS AND MANAGEMENT OF THE COMPANY

The full name, function and business address of each of the directors and senior management of the Company are as follows:

Name	Function	Address
Vladimir B. Rybkin (Russian)	Non-executive Chairman	14 Ulitsa 1812 Goda, 121170 Moscow, Russia
Vladimir Y. Preys (Russian)	Non-executive Deputy Chairman	7 Ulitsa Radio, Building 1, 105005 Moscow, Russia
Ilya V. Preys (Russian)	Non-executive Director	7 Ulitsa Radio, Building 1, 105005 Moscow, Russia
Andrei Y. Chuguevsky (Russian)	Non-executive Director	27 Povarskaya Ulitsa, 121069 Moscow, Russia
Petr N. Golovinov (Russian)	Non-executive Director	7 Ulitsa Radio, Building 1, 105005 Moscow, Russia
Anatoly G. Sinichkin (Russian)	General Director	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Vladimir G. Kozlov (Russian)	Chief Engineer	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Alexey V. Dydychkin (Russian)	Chief Financial Officer	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Yuri E. Komorovsky (Russian)	Chief Geologist	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Andrei S. Khomiakov (Russian)	First Deputy General Manager	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Aleksei V. Kolchin (Russian)	President	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Liudmila S. Riabinina (Russian)	Head of Human Resources	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Mikhail G. Chazov (Russian)	Deputy General Manager for Security	33A Pervomayskaya Street, Razdolinsk, Motyginisky District, Krasnoyarsk Kray, Russia
Yuri E. Bokanav (Russian)	Deputy General Manager For External Economic Relations	7 Ulitsa Radio, Building 1, 105005 Moscow, Russia
Vladimir V. Bartosh (Russian)	Legal Counsel	7 Ulitsa Radio, Building 1, 105005 Moscow, Russia

### Directors

**Vladimir B. Rybkin (Aged 58)** is the Chairman of the board of directors of the Company. Mr. Rybkin is the head of Gokhran, a position he has held since 2002, prior to which he held the position of deputy head of Gokhran. From 1991 to 1993, Mr. Rybkin served as head of department at the Russian Ministry of Economy and from 1983 to 1989 he was a senior expert at the State Planning Committee of the former USSR. He has held various engineering positions at companies including Amurzoloto, VNIIPzoloto and VPO Soyuzzoloto between 1972 and 1983. Mr. Rybkin graduated from the Moscow Institute of Steel and Alloys with a specialisation as an engineer-technologist in 1972.

**Vladimir Y. Preys (Aged 53)** is Deputy Chairman of the board of directors of the Company. Mr. V.Y. Preys is the general manager of Open Joint Stock Company Vtormet Industrial Holding Company (“Vtormet”), a position he has held since 2002. Mr. V.Y. Preys previously served as manager of the Moscow Department of BamCredit Commercial Bank and as president of Transnational Bank from 1994 to 2000, and as chairman of the board of the regional division of BamCredit Commercial Bank from 1991 to 1994. From 1975 to 1991, he held various engineering and managerial positions at companies including Glavstroiprom and Glavbamstroi. Mr. V.Y. Preys graduated from the Moscow Aviation Institute with a specialisation as a radio technician in 1975. Mr. V.Y. Preys holds a Doctor of Economics degree from the Moscow Financial Academy and currently serves as a Professor in the school of economics of the Russian University of Friendship of Nations.

**Ilya V. Preys (Aged 27)** is a member of the board of directors of the Company. Mr. I.V. Preys currently serves as financial officer and first deputy general manager for Vtormet, positions he has held since 2001. From 1999 to 2001, he served as assistant to the president of Transnational Bank. Mr. I.V. Preys graduated from the Moscow State Institute of International Relations (University) in 1999 with a specialisation in international economics.

**Andrei Y. Chuguevsky (Aged 47)** is a member of the board of directors of the Company. Mr. Chuguevsky is a consultant at the Moscow representative office of Arter Investment Ltd, a position he has held since 2004. He has been the president of the Arter Group of companies since 1993. Mr. Chuguevsky graduated from the Chita State Teachers University in 1980 with a specialisation in high school education.

**Petr N. Golovinov (Aged 39)** is a member of the board of directors of the Company. Mr. Golovinov currently serves as president of the Federal Deposit Bank Commercial Bank and director of the finance group Sigges SA, Geneva, positions he has held since 2004. He previously served as president of the investment company West-East Finance SA, Geneva from 1998 to 2004; as chairman of the board of Federal Deposit Bank Commercial Bank from 1995 to 1998; and as a managing director of BamCredit Commercial Bank from 1992 to 1994. Mr. Golovinov graduated from the Karschi State Teachers Institute in 1989 with a specialisation as a teacher of history and law. In 1993, he graduated from the Finance Academy with a specialisation in banking; he also holds a Doctor of Economics degree.

### Senior management

In addition to the directors, the following comprise the senior management of the Company:

**Anatoly G. Sinichkin (Aged 58)** is the General Director of the Company, a position he has held since July 2005, prior to which he served as Deputy General director of the Company from April 2004. Mr. Sinichkin previously served as deputy general manager of Sovrudnik in 2004, and prior to that served as chief engineer at Polus from 1994 to 2003. He worked as an engineer, mechanic and foreman at Olympiada Gold, North Enisey Deposit Eniseyzoloto, Djambul Deposit and Berikulsky Deposit of Zapsibzoloto from 1970 to 1994. Mr. Sinichkin received his diploma in metallurgical engineering from the Krasnoyarsk Institute of Non-Ferrous Metals in 1970.

**Vladimir G. Kozlov (Aged 56)** is the Chief Engineer of the Company, a position he has held since May 2005. Mr. Kozlov previously served as chief engineer of Polus from 1994 to 1998, and prior to that served as chief engineer of the Sibsvetmetniiproekt Institute from 1988 to 1994. From 1971 to 1988, he held the positions of head of production and technical department for Gorievsky Mining and Processing Works and district mining inspector for the Krasnoyarsk District Administration, State Mining Technical Inspection of the USSR, and held engineering positions with the Sibsvetmetniiproekt Institute. Mr. Kozlov received his diploma in mining engineering from the Krasnoyarsk Institute of Non-Ferrous Metals in 1971.

**Alexey V. Dydychkin (Aged 28)** is the Chief Financial Officer of the Company, a position he has held since April 2004. Mr. Dydychkin previously worked for Aurora Steel Trading Ltd., an investment company specialising in steel-making and mechanical engineering projects, where he served as Chief Investments Officer from September 2003 to April 2004, Assistant Managing Director from August 2002 to September 2003 and Financial director from April 2001 to August 2002. From August 1998 to April 2001, he held the positions of Economist, Chief Economist and Head of Dealing Department at Transnational Bank. In 1999, Mr. Dydychkin received his International Economics degree from the Moscow State Institute of International Relations (University). In 2005 Mr. Dydychkin received his Ph.D. degree in Economics from the Institute for International Economic and Political Studies of the Russian Academy of Sciences. He also holds a diploma in currency exchange regulations.

**Yuri E. Komorovsky (Aged 58)** is the Chief Geologist of the Company, a position he has held since October 1998. Mr. Komorovsky has more than 11 years' experience with the Company since starting as deputy general manager for mineral resources in 1994. From 1983 to 1994 Mr. Komorovsky worked as head of the geology department and expedition chief engineer at Expedition Sibzoltorazvedka. He held various geologist positions with the Zabaikalskaya Exploration Expedition from 1972 to 1983. Mr. Komorovsky received his diploma in mining and geological engineering from the Krasnoyarsk Institute of Non-Ferrous Metals in 1972.

**Andrei S. Khomiakov (Aged 47)** is the First Deputy General Manager of the Company, a position he has held since August 2005. Mr. Khomiakov previously served as chief engineer of Mining Industrial Company Samson LLC in 2004, and prior to that served as deputy director of Promspetsstroi from 2002 to 2004. From 1998 to 2001 he served as a director of Krasiana LLC and from 1992 to 1998 he worked as chief engineer for the Taiga and Oina prospectors' teams. He held positions as a geologist and crew manager with the Krasnoyarsk Comprehensive Engineering Geology Crew from 1984 to 1992. Mr. Khomiakov received his diploma in mining and geological engineering from the Krasnoyarsk Institute of Non-Ferrous Metals in 1980.

**Aleksei V. Kolchin (Aged 46)** is the President of the Company, a position he has held since February 2005. Mr. Kolchin previously served as Deputy Director General of NPK LLC in 2005, and prior to that served as first deputy head and head of the natural resources administration at the Main Administration for Natural Resources of Krasnoyarsky Territory from 2002 to 2004. He worked as a chief expert in the staff responsible for ensuring functioning of deputy governors of the Territory and as assistant to a deputy governor of the Territory at Krasnoyarsky Territory Administration from 1999 to 2002. Mr. Kolchin served as a geophysics expert at the Natural Resources Committee for Krasnoyarsky Territory from 1992 to 1999. He worked as lead geologist at Borskaya and Boguchanskaya Geophysical Expeditions from 1981 to 1992. Mr. Kolchin received his diploma in mining and geophysical engineering from the Sverdlovsk V.V. Vakhrushev Mining Institute in 1981.

**Liudmila S. Riabinina (Aged 52)** is the Head of Human Resources of the Company, a position she has held since February 2005. Ms. Riabinina served as head of general department, QA inspector and QA manager at CJSC Gold Mining Company Severnaya. Ms. Riabinina studied at the Novokuznetsk Metallurgy Technical School.

**Mikhail G. Chazov (Aged 48)** is the Deputy General Manager for Security of the Company, a position he has held since June 2004. Prior to joining the Company, Mr. Chazov served with the Russian Police as head of security services and served as security guard for various Russian entities. Mr. Chazov graduated from St. Petersburg High Military and Political School in 1982.

**Yuri E. Bokanov (Aged 51)** is the Company's Deputy General Manager for External Economic Relations of the Company, a position he has held since 2004. Prior to joining the Company, Mr. Bokanov worked at the Russian Embassy in Washington, D.C. and the Russian Consulate General in New York. Mr. Bokanov received his diploma in English and German teaching from the Moscow State Pedagogical University in 1976.

**Vladimir V. Bartosh (Aged 51)** is the Legal Counsel of the Company, a position he has held since 2005. Prior to joining the Company, Mr. Bartosh worked as the head of the legal department at Vtormet. He has also served as the head of legal and head of security and compliance in various Russian commercial entities since 1994. Mr. Bartosh received his diploma in law from the Khabarovsk Institute of the Ministry of Internal Affairs in 1991. He also graduated from the Irkutsk Railroad Engineers' Institute in 1985 as a transport engineer and received his diploma in sport management in 1976.

### **Corporate governance of the Company**

The supreme corporate body of the Company is the general meeting of shareholders which is responsible, among other things, for (i) amending the charter, (ii) reorganisation and liquidation of the Company, (iii) determination of the maximum amount of the authorised shares, (iv) election of the board of directors, (v) increase and decrease of the charter capital, (vi) appointment of the auditor, (vii) approval of the annual reports, (viii) approval of dividends, (ix) approval of certain interested party and major transactions and other actions provided for in the law. The list of issues cannot be made broader by the charter. The general meeting of shareholders shall take place at least once a year. The charter provides a special procedure for giving notices and provision of information on the forthcoming meetings of shareholders. The quorum for adoption of decisions shall be majority of all shareholders, unless the law requires otherwise.

The charter provides for the formation of the board of directors of the Company which shall consist of five members. The members of the board of directors are elected (by cumulative voting) on an annual basis (i.e., by every annual general meeting of shareholders) and hold their offices until the next annual general meeting of shareholders, unless replaced earlier by an extraordinary meeting of shareholders. The board of directors is responsible for, *inter alia*, (i) determination of the Company's strategy, (ii) holding the general meeting of shareholders, (iii) election of the general director, (iv) placement of bonds by the Company, (v) foundation of branches and representative offices, (vi) acquisition of stakes (or other interests) in other companies, (vii) recommendation on the payment of dividends; and (viii) approval of certain major and interested-party transactions. The quorum for the decision-making is four persons (of five). All decisions should be unanimously adopted by directors participating at the meeting. The members of the board are not paid for the performance of their duties (unless the general meeting of shareholders decides otherwise).

The sole executive body of the Company is the general director who is responsible for day-to-day activities. He may act on behalf of the Company without the power of attorney, open bank accounts, hire and dismiss employees, etc.

The charter provides for the formation of an internal audit committee. Neither the general director, nor the members of the board of directors have the right to act as the members of the internal audit committee. The internal audit committee should review and opine on the draft annual report of the Company.

#### **Directors' and other interests**

As at 30 March 2006 (being the latest practicable date prior to the publication of this document) none of the directors, members of management or employees had any direct ownership interests in the Company.

On 5 September 2005, the shareholders of the Company sold all of their shares to Brownypool, which currently holds 100% of the Company's stock. Brownypool was established in accordance with the laws of Cyprus. The Issuer owns 99.9% of the stock of Brownypool. A nominee shareholder holds the remaining 0.1% (one share) of Brownypool's stock in trust for the benefit of the Issuer. The shareholders of the Issuer are Vladimir Y. Preys (31.67%), Petr N. Golovinov (31.67%), Ilya V. Preys (31.66%) and Andrei Y. Chuguevsky (5.00%), who are each directors of the Company. Through their ownership of shares of the Issuer, which owns 99.9% of the stock of Brownypool, which, in turn, is the sole shareholder of the Company, such directors indirectly control the Company. Measures to ensure that such control is not abused are discussed in "Share Capital of the Issuer-Directors' interests", and include the requirement that directors disclose any interests in a transaction to be entered into by the Issuer or a subsidiary of the Issuer which, to a material extent, conflicts or may conflict with the interests of the Issuer.

Except as disclosed on page 13 of these Listing Particulars, there are no potential conflicts of interests between any duties to the Company of the persons listed above and their private interests or other duties. See "Risk Factors—Risks relating to the Company's operations—The Company has been and will continue to be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the Bonds and, upon conversion, the Shares".

#### **Executive compensation**

The directors of the Company receive no remuneration in consideration for their service.

The aggregate remuneration of the senior management of the Company for the financial year ended 31 December 2004, including benefits in kind and bonuses, was U.S.\$204,000. The aggregate remuneration paid and benefits in kind granted to the management (including termination benefits to ex-managers) for the financial year ended 31 December 2005 including benefits in kind, but excluding any bonuses, amounted to approximately U.S.\$381,000. The aggregate remuneration for the year 2006 is estimated to be approximately U.S.\$400,000 (excluding bonuses).

#### **Pension plans; stock options**

The Company does not provide its employees with an additional non-compulsory pension. There is no employee stock option or share participation scheme currently in place.

## SELECTED FINANCIAL INFORMATION OF THE COMPANY

The financial information on the Company set out below and elsewhere in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information relating to the three years ended 31 December 2005, 2004 and 2003 has been extracted without material adjustment from the audited financial statements of the Company for the years ended 31 December 2005, 2004 and 2003. Further financial information on the Company is set out on pages F-1 to F-31 in these Listing Particulars.

### Balance Sheet

	As at 31 December (Audited)		
	2005	2004	2003
	<i>(U.S. dollars)</i>		
<b>Non-current assets</b>			
Intangible assets .. .. .	161,045	10,774	10,815
Tangible assets .. .. .	4,922,231	4,776,777	75,217
Mining properties .. .. .	51,607,732	31,626,919	28,318,439
Deferred tax .. .. .	2,732,008	1,950,948	1,461,245
<b>Total non-current assets</b> .. .. .	<u>59,423,016</u>	<u>38,365,418</u>	<u>29,865,716</u>
<b>Current assets</b>			
Inventories .. .. .	2,783,940	1,373,317	–
Other receivables .. .. .	4,178,067	1,084,480	20,367
Bank and cash .. .. .	62,872	72	–
<b>Total current assets</b> .. .. .	<u>7,024,879</u>	<u>2,457,869</u>	<u>20,367</u>
<b>Total assets</b> .. .. .	<u><u>66,447,895</u></u>	<u><u>40,823,287</u></u>	<u><u>29,886,083</u></u>
<b>Shareholders' deficit</b>			
Share capital.. .. .	3,153,920	3,153,920	3,153,920
Accumulated losses .. .. .	(9,937,062)	(7,575,585)	(5,991,471)
<b>Total deficit</b> .. .. .	<u>(6,783,142)</u>	<u>(4,421,665)</u>	<u>(2,837,551)</u>
<b>Non-current liabilities</b>			
Long-term loans payable .. .. .	57,996,048	32,882,691	29,168,047
Accrued interest payable on long term loans .. .. .	2,817,720	–	–
Non-current portion of finance lease obligations .. .. .	436,198	1,081,086	–
<b>Total non-current liabilities</b> .. .. .	<u>61,249,966</u>	<u>33,963,777</u>	<u>29,168,047</u>
<b>Current liabilities</b>			
Short-term loans payable .. .. .	6,866,120	8,678,836	1,020,333
Payable to contractors .. .. .	702,280	487,608	662,742
Other payables .. .. .	4,412,671	2,114,731	1,872,512
<b>Total current liabilities</b> .. .. .	<u>11,981,071</u>	<u>11,281,175</u>	<u>3,555,587</u>
<b>Total liabilities and shareholders' deficit</b> .. .. .	<u><u>66,447,895</u></u>	<u><u>40,823,287</u></u>	<u><u>29,886,083</u></u>

## Income Statements

	Year ended 31 December (Audited)		
	2005	2004	2003
		(U.S. dollars)	
Depreciation of tangible assets .. .. .	(946,168)	(297,255)	(83,562)
Amortization of intangible assets .. .. .	(25,500)	(41)	–
General and administrative expenses.. .. .	(2,343,253)	(1,081,817)	(281,641)
Social assets written off.. .. .	(211,939)	–	(123,266)
Other fixed assets written off .. .. .	(21,824)	(10,697)	–
<b>Loss from operations</b> .. .. .	<b>(3,548,684)</b>	<b>(1,389,810)</b>	<b>(488,469)</b>
Exchange differences .. .. .	839,878	(597,408)	(240,967)
Change in value of financial instruments .. .. .	–	–	(3,638,691)
Interest received – promissory notes .. .. .	75,778	–	–
Interest paid – promissory notes .. .. .	(75,778)	–	–
Interest expense – finance lease charges .. .. .	(433,731)	(86,599)	–
<b>Loss before tax</b> .. .. .	<b>(3,142,537)</b>	<b>(2,073,817)</b>	<b>(4,368,127)</b>
Taxation .. .. .	781,060	489,703	1,180,977
<b>Net loss for the year</b> .. .. .	<b>(2,361,477)</b>	<b>(1,584,114)</b>	<b>(3,187,150)</b>

## Statements of Cash Flows

	Year ended 31 December (Audited)		
	2005	2004	2003
		(U.S. dollars)	
Operating cash payments .. .. .	(3,652,967)	(2,136,625)	(16,926)
<b>Net cash used in operating activities</b> .. .. .	<b>(3,652,967)</b>	<b>(2,136,625)</b>	<b>(16,926)</b>
<b>Cash flows used in investing activities:</b>			
Loans repaid by third party .. .. .	20,001	–	–
Loans granted to third party .. .. .	–	(20,001)	–
Expenditure on intangible assets .. .. .	(175,771)	–	–
Expenditure on tangible and mining assets and related inventories .. .. .	(18,291,458)	(8,053,002)	–
Interest paid and capitalised .. .. .	(1,038,176)	(294,369)	–
<b>Net cash used in investing activities</b> .. .. .	<b>(19,485,404)</b>	<b>(8,367,372)</b>	<b>–</b>
<b>Cash flows from financing activities</b>			
Loans drawdown.. .. .	30,076,166	12,357,034	16,926
Repayment of borrowings .. .. .	(5,991,341)	(1,045,094)	–
Lease capital repayments .. .. .	(516,916)	(721,272)	–
Finance lease interest paid .. .. .	(366,738)	(86,599)	–
<b>Net cash from financing activities</b> .. .. .	<b>23,201,171</b>	<b>10,504,069</b>	<b>16,926</b>
Net increase in cash and cash equivalents .. .. .	62,800	72	–
Cash and cash equivalents, at beginning of period.. .. .	72	–	–
Cash and cash equivalents, at end of period .. .. .	62,872	72	–

## TAXATION

*The following is a general description of certain tax considerations relating to the Bonds and the Shares. It does not purport to be a complete analysis of all tax considerations relating to the Bonds and the Shares whether in the United Kingdom or elsewhere. Prospective purchasers of Bonds and the Shares should consult their professional advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United Kingdom of acquiring, holding and disposing of Bonds and the Shares and receiving payments of interest, principal and/or other amounts under the Bonds and the Shares as the case may be. This summary is based upon the relevant laws as in effect on the date of these Listing Particulars and is subject to any change in law that may take effect after such date.*

### **United Kingdom Taxation**

The following is a general description of certain United Kingdom tax considerations relating to the Bonds and the Shares. It does not purport to be a complete analysis of all tax considerations relating to the Bonds and the Shares. Prospective purchasers of Bonds and the Shares should consult their professional advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United Kingdom of acquiring, holding and disposing of Bonds and the Shares and receiving payments of interest, principal and/or other amounts under the Bonds and the Shares as the case may be.

The comments below are of a general nature based on United Kingdom law and HM Revenue and Customs (“HMRC”) published practice in effect on the date of these Listing Particulars and are subject to any change in law or practice that may take effect after such date. They do not necessarily apply where income is deemed for tax purposes to be the income of any persons other than the beneficial owner of the Bonds or the Shares. They relate only to the position of persons who are the absolute beneficial owners of the Bonds or the Shares and who hold their Bonds or Shares as an investment and may not apply to certain classes of persons such as dealers or persons with a functional currency other than sterling for United Kingdom tax purposes or certain professional investors. They do not cover the situation where the Bondholder is connected with the Issuer for United Kingdom tax purposes or where the Bondholder and the Issuer are two companies which are 25 per cent. associates as defined in Chapter 9 Part 6 Income Tax (Trading and Other Income) Act 2005. Any Bondholders who are resident in overseas jurisdictions, who may be subject to tax in a jurisdiction other than the UK or who are in doubt as to their own tax position, should seek their own professional advice.

#### **1. Interest on the Bonds**

The Bonds will constitute “quoted Eurobonds” within the meaning of section 349 of Income and Corporation Taxes Act 1988 (the “Taxes Act 1988”) as long as they are and continue (as is intended) to be listed on a recognised stock exchange within the meaning of section 841 of the Taxes Act 1988. In the case of Bonds to be traded on the LSE, which is a recognised stock exchange, this condition will be satisfied if the Bonds are admitted to listing on the Official List of the UK Listing Authority and to trading on the LSE’s Professional Securities Market (“PSM”). Accordingly, payments of interest on the Bonds may be made without withholding on account of UK income tax provided the Bonds remain so listed at the time of payment.

In all other cases, interest will generally be paid under deduction of income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Interest on the Bonds will have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment even where paid without withholding. However, where the interest is paid without withholding or deduction on account of UK tax, the interest will not generally be assessed to United Kingdom tax in the hands of Bondholders who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a branch or agency or, in the case of a corporate holder, a permanent establishment in the United Kingdom in connection with which the interest is received or to which the relevant Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom permanent establishment, branch or agency.

If interest were paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Bondholders within the charge to United Kingdom corporation tax will generally be taxed as receiving income on all interest arising in respect of the Bonds in accordance with their statutory accounting method.

Bondholders who are not subject to United Kingdom corporation tax but who are subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Bonds.

A Bondholder resident for tax purposes outside the United Kingdom may be subject to non-United Kingdom tax on the interest under domestic law.

In certain circumstances, persons in the United Kingdom paying interest or a redemption amount to, or receiving interest or a redemption amount on behalf of another person may be required to provide certain information to HMRC regarding the identity of the payee or person beneficially entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

## **2. EU Savings Tax Directive**

The European Union has adopted a Directive regarding the taxation of savings income (European Council Directive 2003/48/EC, the “Directive”). Under the Directive each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg will instead operate a withholding system for a transitional period in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have agreed to adopt similar measures (some of which involve a withholding system). Holders should consult their tax advisers regarding the implications of the Directive in their particular circumstances.

## **3. Bondholders within the charge to United Kingdom corporation tax**

The United Kingdom taxation treatment for Bondholders within the charge to United Kingdom corporation tax will depend on, amongst other things, the accounting treatment of a Bond in the Bondholder’s hands.

Bondholders within the charge to corporation tax should therefore consult their own accounting and tax advisers concerning their tax liabilities on a disposal or conversion.

## **4. Other United Kingdom tax payers: Conversion and Redemption; disposals and transfers of the Bonds and Shares**

### **1. Chargeable gains**

#### **(a) *Disposals and redemption of the Bonds***

The Bonds will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

#### **(b) *Conversion of the Bonds***

Conversion of the Bonds will be deemed to be a redemption of the Bonds for an amount equal to the market value of the Shares as at the time of Conversion.

#### **(c) *Disposal of Shares***

Disposal of the Shares may give rise to a chargeable gain or an allowable loss for shareholders who are resident or ordinarily resident in the United Kingdom or who carry on a trade, profession or vocation in the UK through a branch or agency to which the Bonds or Shares are attributable or who dispose of the shares during a period of less than five years during which they cease to be resident or ordinarily resident, subject to the usual reliefs and allowances (including taper relief), which may then be available.



## 2. Taxation of Discount

The Bonds will constitute “deeply discounted securities” for the purposes of Chapter 8 Part 4 Income Tax (Trading and Other Income) Act 2005. Therefore any gain realised on redemption or transfer of the Bonds by a Bondholder who is within the charge to United Kingdom income tax in respect of the Bonds will generally be taxable as income but such Bondholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Bonds.

## 5. Dividends on Shares

The Issuer will not be required to withhold tax at source when paying a dividend.

An individual Shareholder who is resident in the United Kingdom for tax purposes and who receives a dividend from the Issuer on the Shares will be entitled to a tax credit which such Shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the “gross dividend”), which is also equal to one-ninth of the dividend received. A United Kingdom resident individual Shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the gross dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such Shareholder’s liability to income tax on the dividend. A United Kingdom resident individual Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. In the case of a United Kingdom resident individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match his tax liability on the gross dividend and he will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the dividend received) to the extent that the gross dividend when treated as the top slice of his income falls above the threshold for higher rate income tax.

United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Issuer.

United Kingdom resident Shareholders within the charge to United Kingdom corporation tax will generally not be subject to corporation tax on dividends paid by the Issuer. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends.

Non-United Kingdom resident Shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Issuer. A Shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under domestic law. A Shareholder who is not resident in the United Kingdom (for tax purposes) or who is subject to tax in any other jurisdiction should consult his professional advisers concerning his tax liabilities on dividends received from the Issuer.

## 6. Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax (“SDRT”) will be payable on the issue of the Bonds. No United Kingdom stamp duty will be payable on the transfer of the Bonds within Euroclear or Clearstream, provided that no instrument of transfer is executed, or on the transfer by delivery of the Bonds. No SDRT will be payable on an agreement to transfer the Bonds within Euroclear or Clearstream.

No United Kingdom stamp duty or SDRT will be payable by Bondholders on the issue of Shares upon conversion of Bonds, other than an issue to issuers of depositary receipts or providers of clearance services (or their nominees or agents) as indicated below.

A documentary transfer on sale of a Share will be liable to ad valorem stamp duty generally at the rate of 0.5 per cent. of the amount or value of the consideration given for the transfer (rounded up to the next multiple of £5). The purchaser normally pays the stamp duty.

An unconditional agreement to transfer on sale of a Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration. If a transfer in respect of the agreement is duly stamped within six years of the date that the agreement is entered into or (if later) the date that it becomes unconditional, the SDRT charge is cancelled and any SDRT already paid is repayable, generally with interest.

Transfers of Shares (a) to, or to a nominee for, a person whose business is or includes issuing depositary receipts within Section 67 or Section 93 of the Finance Act 1986 or (b) to Euroclear or Clearstream, Luxembourg or any other person providing a clearance service or to a nominee for such person within Section 70 or Section 96 of the Finance Act 1986 will generally be subject to stamp duty or SDRT at the rate of 1.5 per cent. of the amount or value of the consideration or, in certain circumstances, the value of the Shares transferred. Clearance services may opt, under certain conditions, for the normal rates of stamp duty or SDRT (0.5 per cent. of the amount or the value of the consideration) to apply to a transfer of shares within the service, instead of the higher rate applying to an issue or a transfer of shares into a clearance service.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Shares into the system unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent. of the amount or value of the consideration) will arise. Paperless transfers of Shares within CREST will be liable to SDRT rather than stamp duty (again, usually at a rate of 0.5 per cent.) and this is normally payable by the purchaser.

### **Russian Federation Taxation**

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of Bonds and Shares by non-resident holders. The summary is based on the laws of Russia in effect on the date of these Listing Particulars. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does the summary seek to address the availability of double tax treaty relief in respect of the Bonds and Shares, or practical difficulties involved in obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Bonds and Shares in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets. In this regard, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may constitute the imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "non-resident holder" means an individual actually present in Russia for an aggregate period of less than 183 days in a given calendar year (not counting days of arrival into Russia but counting days of departure from Russia) or a legal entity or organisation in each case not organised under Russian law which holds and disposes of the Bonds and Shares other than through its permanent tax establishment in Russia.

#### **1. Taxation of Capital Gains**

A non-resident holder will not be subject to any Russian taxes in respect of payments of interest, principal and premium on the Bonds received from the Issuer.

A non-resident holder also generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or other disposal of the Bonds or Shares outside Russia, provided that the proceeds of such disposal are not received from a source within Russia.

In the event that proceeds from a disposal of Bonds are received from a source within Russia, a non-resident holder that is a legal entity or organisation should not be subject to any Russian taxation in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20 per cent. subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. Non-resident holders that are legal entities or organisations should consult their own tax advisers with respect to this possibility and the relevant procedures.

If proceeds from a disposal of the Bonds are received from a source within Russia, a non-resident holder who is an individual will generally be subject to tax at a rate of 30 per cent., subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost

deduction (which includes the purchase price of the Bonds). In this regard, if the Bonds are disposed of in Russia, for Russian personal income tax purposes, the proceeds of such disposition are likely to be regarded as received from a Russian source. In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. In such a situation, there is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Bonds, the currency of sale of the Bonds and roubles. Non-resident holders who are individuals should consult their own tax advisers with respect to these possibilities.

Where proceeds from the disposition of Bonds or Shares are received from a Russian source, in order for the non-resident holder, whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed.

## **2. Resident holders**

A Bondholder who is not a non-resident holder is subject to all applicable Russian taxes and documentation requirements that may be required by law or practice. Resident Bondholders should consult their own tax advisers with respect to their tax position regarding the Bonds and Shares.

## **3. Enforcement of the Security**

If, as a result of the Trustee's enforcement of the security that the Issuer and Brownypool grant to it under the Security Documents and the Trust Deed, the Trustee receives income from Russia payable to it for the benefit of the non-resident holders (e.g. interest under the Loan or the proceeds from sale of shares in the Company) such income will be treated as income from Russian source subject to Russian withholding tax. It is likely that the Trustee due to its conduit nature can not apply any tax treaty provisions to avoid Russian withholding tax. At the same time it is not clear whether the Bondholder can rely on any benefits of Russian tax treaties in respect of income received as a result of the enforcement of the security.

## **4. Refund of Tax Withheld**

Where double tax treaty relief is available for a non-resident holder which is not an individual, but where Russian withholding tax on income was withheld by the source of payment, a refund of tax withheld is possible within three years from the end of the tax period in which the tax was withheld. In order to obtain a refund of tax, documentation confirming the right of the non-resident recipient of income to double tax treaty relief is required.

For an individual non-resident holder, where double tax treaty relief is available, the documentation for the refund of tax may be filed within one year after the end of the year to which the tax benefit relates.

The tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required in the law.

Refund of the tax withheld may be a time-consuming process and can involve considerable practical difficulties.

## SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated as of 30 March 2006 and a Supplemental Subscription Agreement dated as of 6 April 2006, (together the “Subscription Agreement”), severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the aggregate principal amount of Bonds set out opposite their names in the table below at 100 per cent. of their principal amount.

	<b>Principal Amount of Bonds</b>
Nomura International plc .. .. .	U.S.\$27,555,000
Uralsib Securities Limited .. .. .	U.S.\$22,545,000

The Subscription Agreement entitles Nomura (on behalf of the Joint Lead Managers) to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer, failing whom the Company, has agreed to pay the Joint Lead Managers a combined fee of 2.25 per cent. of the principal amount of the Bonds upon the terms and subject to the conditions of the Subscription Agreement. In addition, the Issuer, failing whom the Company, has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Bonds. Each of the Issuer, the Company and Brownypool has agreed to indemnify the Joint Lead Managers in respect of certain matters pursuant to the Subscription Agreement.

The Issuer, the Company and Brownypool have agreed in the Subscription Agreement with the Joint Lead Managers that for a period from and including the date of the Subscription Agreement to but excluding the date falling 12 months after the Initial Public Offering Date or, in the event that no IPO occurs, the Maturity Date of the Bonds, none of the Issuer, the Company or Brownypool will without the prior written consent of Nomura on behalf of the Joint Lead Managers (such consent not to be unreasonably withheld) (i) issue, offer, sell, contract to sell, grant any option to purchase, pledge, lend or otherwise dispose of or encumber, any shares of the Issuer, the Company or Brownypool (or any securities convertible into or exchangeable for shares of the Issuer, the Company or Brownypool, or (ii) enter into a transaction (including a derivative transaction) having an economic effect similar to that of any such transaction referred to in paragraph (i) above or (iii) publicly announce any intention to issue, offer, sell, contract to sell, grant any option to purchase, pledge, lend or otherwise dispose of or encumber, any shares of the Issuer, the Company or Brownypool (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase shares of the Issuer, the Company or Brownypool) or (iv) deposit any shares of the Issuer, the Company or Brownypool (or any securities convertible into or exchangeable for shares of the Issuer, the Company or Brownypool) in any depository receipt facility; provided that (x) this restriction shall not apply to (I) the issue and sale by the Issuer of Shares in the IPO, (II) the encumbrances created by the Security Documents, (III) the Issuer may issue or sell up to 1,000 Shares in aggregate for the purpose of employee share schemes, (IV) in the event that the IPO is not completed prior to the IPO Cut-Off Date, the issue by the Issuer of Shares for the purposes of financing the redemption of the Bonds, provided that the shareholders in the Issuer on the date of the Subscription Agreement continue to hold not less than 51 per cent. in aggregate of the share capital of the Issuer and to control not less than 51 per cent. of the votes which may be cast in a general meeting of the Issuer, (y) the Issuer may issue Shares to existing shareholders and to members of their immediate family and trusts for their benefit in each case who have executed a lock-up letter *pro rata* to their existing holdings without such consent and (z) Brownypool may pledge or create equivalent security in favour of Gazprombank over not more than 22 per cent. of the outstanding Company Shares without such consent in accordance with Condition 3(a)(iv) of the Bonds. The foregoing shall not apply to the issue of the Bonds or the issue of Shares pursuant to conversion of the Bonds.

In addition, Mr. I. Preys, Mr. V. Preys, Mr. A. Chuguevsky and Mr. P. Golovinov will sign lock up letters on or prior to the Closing Date pursuant to which each of them will undertake with the Joint Lead Managers not to sell any Shares or enter into other transactions with a similar effect from the date of the Subscription Agreement without the prior written consent to Nomura on behalf of the Joint Lead Managers, subject to certain limited exceptions.

The Issuer and the Company have confirmed that, subject to (i) satisfactory execution, in the reasonable opinion of the Issuer and the Company, by Nomura of the Offering and (ii) Nomura offering terms for executing the Initial Public Offering which are at least as favourable to the Issuer as competing

bids, provided such terms are in line with those then prevailing in the market, they will grant Nomura the exclusive right of first refusal to act as bookrunner and lead manager of the Initial Public Offering.

### **United States**

The Bonds and the Shares have not been and will not be registered under the U.S. Securities Act of 1933 (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act (“Regulation S”) or pursuant to an exemption from the registration requirements of the Securities Act.

Each of the Joint Lead Managers has represented that it has offered and sold the Bonds, and agreed that it will offer and sell the Bonds (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each of the Joint Lead Managers has agreed that, at or prior to confirmation of sale of Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Bonds from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date of the offering, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act.”

Terms used in this paragraph have the meanings given to them by Regulation S.

The Bonds are subject to United States tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by the United States tax regulations. Payments with respect to the Bonds may not be made to an address or a bank account maintained within the United States or any of its possessions. The Bonds may be presented for payment within the United States or any of its possessions and demand for payment under the Bonds may not be made within the United States or any of its possessions. Terms used in this paragraph have the respective meanings given to them by the United States Internal Revenue Code and the regulations thereunder. References in this paragraph to the Bonds include references to any coupons relating thereto.

### **United Kingdom**

Each of the Joint Lead Managers has represented, warranted and agreed that:

- (i) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

### **Russia**

Each of the Joint Lead Managers has represented, warranted and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer, as part of their initial distribution or at any time thereafter, any Bonds to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law. Since no Russian issue prospectus has been registered or is intended to be registered with respect to the Bonds and the Bonds have not been registered in Russia, no person should at any time carry out any activities in breach of the restrictions set out above.

## **Cyprus**

Each Joint Lead Manager has represented and agreed that:

- (i) it has not provided and will not provide from within Cyprus all or any “Investment Services” and “Non-Core Services” (as such terms are defined in the Investment Firms Law, Act No. 148(I) of 2002, as amended (the “IFL”)) or otherwise provide Investment Services and Non-Core Services from outside Cyprus to residents or persons domiciled in Cyprus or otherwise conclude in Cyprus any transaction relating to such Investment Services and Non-Core Services in contravention of the IFL and the regulations made pursuant to or in relation thereto; and
- (ii) it has not or will not issue an offer or invitation to subscribe or purchase or otherwise procure subscribers or purchasers for the Bonds within or in Cyprus.

## **General**

No action has been or will be taken in any jurisdiction by the Issuer or the Joint Lead Managers that would permit a public offering of the Bonds, or possession or distribution of these Listing Particulars or any other offering material, in any country or jurisdiction where action for that purpose is required.

## **Purchase of Bonds**

The Bonds are a new issue of securities with no established trading market. Accordingly, the Issuer cannot assure the liquidity of the trading market for the Bonds although application has been made to list the Bonds on the Official List.

Purchasers who purchase Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Issue Price set out on the cover page of these Listing Particulars.

From time to time, either of the Joint Lead Managers and their respective affiliates have or may have provided, and may continue to provide, investment banking services to the Issuer and the Company for which they have been or will be paid customary fees. In addition, the Joint Lead Managers and their respective affiliates have engaged and may in the future engage in various transactions involving the Issuer and its affiliates.

## GENERAL INFORMATION

### 1. Authorisation

The issue of the Bonds and this document were authorised and approved by the Board of Directors of the Issuer pursuant to resolutions adopted on 30 March 2006. The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Bonds.

### 2. Listing

Application has been made to the UK Listing Authority for the Bonds to be issued on the Closing Date to be admitted to the Official List. Application has been made to the London Stock Exchange for the Bonds to be admitted to trading on the PSM. It is expected that admission of the Bonds to the Official List of the UK Listing Authority and admission to trading of the Bonds on the PSM of the London Stock Exchange will be granted on or around 10 April 2006, subject to the issue of the Bonds. It is expected that dealings in the Bonds will commence on 11 April 2006.

### 3. Expense of Admission to Trading

The Issuer estimates the amount of expenses related to admission of the Bonds to trading to be U.S.\$3,036,500.

### 4. Clearing reference numbers

The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 024955893. The International Securities Identification Number for the Bonds is XS0249558932. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

### 5. No significant change in the financial and trading position of the Issuer, the Company or the Group

There has been no significant change in the financial or trading position of the Issuer, the Company or the Group since 31 December 2005.

### 6. No material adverse change in the prospects of the Issuer, the Company or the Group

There has been no material adverse change in the prospects of the Issuer, the Company or the Group since 31 December 2005.

### 7. Legal and arbitration proceedings

Neither the Issuer nor the Company is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during a period covering the previous twelve months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer, the Company or the Group. See "Description of the Company — Litigation".

### 8. Trustee's reliance

The Trust Deed provides that the Trustee may rely on certificates or reports from the Issuer's auditors in accordance with the provisions of the Trust Deed, whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Issuer's auditors in connection therewith contains any limit on the liability of the Issuer's auditors.

### 9. Interests of persons involved in the issue

Except for their interests as shareholders of the Issuer, as disclosed on page 55 of these Listing Particulars, none of the directors of the Issuer has any interest in any contract, arrangement or transaction entered into by the Issuer which is or was unusual in its nature or conditions or significant in relation to the business of the Issuer and which was effected during the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

Save for the fees payable to the Joint Lead Managers, the Trustee and the Agents, so far as the Issuer is aware no person involved in the issue of the Bonds has an interest that is material to the issue of the Bonds.

#### **10. Auditors**

The auditors of the Issuer are Moore Stephens LLP of St Paul's House, Warwick Lane, London EC4M 7BP, a partnership firm registered with the Institute of Chartered Accountants of England and Wales, who audited the accounts of the Issuer from incorporation to 31 December 2005 prepared in accordance with IFRS.

The auditors of the Company are Moore Stephens Moscow Limited of 16, Strastnoy Boulevard, Moscow, Russia, a limited liability company, who audited the accounts of the Company for the three years ended 31 December 2003, 2004 and 2005. Moore Stephens Moscow Limited is a subsidiary of Moore Stephens LLP of St Paul's House, Warwick Lane, London EC4M 7BP, which firm is a member of the Institute of Chartered Accountants in England and Wales. The accounts for the years ended 31 December 2003, 2004 and 2005 were prepared in accordance with IFRS and had a qualification in the auditors' report for the year ended 31 December 2004 that they were unable to observe the counting of physical inventories of the Company as at 31 December 2004.

#### **11. Publication**

This Listing Particulars is also available at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gb/pricesnews/marketnews](http://www.londonstockexchange.com/en-gb/pricesnews/marketnews).

#### **12. Documents for display**

So long as the Bonds are admitted to listing on the Official List and the rules of the Financial Services Authority shall so require, copies of the following documents (together with English translations, where applicable) may be inspected during normal business hours at the offices of the Principal Paying and Conversion Agent:

- (a) the memorandum and articles of association of the Issuer and the Company;
- (b) the audited non-consolidated financial statements of the Company for the three years ended 31 December 2003, 2004 and 2005;
- (c) the audited financial statements of the Issuer from incorporation to 31 December 2005;
- (d) the future audited consolidated financial statements of the Issuer will be made available at the office of the Principal Paying and Conversion Agent;
- (e) copies of Independent Expert's Report included at Appendix 2 of these Listing Particulars;
- (f) these Listing Particulars;
- (g) the Trust Deed; and
- (h) the Agency Agreement.

#### **13. Legend**

Each Bond will bear the following legend: "Any United States person who holds this Bond or any Bond covered hereby will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code."



## INDEX TO FINANCIAL STATEMENTS OF THE COMPANY

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## STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of JSC "Vasilevsky Rudnik Gold Mine" (the Company). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgments and estimates by management.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Company's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

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Sinichkin A.G.  
General Director

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Gluschenko N.P.  
Chief Accountant

**Report of the Independent Auditors  
to the Shareholder of JSC “Vasilevsky Rudnik Gold Mine”**

We have audited the accompanying balance sheets of JSC “Vasilevsky Rudnik Gold Mine” (the Company) as of 31 December 2005, 2004 and 2003 and the related statements of operations for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the counting of physical inventories as at 31 December 2004 since that date was prior to the date of our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures.

No comparative information has been presented for the year ended 31 December 2003, which is a deviation from the requirements of International Financial Reporting Standards.

In our opinion, except for the effects of such adjustments as might have been found necessary had we been able to satisfy ourselves as to the quantities of stocks held and included in the accounting records of the Company as at 31 December 2004 and the absence of comparative information discussed in the proceeding paragraphs, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, 2004 and 2003 and the results of the Company’s operations for the years then ended in accordance with International Financial Reporting Standards.

MOORE STEPHENS MOSCOW LIMITED  
16, STRASTNOY BOULEVARD,  
MOSCOW, RUSSIA

5 April 2006

**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**BALANCE SHEETS AS AT 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

	Notes	2005	2004	2003
<b>NON-CURRENT ASSETS</b>				
Intangible assets	4	161,045	10,774	10,815
Tangible assets	5	4,922,231	4,776,777	75,217
Mining properties	6	51,607,732	31,626,919	28,318,439
Deferred tax	12	2,732,008	1,950,948	1,461,245
<b>Total non-current assets</b>		<b>59,423,016</b>	<b>38,365,418</b>	<b>29,865,716</b>
<b>CURRENT ASSETS</b>				
Inventories	7	2,783,940	1,373,317	-
Other receivables	8	4,178,067	1,084,480	20,367
Bank and cash		62,872	72	-
<b>Total current assets</b>		<b>7,024,879</b>	<b>2,457,869</b>	<b>20,367</b>
<b>Total assets</b>		<b>66,447,895</b>	<b>40,823,287</b>	<b>29,886,083</b>
<b>SHAREHOLDER'S DEFICIT</b>				
Share capital	9	3,153,920	3,153,920	3,153,920
Accumulated losses		(9,937,062)	(7,575,585)	(5,991,471)
<b>Total deficit</b>		<b>(6,783,142)</b>	<b>(4,421,665)</b>	<b>(2,837,551)</b>
<b>NON-CURRENT LIABILITIES</b>				
Long term loans payable	10	57,996,048	32,882,691	29,168,047
Accrued interest payable on long term loans	10	2,817,720	-	-
Non-current portion of finance Lease obligations	11	436,198	1,081,086	-
<b>Total non-current liabilities</b>		<b>61,249,966</b>	<b>33,963,777</b>	<b>29,168,047</b>
<b>CURRENT LIABILITIES</b>				
Short term loans payable	10	6,866,120	8,678,836	1,020,333
Payable to contractors		702,280	487,608	662,742
Other payables	13	4,412,671	2,114,731	1,872,512
<b>Total current liabilities</b>		<b>11,981,071</b>	<b>11,281,175</b>	<b>3,555,587</b>
<b>Total liabilities and shareholder's deficit</b>		<b>66,447,895</b>	<b>40,823,287</b>	<b>29,886,083</b>

Approved on behalf of the Board of Management on 5 April 2006

Sinichkin A.G.  
General Director

Gluschenko N.P.  
Chief Accountant

The accompanying notes on pages F-8 to F-25 form an integral part of these financial statements.

**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**INCOME STATEMENT**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

	Note	2005	2004	2003
Depreciation of tangible assets		(946,168)	(297,255)	(83,562)
Amortization of intangible assets		(25,500)	(41)	
General and administrative expenses		(2,343,253)	(1,081,817)	(281,641)
Social assets written off		(211,939)	-	(123,266)
Other fixed assets written off		(21,824)	(10,697)	-
<b>Loss from operations</b>		<b>(3,548,684)</b>	<b>(1,389,810)</b>	<b>(488,469)</b>
Exchange differences		839,878	(597,408)	(240,967)
Change in value of financial instruments		-	-	(3,638,691)
Interest received – promissory notes		75,778		
Interest paid – promissory notes		(75,778)		
Interest expense – finance lease charges		(433,731)	(86,599)	-
<b>Loss before tax</b>		<b>(3,142,537)</b>	<b>(2,073,817)</b>	<b>(4,368,127)</b>
Taxation	14	781,060	489,703	1,180,977
<b>Net loss for the year</b>		<b>(2,361,477)</b>	<b>(1,584,114)</b>	<b>(3,187,150)</b>

The accompanying notes on pages F-8 to F-25 form an integral part of these financial statements.

**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

	Note	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating cash payments		(3,652,967)	(2,136,625)	(16,926)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(3,652,967)</b>	<b>(2,136,625)</b>	<b>(16,926)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>				
Loans repaid by third party		20,001	-	-
Loans granted to third party		-	(20,001)	-
Expenditure on intangible assets		(175,771)	-	-
Expenditure on tangible and mining assets and related inventories		(18,291,458)	(8,053,002)	-
Interest paid and capitalised		(1,038,176)	(294,369)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(19,485,404)</b>	<b>(8,367,372)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Loans drawdown		30,076,166	12,357,034	16,926
Repayment of borrowings		(5,991,341)	(1,045,094)	-
Lease capital repayments		(516,916)	(721,272)	-
Finance lease interest paid		(366,738)	(86,599)	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>23,201,171</b>	<b>10,504,069</b>	<b>16,926</b>
Net increase in cash and cash equivalents		62,800	72	-
Cash and cash equivalents, at beginning of period		72	-	-
Cash and cash equivalents, at end of period		<u>62,872</u>	<u>72</u>	<u>-</u>
<b>Material non-cash transactions:</b>				
Finance lease transactions in respect of acquisition of tangible assets		-	(2,374,050)	-
Interest accrued and capitalised as mining assets, but not paid		(2,322,343)	(301,210)	(68,466)
Interest capitalised as mining assets on revaluation of Russian Ministry of Finance gold loan		-	-	(1,757,522)
Exchange movements on loans		772,856	(61,205)	(72,983)
Promissory notes granted		(2,307,638)	-	-
Promissory notes received		2,307,638	-	-
Change in fair value of loans		-	-	(3,638,691)

The accompanying notes on pages F-8 to F-25 form an integral part of these financial statements.

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**JSC “VASILEVSKY RUDNIK GOLD MINE”**  
**STATEMENT OF CHANGES IN SHAREHOLDER’S EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

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	<u>Share Capital</u>	<u>Accumulated losses</u>	<u>Total</u>
<b>Balance at 31 December 2002</b>	3,153,920	(2,804,321)	349,599
Net loss for the year	-	(3,187,150)	(3,187,150)
<b>Balance at 31 December 2003</b>	<u>3,153,920</u>	<u>(5,991,471)</u>	<u>(2,837,551)</u>
Net loss for the year	-	(1,584,114)	(1,584,114)
<b>Balance at 31 December 2004</b>	<u>3,153,920</u>	<u>(7,575,585)</u>	<u>(4,421,665)</u>
Net loss for the year	-	(2,361,477)	(2,361,477)
<b>Balance at 31 December 2005</b>	<u><u>3,153,920</u></u>	<u><u>(9,937,062)</u></u>	<u><u>(6,783,142)</u></u>

The accompanying notes on pages F-8 to F-25 form an integral part of these financial statements.

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**JSC “VASILEVSKY RUDNIK GOLD MINE”**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

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**1. THE COMPANY AND ITS OPERATIONS**

JSC “Vasilevsky Rudnik Gold Mine” (the Company) was incorporated as a closed joint stock company in the Russian Federation in 1993. Its principal business address is 33A Pervomayskaya Street, Razdolinsk, Motiginskiy District, Krasnoyarsk Region, Russian Federation.

The principal activities of the Company include the exploration and development of mineral properties, primarily gold, in Russia. Since its incorporation in 1993, the Company has been constructing a gold processing plant. This was financed by loan finance, further details of which are set out in note 10. Following the Russian economic crisis in 1998, construction of the plant was halted, however, administration functions continued, and interest charges continued to be incurred. In 2004, following a change in shareholdings and upon the receipt of further finance, construction of the plant re-commenced. In December 2005, trial mining commenced. Commercial mining commenced in 2006.

The Company holds licenses for the exploration of gold fields and development of gold ore mines in the Krasnoyarsk Region of Russia.

The Company is a 100% subsidiary of Brownypool Trading Limited (incorporated in Cyprus), which company is a 100% subsidiary of Angara Mining plc (incorporated in the United Kingdom). The Company's ultimate beneficial owners are four private individuals: Preys V.Y., Preys I.V., Golovinov P.N. and Chuguevskiy A.Y. Three of these shareholders own 95% of the issued shares of Angara Mining plc.

**Russian Business Environment**

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside the Russian Federation, restrictive currency controls and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependant on the effectiveness of the economic measures undertaken by the government, together with legal, regulatory and political developments.

**2. BASIS OF PRESENTATION**

**a) Accounting Framework**

The Company maintains its primary accounting records in accordance with Russian Accounting Regulations (“RAR”). These financial statements have been prepared, based on those accounting records, but adjusted to comply with International Financial Reporting Standards (“IFRS”). In addition to these IFRS financial statements, the Company also publishes financial statements prepared in accordance with RAR.



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**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

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**2. BASIS OF PRESENTATION (CONTINUED)**

**b) *Estimates and assumptions***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to the carrying value and depreciable lives of property, plant and equipment, allowance for doubtful accounts and deferred taxation. Actual results could differ from these estimates.

The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Company may be significant.

**c) *Segmental Information***

Segmental information is not presented in these financial statements as, in the opinion of management, the Company's business cannot meaningfully be divided into geographical or business segments.

**d) *Measurement and Presentation Currency***

The national currency of the Russian Federation is the Russian Rouble ("RUR"). The measurement and presentation currency used in the preparation of these financial statements is the United States dollar ("USD"). Management has determined the USD to be the measurement currency as the USD best reflects the economic substance of the underlying events and circumstances of the Company. In making this assessment, management has considered the following matters:

- A significant portion of the Company's revenues in the future will be invoiced in USD;
- The Company's activity is primarily financed by USD loans.

The Russian Rouble is a limited convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Rouble ("RUR") amounts to USD should not be construed as a representation that Russian Rouble amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**a) *Going concern***

These financial statements have been produced on the going concern basis which assumes that the Company will continue to operate for the foreseeable future. The Company will be unable to continue to operate unless it has sufficient resources to fund its activities. Management has considered the availability of funds and believes the Company will have sufficient funds made available to it in order to enable it to continue in business. This opinion has been reached on the grounds that loan finance will continue to be made available by the Company's ultimate shareholders and related parties. The Company's ultimate parent company is in the process of raising \$ 50 million by way of a public bond issue. The majority of the proceeds from this bond issue will be lent to the Company by way of an intra-group loan. The Company will pay interest to its ultimate parent company in order to enable that company to service the bond interest payments and capital repayment. If the Company were unable to continue as a going concern and were to prepare financial statements on a break up basis, assets and liabilities would be stated at realisable value which would probably differ significantly from the values as presented in these financial statements.

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**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Foreign currency translation**

Transactions denominated in currencies other than the USD ("foreign currencies") are recorded in USD at the average exchange rate for the period. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the income statement.

Monetary assets and liabilities denominated in foreign currency are translated into USD at the official exchange rate at the balance sheet date. Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the income statement.

Non-monetary items are reported using the historical exchange rate that prevailed at the date of the transaction, or in the case of share capital, the average rate for 1994, being the first year that the Company produced statutory financial statements under RAR.

RUR income and expense items have been converted to USD at an average rate for the period of USD 1 = RUR 28.32 (2004: USD 1 = RUR 28.81; 2003: USD1 = RUR 30.69). Monetary assets and liabilities have been converted to USD at a closing rate of USD 1 = RUR 28.78 (2004: USD 1 = RUR 27.75; 2003: USD1 = RUR 29.45).

**c) Intangible assets**

Intangible assets mainly consist of expenses related to obtaining exploration licenses. Amortisation of intangible assets is calculated on a straight-line basis over the period for which the license is granted.

**d) Mine development costs**

Mine development costs, including the cost of constructing buildings and equipment and associated finance costs are capitalised. Upon completion, all accumulated costs of the asset are transferred to the relevant fixed asset category. Costs which are not directly attributable to the construction of the plant are included in the income statement.

Borrowing costs directly attributable to constructed assets are capitalised. Whilst construction of the mine was halted during the period 1998 to 2004, significant administration and technical work continued. Accordingly, all interest accrued during this period has been capitalised as the associated loans were incurred in connection with the construction of the plant.

During December 2005, the Company carried out trial mining. The sale of the gold arising from this trial mining has been credited to mine development costs, as the Company is still refining its process prior to the commencement of commercial mining.

On the commencement of commercial mining, all subsequent loan interest will be included in the income statement.

No depreciation is charged on mine development costs until they are transferred to fixed assets.

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**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) *Property, plant and equipment***

Prior to the year 2002, the Company only produced financial statements in accordance with RAR. In the accounting records required to produce statutory financial statements, fixed assets are stated in accordance with Russian statutory regulations, which require fixed assets to be held at cost/valuation less accumulated depreciation. For periods commencing 1 January 2002, the Company has produced both Russian statutory financial statements and financial statements prepared in accordance with IFRS. The Company has adopted the opening Russian statutory net book balances as at 1 January 2002 as deemed opening cost for IFRS reporting purposes.

Major renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of an asset beyond its original capability.

Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is put into use. The useful lives, in years, of assets by type of facility are as follows:

**Type of facility**

Buildings and Constructions	30
Plant and Machinery	5-6
Other	3-5

Social assets are not capitalized as they are not expected to result in future economic benefits to the Company. Costs associated with fulfilling the Company's social responsibilities are expensed as incurred.

**f) *Cash and cash equivalents***

Cash comprises cash in hand and cash deposited in banks.

**g) *Accounts receivable and prepaid expenses***

Accounts receivable are recorded inclusive of value added taxes (VAT) which are payable to the tax authorities upon collection of such receivables. Trade and other receivables, including prepaid expenses, are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

**h) *Value added tax on purchases and sales***

VAT related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset or liability. Where provision has been made against debtors deemed to be uncollectible bad debt expense is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is settled or until the debtor is written off for statutory accounting purposes.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) Inventories**

Inventories of materials, fuels and chemicals are valued at the lower of net realisable value and weighted average cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value.

Work in progress has been valued at the lower of cost and net realisable value.

Inventories of gold ready for sale are valued at the lower of cost and net realisable value. Costs are attributed to gold produced on an average cost basis.

**j) Profit Tax**

Deferred profit tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred profit tax is provided for on all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred profit tax asset is recorded only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred profit tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

**k) Accounts payable and accrued charges**

Accounts payable are stated inclusive of value added tax which is reclaimable from the tax authorities upon the latter of receipt of goods and services or the payment of the associated payable.

**l) Pension and post-employment benefits**

The Company's mandatory contributions to the governmental pension scheme are expensed as incurred. Where costs relate to construction employees, the cost is capitalised. The Company has no other pension obligations.

**m) Environmental liabilities**

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

**n) Revenue recognition**

As the Company has yet to commence commercial mining, there was no revenue recognized in the reporting period. Revenues from the sale of gold which was produced during the trial mining period have been credited to mine development costs.

**o) Financial Instruments**

The carrying amounts of the Company's financial assets and liabilities (comprising bank and cash balances, trade and other debtors, trade and other creditors and short and long-term borrowings) generally approximate to their fair values at the date of the transaction. Where the fair value of a financial asset is materially below the carrying amount, the carrying amount is written down to fair value. Significant differences between the fair value and the carrying value of assets and liabilities are disclosed in note 17.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**p) Finance leases**

Assets held under finance leases are capitalised in the balance sheet and are depreciated at the rate applicable to the asset category. Interest is charged to the income statement on an actual basis according to the interest rate specified in the agreement.

**4. INTANGIBLE ASSETS**

**Cost**

As at 31 December 2003 and 2004	11,467
Additions	<u>175,771</u>
As at 31 December 2005	<u><u>187,238</u></u>

**Accumulated amortisation**

As at 31 December 2003	652
Amortisation charge	<u>41</u>
As at 31 December 2004	693
Amortisation charge	<u>25,500</u>
As at 31 December 2005	<u><u>26,193</u></u>

<b>Net book value at 31 December 2003</b>	<b><u>10,815</u></b>
<b>Net book value at 31 December 2004</b>	<b><u>10,774</u></b>
<b>Net book value at 31 December 2005</b>	<b><u><u>161,045</u></u></b>

Intangibles mainly comprise expenses incurred in obtaining licenses and geological software. In 2005, 2 more licences were acquired, the Gerfed licence for the exploration and extraction of gold ore in the Gerfed gold deposit and the Ilyinsky and Nizhne-Talovsky licence for geological prospecting, exploration and extraction of ore on the Ilyinsky and Nizhne-Talovsky gold ore occurrences. The Company also acquired a licence in 2005 for prognostic and prospecting works in respect of gold ore in the Vasilevskiy-Udereysky zone.

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**5. TANGIBLE ASSETS**

	<b>Buildings and constructions</b>	<b>Plant and machinery</b>	<b>Other equipment and vehicles</b>	<b>Total</b>
<b>Cost</b>				
As at 31 December 2003	4,698	277,199	134,982	416,879
Assets acquired under finance lease arrangements	-	1,764,534	582,516	2,347,050
Transfer from mining properties	-	2,582,410	80,052	2,662,462
Disposals	-	-	(56,160)	(56,160)
As at 31 December 2004	4,698	4,624,143	741,390	5,370,231
Additions	-	655,033	-	655,033
Transfer from mining properties	-	399,366	59,048	458,414
Disposals	-	(116,269)	(74,594)	(190,863)
As at 31 December 2005	4,698	5,562,273	725,844	6,292,815
<b>Accumulated depreciation</b>				
As at 31 December 2003	649	229,167	111,846	341,662
Depreciation charge	188	277,380	19,687	297,255
Disposals	-	-	(45,463)	(45,463)
As at 31 December 2004	837	506,547	86,070	593,454
Depreciation charge	157	796,260	149,751	946,168
Disposals	-	(104,960)	(64,078)	(169,038)
As at 31 December 2005	994	1,197,847	171,743	1,370,584
<b>Net book value at 31 December 2003</b>	<b><u>4,049</u></b>	<b><u>48,032</u></b>	<b><u>23,136</u></b>	<b><u>75,217</u></b>
<b>Net book value at 31 December 2004</b>	<b><u>3,861</u></b>	<b><u>4,117,596</u></b>	<b><u>655,320</u></b>	<b><u>4,776,777</u></b>
<b>Net book value at 31 December 2005</b>	<b><u>3,704</u></b>	<b><u>4,364,426</u></b>	<b><u>554,101</u></b>	<b><u>4,922,231</u></b>

Included in tangible assets are assets with a net book value of USD 2,004,477 held under finance leases (2004: USD 2,294,907; 2003: USD nil).

Fixed assets (tangible assets and mining properties) with a net book value of approximately USD 10.1 million have been insured for a total of approximately \$6.8 million.

Fixed assets (tangible assets and mining properties) with a net book value of approximately USD 8.2 million have been provided as security for the loan with Gazprombank-Eurobank (note 10); the value of the assets for security purposes is approximately USD 6.4 million.

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**6. MINING PROPERTIES**

**Cost**

As at 31 December 2002	26,492,451
Interest capitalised	<u>1,825,988</u>
As at 31 December 2003	28,318,439
Additions	5,375,363
Interest capitalised	595,579
Transfer to tangible assets	<u>(2,662,462)</u>
As at 31 December 2004	31,626,919
Additions	17,286,258
Interest capitalised	3,364,908
Social assets written off	(211,939)
Transfer to tangible assets	<u>(458,414)</u>
<b>As at 31 December 2005</b>	<b><u>51,607,732</u></b>

The total amount of borrowing costs capitalised as at 31 December 2005 is approximately USD 7.45 million (2004: approximately USD 4.1 million; 2003: approximately USD 3.5 million).

Mining properties include VAT charged on self-construction work for total amount of USD 2 million because it is uncertain if this amount can be reclaimed from the tax authorities.

Assets have been pledged as security for the Gazprombank-Eurobank loan (note 10); details are set out in note 5.

**7. INVENTORIES**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Construction materials and consumables	1,656,338	1,124,473	-
Fuel	179,416	97,718	-
Chemicals	223,704	-	-
Work in progress (gold ore)	347,914	-	-
Goods for sale (gold)	41,472	-	-
Other materials	335,096	151,126	-
	<u>2,783,940</u>	<u>1,373,317</u>	<u>-</u>

For the purposes of these financial statements, all inventories, regardless of whether they are to be used for construction of the processing plant, have been classified as current assets.

**8. OTHER RECEIVABLES**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
VAT recoverable	973,389	940,872	-
Promissory notes	2,037,638	-	-
Other debtors	845,779	-	-
Prepaid expenses	321,261	143,608	20,367
	<u>4,178,067</u>	<u>1,084,480</u>	<u>20,367</u>

During the year ended 31 December 2005 Macro-Invest Limited, a related party to the Company, undertook to assist the Company in raising finance. Macro-Invest Limited was to arrange finance from a foreign bank and then onward lend to the Company. As part of the transaction the Company issued two promissory notes to Macro-Invest Limited one for RUR 18.3 million (USD 647,000) which was interest free and the other for RUR 40 million (USD 1,391,000) which bore interest at 14%, making an overall effective interest rate of 9.6%. Macro-Invest Limited issued its own promissory notes to the Company on identical terms and utilised the Company's promissory notes as security for the loan which was then on lent to the Company. All promissory notes were issued on 5 August 2005 and were payable on demand not earlier than 1 February 2006.

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**9. SHARE CAPITAL**

Authorised issued and fully paid share capital:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Ordinary shares of 100 RUR each:</b>			
Authorised	440,384	440,384	440,384
Issued and paid	76,000	76,000	76,000

The ordinary shares were translated into USD using the average exchange rate prevailing during 1994, the first year that the Company produced statutory financial statements under RAR. The issued share capital has a USD balance of USD 3,153,920.

**10. LOANS PAYABLE**

<b>Lender and terms</b>	<u>2005</u>	<u>2004</u>	<u>2003</u>
JSC "Krasnoyarsk Non-Ferrous Metals Plant" Currency: Roubles Interest : Central Bank rate of RF+3% Maturity : 25 June 1999	-	2,883	2,716
Krasopttorg-99 Ltd. Currency: Roubles Interest : Central Bank rate of RF Maturity : 1 October 2000	-	8,865	8,352
Aldan Ltd Currency: Roubles Interest: 20% Maturity: 14 October 2004	-	-	984,569
Macro-Invest Ltd. Currency: Roubles (R 150 million) Interest : 14% Maturity : 22 March 2009	5,211,500	5,405,609	-
Macro-Invest Ltd. Currency: Roubles (R 1 billion) Interest : 14% Maturity : 1 September 2009	24,680,108	4,130,865	-
ZKB Monolit Ltd. Currency: Roubles Interest : 13% Maturity : 25 July 2005	-	2,810,941	-
Aldan Ltd. Currency: US Dollars Interest : 6% Maturity : 30 December 2003	34,317	34,317	24,696
Gazprombank - Eurobank Currency: US Dollars Interest : LIBOR+6% Amount drawdown: USD 9 million Maturity : 17 August 2006	6,300,000	-	-
<b>Total (Continued on next page)</b>	<u><u>36,225,925</u></u>	<u><u>12,393,480</u></u>	<u><u>1,020,333</u></u>



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<b>Total (Continued from previous page)</b>	<b>36,225,925</b>	<b>12,393,480</b>	<b>1,020,333</b>
Ministry of Finance of the Russian Federation Currency: US Dollars	20,740,328	21,272,132	21,272,132
Interest and Penalties Capitalised	7,895,915	7,895,915	7,895,915
Interest : LIBOR+0.5%; 1% - since 2004, on Principal, Interest and Penalties Capitalised Maturity : 31 December 2015			
<b>Total</b>	<b>64,862,168</b>	<b>41,561,527</b>	<b>30,188,380</b>

***JSC "Krasnoyarsk Non-Ferrous Metals Plant" and Krasopttorg-99 Limited loans***

As no claim for repayment had been made for over 3 years by either JSC "Krasnoyarsk Non-Ferrous Metals Plant" or Krasopttorg-99 Limited, in accordance with Russian legislation, both of these loans, together with accrued interest to date, were written back during the year ended 31 December 2005.

***Macro-Invest Limited and Aldan Limited loans***

Interest in respect of loans granted by Macro-Invest Limited and Aldan Limited has not been paid but accrued in accordance with the terms of the relevant loan agreements. The accrued interest in respect of the Macro-Invest Limited loans is due to be paid at the same time as the principal amount and as such is classified as long-term liabilities. The accrued interest in respect of the Aldan Limited loan is included in current liabilities - note 13

Macro-Invest Limited has provided 2 unsecured loans to the Company. The first loan was for RUR 150 million and was initially due for repayment by 31 December 2004. The loan was subsequently extended to 22 March 2009, although the Company has the right to repay the loan early. The second loan is a credit agreement which was initially for RUR 150 million; this limit was subsequently increased to RUR 1,000 million. As at 31 December 2005, the unutilised portion of the second credit facility amounted to approximately RUR 290 million (approximately USD 10 million). The initial credit facility was due for repayment by 30 September 2005 but has been extended to 1 September 2009, although the Company has the right to repay the loan early

Both of the Macro-Invest Limited and the Aldan Limited loans are unsecured.

***Gazprombank-Eurobank loan***

The Gazprombank-Eurobank loan is secured by an assignment of rights to receive revenues under the contract for the supply of gold in the amount of USD 14,310,000 and four agreements for the pledge of certain property in the amount of USD 2.19 million and approximately RUR 68 million, RUR 27 million and RUR 40 million.

***Russian Ministry of Finance loan***

The loan from the Russian Ministry of Finance was originally made in gold (1,600 grammes of gold with a market value at the date of grant of approximately USD 18 million) in March 1997, prior to the Russian economic crisis of 1998. This loan was initially due for repayment in gold of the same quantity. The resulting changes in the value of the loan due to the change in gold prices were recognized in the profit and loss account in the relevant years. Following the Russian economic crisis and the cessation of construction of the processing plant, the Company was unable to meet the repayment terms. In 2002, the Russian Ministry commenced an action against the Company for repayment of the debt due plus accrued interest and penalties. In December 2004, an agreement was entered into by various parties, whereby the loan was restructured and converted into a USD loan. The amount agreed was USD 21,272,132 ("Principal") plus accrued interest of USD 7,551,551 and accrued penalties of USD 344,364, (together "the Accrued Interest".) The Principal was based on the market value of gold as at 31 December 2003.

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**10. LOANS PAYABLE (CONTINUED)**

Interest on the Principal at 1% per annum must be paid by 31 December of each year (2005: USD 211,808; 2004: USD 213,304; 2003: USD nil). The Accrued Interest must be paid by 31 December 2015. If the Company repays 40% of the Principal in accordance with the repayment schedule set out in the agreement, 40% of the Accrued Interest and 40% of any interest which has accrued on the Accrued Interest will be written off. If the Company duly repays the remaining 60% of the Principal, the remaining amount of the Accrued Interest together with any interest which has accrued on the Accrued Interest will be written off.

The loan from the Russian Ministry of Finance is secured by a guarantee issued by Krasnoyarsk Region Government to a total value of USD 29,460,000.

**Breakdown of loans per maturity is as follows:**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Past due	34,317	5,336,092	35,764
Repayable in 1 year	<u>6,831,803</u>	<u>3,342,744</u>	<u>984,569</u>
	6,866,120	8,678,836	1,020,333
Repayable in 1 to 2 years	531,803	531,803	912,398
Repayable in 2 to 3 years	531,803	531,803	-
Repayable in 3 to 4 years	31,487,017	531,803	-
Repayable in 4 to 5 years	1,595,410	5,841,857	-
Repayable in 5 years or more	<u>23,850,015</u>	<u>25,445,425</u>	<u>28,255,649</u>
	57,996,048	32,882,691	29,168,047
<b>Total</b>	<b><u>64,862,168</u></b>	<b><u>41,561,527</u></b>	<b><u>30,188,380</u></b>

As noted above, if the Company repays the Russian Ministry loan in accordance with the terms of the agreement, a significant proportion of the long term debt will be written off.

**11. FINANCE LEASES**

During 2004 the Company entered into a number of finance lease transactions. As at 31 December 2005 the Company had finance leases outstanding in respect of tangible asset acquisitions. Finance leases were with OAO "Kamaz-Leasing", for which the average lease term is 3 years and the average effective interest rate is 33%, and with Samson, for which the average lease term is 3 years and the average effective interest rate is 17%. Samson is a related party (see note 16)

	Minimum Lease Payments	Present Value of Minimum Lease Payments
	<u>2005</u>	<u>2005</u>
Within 1 year	847,125	626,962
Between 2 and 5 years	<u>511,838</u>	<u>436,198</u>
Total	1,358,963	<u>1,063,160</u>
Less: future finance charges	<u>(295,803)</u>	
Present value of finance lease obligations	<u>1,063,160</u>	

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**11. FINANCE LEASES (CONTINUED)**

	Minimum Lease Payments	Present Value of Minimum Lease Payments
	2004	2004
Within 1 year	953,294	571,691
Between 2 and 5 years	1,380,016	1,081,086
<b>Total</b>	<b>2,333,310</b>	<b>1,652,777</b>
Less: future finance charges	(680,533)	
Present value of finance lease obligations	<u>1,652,777</u>	

**12. DEFERRED TAX**

Deferred tax assets and liabilities are attributable to the following items:

	<b>2005</b>	<b>Assets 2004</b>	<b>2003</b>
Fixed assets	2,718,671	2,740,641	93,474
Inventories	-	876	-
Receivables	513,703	230,509	-
Other items	999,687	2,285,744	2,874,603
<b>Total assets</b>	<u><b>4,232,061</b></u>	<u><b>5,257,770</b></u>	<u><b>2,968,077</b></u>
	<b>2005</b>	<b>Liabilities 2004</b>	<b>2003</b>
Fixed assets	(1,432,146)	(1,007,742)	(1,262,251)
Inventories	(2,725)	(9,572)	-
Receivables	(9,388)	(21,990)	-
Other items	(55,794)	(2,267,518)	(244,581)
<b>Total liabilities</b>	<u><b>(1,500,053)</b></u>	<u><b>(3,306,822)</b></u>	<u><b>(1,506,832)</b></u>
	<b>2005</b>	<b>Net 2004</b>	<b>2003</b>
Fixed assets	1,286,525	1,732,899	(1,168,777)
Inventories	(2,725)	(8,696)	-
Receivables	504,315	208,519	-
Other items	943,893	18,226	2,630,022
<b>Total assets</b>	<u><b>2,732,008</b></u>	<u><b>1,950,948</b></u>	<u><b>1,461,245</b></u>

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**12. DEFERRED TAX (CONTINUED)**

Movement in temporary differences can be summarized as follows:

	<b>Total</b>
Asset at 31 December 2002	<u>280,268</u>
Credit for the period	<u>1,180,977</u>
As at 31 December 2003	1,461,245
Credit for the period	<u>489,703</u>
Asset at 31 December 2004	1,950,948
Credit for period	781,060
<b>Asset at 31 December 2005</b>	<b><u>2,732,008</u></b>

**13. OTHER PAYABLES**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Non-profit based taxes, and pension liabilities	324,181	254,029	622,245
Wages creditors	800,720	200,622	433,228
Current portion of finance leases (see note 11)	626,962	571,691	-
Promissory notes payable	2,037,638	-	-
Accruals	174,972	181,490	170,980
Other payables	421,107	350,355	393,065
Interest payable	27,091	556,544	252,994
	<u>4,412,671</u>	<u>2,114,731</u>	<u>1,872,512</u>

Details of promissory notes are set out in note 8, other receivables.

Details of interest payable are set out in note 10 - loans payable, and note 16 - related parties.

**14. PROFIT TAX EXPENSE**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current tax charge (see note 12)	-	-	-
Deferred tax credit	<u>(781,060)</u>	<u>(489,703)</u>	<u>(1,180,977)</u>
	<u>(781,060)</u>	<u>(489,703)</u>	<u>(1,180,977)</u>

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**14. PROFIT TAX EXPENSE (CONTINUED)**

The accounting loss shown in the combined financial statements can be reconciled to taxable profit as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accounting loss before taxation	(3,142,537)	(2,073,817)	(4,368,127)
To exclude effects of adjustments to comply with IFRS	<u>3,142,537</u>	<u>2,073,817</u>	<u>4,368,127</u>
RAS accounting profit/(loss)	-	-	-
Disallowable items	<u>-</u>	<u>-</u>	<u>-</u>
<b>Taxable profit</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Profit tax - at 24%</b>	-	-	-

In accordance with Russian legislation the Company is not subject to profit tax until it commences commercial production and is generating trading profits. As at 31 December 2005, the Company had not commenced commercial production.

**15. COMMITMENTS AND CONTINGENCIES**

**Commitments**

The Company has entered into an agreement with Gazprombank for the sale and purchase of gold. The Company has undertaken to supply at least 1,750 kg of gold in 2006, the price of which will be determined by the price of gold on the London Bullion Market.

The Company has entered into an agreement with Eurobank for the assignment of rights to receive revenues under the Gazprombank sale and purchase agreement referred to above in the amount of 150% of the indebtedness (see note 10).

The Company has entered into an agreement with OAO Krasnoyarsk Non-Ferrous Metals Plant for the refining of the Company's gold, which agreement expires on 31 December 2006. The Company is to supply 1,750 kg of gold in 2006 for refining. Price for the processing varies from 0.8% up to 5% from the average price of gold on the London Bullion Market depending on contains of gold.

The Company has entered into a number of agreements for geological and exploration services, as well as agreements for the supply of construction materials, the majority of which have been prepaid.

**Country Risk**

Due to the location of substantially all the Company's business activity in the Russian Federation, the Company faces significant exposure to the Russian business environment.

Over recent years the Russian economy has suffered from significant instability that has been accompanied by high levels of inflation. In addition tax and currency control regulations are in a state of flux and may be subject to differing interpretations by various governmental bodies. Fines and penalties for error and omissions may be significant. These factors create risks that would not be normal in a country with a more developed market economy.

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**15. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Despite improvements since the 1998 financial crisis, uncertainty remains in the Russian Federation as to the future direction of domestic policy, regulatory policy and political developments. The directors are unable to predict what changes in conditions will take place in the future and what effect they might have on the financial position of the Company.

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Accordingly, few precedents with regard to tax related issues have been established. Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges.

These facts create tax risks in Russia substantially more significant than those typically found in countries with more developed tax systems.

Generally, tax declarations remain subject to inspection for a period of three years. The fact that a year has been reviewed does not preclude the Russian Tax Service performing a subsequent inspection of that year.

Management believes that, based on current year results, it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that those relevant authorities could take different positions with regard to interpretive issues.

**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

**16. RELATED PARTY BALANCES AND TRANSACTIONS**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Aldan Ltd. (see below)</b>			
Loan payable as at 31 December	34,317	34,317	1,009,265
Repayment of borrowings during the year, net of exchange movements	-	(984,569)	-
Interest accrued as at 31 December	27,091	20,199	240,092
Interest charged during the year	6,892	74,476	210,094
Interest paid during the year	-	(294,369)	-
<b>Macro-Invest Ltd.</b>			
Loans payable as at 31 December	29,891,609	9,536,474	-
Borrowings received during the year, net of exchange movements	20,355,135	9,536,474	-
Promissory notes payable issued	2,037,638	-	-
Promissory notes received	2,037,638	-	-
Interest accrued as at 31 December	2,813,212	520,178	-
Interest charged during the year, net of exchange movements	2,293,034	520,178	-
<b>ZKB Monolit.</b>			
Loan payable as at 31 December	-	2,810,941	-
Repayment of borrowings during the year, net of exchange movements	(2,810,941)	2,810,941	-
Interest charged during the year	174,701	139,252	-
Interest paid during the year, net of exchange movements	(174,701)	(139,252)	-
<b>Samson</b>			
Finance lease payable as at 31 December	488,130	582,516	-
Finance lease repayments during the year, net of exchange movements	(94,386)	-	-
Interest charged/accrued during the year	144,071	-	-
Interest paid during the year	(77,079)	-	-
Finance lease interest accrued as at 31 December	(66,992)	-	-
<b>Transbiznesinvest</b>			
Trade and other payables at 31 December	248,493	257,751	-
<b>Management</b>			
Remuneration of the Management Board for services as management.	49,003	82,445	25,916
Termination benefits paid to former members of the Management Board	25,952	-	-

All companies noted above, with the exception of Aldan Limited are under the control of the Company's current ultimate controlling parties. The former General Director and shareholder of the Company, Mr Zhukov, is the controlling party of Aldan Ltd. On 25 July 2005, when he ceased to be the Company's General Director and a shareholder in the Company, Aldan Limited ceased to be a related party.

Certain members of the Management Board, including the ultimate controlling shareholders, have provided services to the Company during the year ended 31 December 2005 for no value.

**JSC "VASILEVSKY RUDNIK GOLD MINE"**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

**17. FAIR VALUE OF ASSETS AND LIABILITIES**

All assets and liabilities are stated at amounts that approximate to fair value apart from the Russian Ministry gold loan. After signing the restructuring agreement in 2004, the Company is paying interest of 1% on this loan. This is significantly below market rate. However the loan has been stated at nominal value in view of the uncertainties in calculating fair value at that time. In the opinion of management, the fair value of this loan is USD 15,801,957 at 31 December 2005 (2004: USD 15,258,531) using a discount rate of 13%, being the average market rate for similar loans.

The loan received from Aldan Ltd. (related party) is also below market rate but management believe that the book value of USD 34,317 (2004: USD 34,317) is not significantly different from the fair value.

**18. CURRENCY ANALYSIS**

	<b>31 December 2005</b>		
	RUR	Denominated in USD	Total
Cash and cash equivalents	62,872	-	62,872
Receivables	4,178,067	-	4,178,067
Loans	29,891,608	34,970,560	64,862,168
Accrued interest	2,817,720	27,091	2,844,811
Payable to contractors	702,280	-	702,280
Other payables	4,821,778	-	4,821,778

	<b>31 December 2004</b>		
	RUR	Denominated in USD	Total
Cash and cash equivalents	72	-	72
Receivables	1,084,480	-	1,084,480
Loans	12,359,163	29,202,364	41,561,527
Accrued interest	536,344	20,200	556,544
Payable to contractors	487,608	-	487,608
Other payables	2,659,271	-	2,659,271

	<b>31 December 2003</b>		
	RUR	Denominated in USD	Total
Cash and cash equivalents	-	-	-
Receivables	20,367	-	20,367
Loans	995,637	29,192,743	30,188,380
Accrued interest	249,838	3,156	252,994
Payable to contractors	662,742	-	662,742
Other payables	1,619,518	-	1,619,518

For the purposes of the above disclosure, the Ministry of Finance loan has been classified as a USD loan at all dates. The loan was converted into a USD loan in 2004.



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**JSC “VASILEVSKY RUDNIK GOLD MINE”**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**  
*(Amounts in US Dollars)*

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**19. AVERAGE NUMBER OF EMPLOYEES**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Average number of employees	642	197	67

**20. EVENTS AFTER THE BALANCE SHEET DATE**

In the 2006 the Company commenced mining operations.

In 2006 the promissory notes shown in the note 8 and 13 were redeemed.

In 2006, the Company has borrowed further monies from Macro-Invest Limited totalling approximately USD 1.9 million. The amount owed to Macro-Invest Limited as at the date of these financial statements is approximately USD 32.6 million.

**ANGARA MINING PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors have prepared and are responsible for the financial statements and related notes of Angara Mining plc. They have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU and in accordance with the provisions of the Companies Act 1985 which would have applied had the financial statements been prepared for a financial year of the company.

In preparing these financial statements, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepared the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

John Fairley

Director

27 March 2006

**Registered Office:**

Moorgate House  
Clifton Moorgate  
York  
North Yorkshire  
YO30 4WY

## **REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ANGARA MINING PLC**

We have audited the financial statements of Angara Mining plc for the period ended 31 December 2005 which comprise the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Non Compliance with IFRS as Adopted by the EU**

As stated in note 2(b) investment in subsidiaries are stated at cost less provision for diminution in value. This is not in accordance with International Accounting Standard 27 "Consolidated and Separate Financial Statements" which requires a company to present consolidated financial statements in which it consolidates its investments in subsidiaries. No consolidated financial statements have been presented.

**Opinion**

In our opinion the financial statements

- do not give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2005 or of the result for the year then ended;
- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005; and
- except for the failure to produce consolidated financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 which would have applied had the financial statements been prepared for a financial year of the company.

St. Paul's House  
London EC4M 7BP

28 March 2006

MOORE STEPHENS LLP

Registered Auditor  
Chartered Accountants

**BALANCE SHEET 31 DECEMBER 2005**  
**(expressed in Great Britain Pounds)**

	Notes	2005 £
<b>Non-Current Assets</b>		
Investment in subsidiary undertaking	3	1,264
<b>Current Assets</b>		
Prepaid expenses		8,974
Cash	4	7,642
		16,616
<b>Total assets</b>		<b>£17,880</b>
<b>Shareholders' Equity</b>		
Share capital	5	12,501
<b>Total shareholders' equity</b>		12,501
<b>Current liabilities</b>		5,379
<b>Total shareholders' equity and liabilities</b>		<b>£17,880</b>

The financial statements were approved by the Board on 27 March 2006 and signed on its behalf by

John Fairley – Director

The accompanying notes on page F-31 form an integral part of these financial statements.

**CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 31 DECEMBER 2005  
(expressed in Great Britain Pounds)**

	<u>2005 £</u>
<b>Cash flow from operating activities:</b>	
Movement in prepaid expenses	(8,974)
Movement in accrued expenses	5,379
	<hr/>
<b>Net movement in cash flow from operating activities</b>	<b>(3,595)</b>
 <b>Cash flow from investing activities:</b>	
Investment in subsidiary undertaking	(1,264)
 <b>Cash flow from financing activities:</b>	
Issue of shares	12,501
	<hr/>
<b>Net change in cash and cash equivalents</b>	<b>7,642</b>
Cash and cash equivalents, beginning of period	–
	<hr/>
<b>Cash and cash equivalents, end of period</b>	<b>£7,642</b>
	<hr/> <hr/>

**STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY  
FOR THE PERIOD ENDED 31 DECEMBER 2005  
(expressed in Great Britain Pounds)**

Shares issued	12,501
	<hr/>
<b>Balance at 31 December 2005</b>	<b>12,501</b>
	<hr/> <hr/>

The accompanying notes on page F-31 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2005  
(expressed in Great Britain Pounds)**

**1. General**

Angara Mining plc (“Company”) was incorporated as a holding company in England & Wales on 14 July 2005 as Olympiac 2012 Limited. It changed its name to Angara Mining Limited 20 July 2005. On 20 October 2005, the Company passed a special resolution to re-register as a public limited company and on 8 November 2005, was re-registered as a public limited company.

As at 31 December 2005, the Company had not traded, accordingly, no statement of income is presented in these financial statements. In accordance with the accounting policies below no consolidated financial statements have been prepared.

The company’s ultimate owners are private individuals Preys V.Y., Preys I.V., Golovinov P.N. and Chugevskiy A.Y., two of whom are related and are thus the ultimate controlling party.

**2. Significant accounting policies**

**(a) Basis of Preparation**

These financial statements have been prepared in Great Britain Pounds (£) under the historical cost convention and in accordance with applicable International Financial Reporting Standards (“IFRS”) as adopted by the EU for the purposes of a bond issue.

**(b) Investment in subsidiary undertakings**

Investment in subsidiaries are stated at cost less provision for diminution in value.

**3. Investment in subsidiary undertakings**

On 10 August 2005, the Company acquired 100% of the equity of Brownypool Trading Limited, a company incorporated in the Republic of Cyprus. The cost of the investment was Cyprus Pounds 1,000, equivalent to Great Britain Pounds 1,264.

On 6 September 2005 Brownypool Trading Limited acquired the entire issued share capital of ZAO Vasilievskiy Rudnik, a Russian mining company for approximately \$1.9 million.

**4. Cash**

Comprises cash in hand and on deposit with banks.

**5. Share Capital**

	<b>31 December 2005</b>	
	<b>Number of Shares</b>	<b>£</b>
Ordinary shares of £1 each		
Authorised	50,000	£50,000
Issued, allotted and £0.25 paid up	50,000	£12,501

On incorporation, the Company had an authorised share capital of £1,000, divided into 1,000 ordinary shares of £1 each, and an issued share capital of £1, comprising 1 ordinary share of £1.

On 20 July 2005 every ordinary share of £1 each was subdivided into 10 ordinary shares of £0.10 each, resulting in 10,000 authorised ordinary shares of £0.10 each and 10 issued shares of £0.10 each. On the same day a further 9,990 ordinary shares of £0.10 each were issued, resulting in an issued share capital of £1,000.

On 20 October 2005, the authorised share capital was increased to £50,000 by restating every ordinary share of £0.10 each as £1 each, thereby increasing the authorised share capital to GBP10,000, and by creating an additional 40,000 ordinary shares of GBP1 each.

On 21 October 2005, 40,000 ordinary shares of £1 each were allotted and a call of one quarter made on the unpaid amounts of all issued shares for cash to provide working capital for the company.

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**APPENDIX 1:  
THE RUSSIAN RESERVE SYSTEM**

**RUSSIAN RESERVE & RESOURCE CLASSIFICATIONS**

**Introduction**

Significant differences exist between the Russian reserve and resource classification system and systems in use in the West. Reserve and resource reporting systems in use in the West, such as the JORC code, rely principally on the reports of a *competent person* or *qualified person*, whose professional judgment in applying the codes is the principal determinant in the figures which are presented. In contrast, the Russian system, developed initially in the USSR in the 1960s, aims to achieve total objectivity by prescribing the entire process of exploration, resource computation and reporting. However, in recent years, much work has been done to attempt to standardise international ore reporting methodologies, in order to alleviate difficulties in comparing ore estimates obtained under the various national reporting codes.

**The Russian Resource/Reserve Classification**

The former Soviet system for classification of reserves and resources, developed in 1960 and revised in 1981, is still used today in Russia and other CIS republics. Essentially, it divides mineral concentrations into seven categories, in three major groups, based on the level of exploration performed: fully explored reserves or resources (A, B, C<sub>1</sub>), evaluated reserves or resources (C<sub>2</sub>) and prognostic resources (P<sub>1</sub>, P<sub>2</sub>, P<sub>3</sub>).

**Classification of reserves and resources in Russia**

	Mineable Reserves				Potential Resources		
	Explored			Eval- uated	Prognostic		
Economic	A	B	C1	C2	P1	P2	P3
Sub-economic							

Source: Article in Mining Engineering March 1994, by Serguel A. Daichkov

In principle, these follow a succession of approximations that are applied to various stages of exploration. This means that reserves or resources are assigned to classes based on the degree of reliability and indicate their comparative importance for the national economy (in other words, the classification is not defined purely by exploration confidence levels but also incorporate some economic criteria).

The resource/reserve categories are defined below (please note that the terms ‘reserves’ and ‘resources’ are to a large extent interchangeable here, and do not have the very distinct meanings that are placed on them by the international reporting codes):

**Category A** The reserves in place are known in detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

**Category B** The reserves in place have been explored but are only known in fair detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

**Category C<sub>1</sub>** The reserves in place have been estimated by a sparse grid of trenches, drillholes or underground workings. This category also includes reserves adjoining the boundaries of A and B reserves as well as reserves of very complex deposits in which the distribution cannot be determined even by a

very dense grid. The quality and properties of the deposit are known tentatively by analyses and by analogy with known deposits of the same type. The general conditions for exploitation are known. The ore tonnage is derived from estimates of strike length, dip length and average thickness of the ore body. Allowance for barren blocks may be made statistically.

**Category C<sub>2</sub>** These reserves are based on an extremely loose exploration grid, with little data. The limits of the orebody are defined mainly by extrapolation within known geological structures, and from comparison with other similar deposits in the vicinity. The grade and mineral properties of the orebody are determined from core samples and comparison with similar mineral deposits in the area. The reserves have been extrapolated from limited data, sometimes only a single hole. This category includes reserves that are adjoining A, B, and C<sub>1</sub> reserves in the same deposit.

**Prognostic Resources** are estimated for mineralisation outside the limits of areas that have been explored in detail and are often based on data from trenches and from geochemical and geophysical surveys.

**Category P<sub>1</sub>** Resources in the P<sub>1</sub> category may extend outside the actual limits of the ore reserves defined in the C<sub>2</sub> category. The outer limits of P<sub>1</sub>-type resources are determined indirectly by extrapolating from similar known mineral deposits in the area. P<sub>1</sub> is the main source from which C<sub>2</sub> reserves can be increased.

**Category P<sub>2</sub>** These resources represent possible mineral structures in known mineral deposits or ore-bearing regions. They are estimated based on geophysical and geochemical data. Morphology, mineral composition and size of the orebody are estimated by analogy with similar mineralised geologic structures in the area.

**Category P<sub>3</sub>** Any potential ore-bearing deposits are classified as resources in the P<sub>3</sub> category. The presence of these resources relies on the theoretical definition of a “favourable geological environment”. Resource figures are derived from figures of similar deposits in the region.

Estimates of Prognostic Resources (P<sub>1</sub>, P<sub>2</sub>, and P<sub>3</sub>) routinely depend on assumptions and projections regarding the probable dimensions (length, width and depth) and grade of the deposit that are subject to confirmation by more detailed investigations.

In decision-making on a new mining project, the categories that are normally taken into account are A, B, C<sub>1</sub>, and C<sub>2</sub>. There is, therefore, a broad equivalence between these and the western proved plus probable reserves.

### **Deposit Categories**

Deposits are categorised by their complexity and by their size and shape. These two categorisation systems overlap to a significant extent (i.e. they are not orthogonal), in that complexity class I deposits tend also to be in shape/size group 1.

#### **Complexity classes:**

**Group I:** Simple non-disseminated deposits, of uniform thickness and continuous grade.

**Group II:** Deposits with complex geology, including irregular thickness, faulting, or uneven ore grade.

**Group III:** Highly complex geology with significant variation in thickness, very uneven grade distribution, or faulting.

**Group IV:** Extremely complex geology, with drastic variations in thickness and grade, or intensive faulting.

#### **Size/shape groups:**

**Group 1 deposits** – Large deposits, simple in form, with uniform distribution of minerals (examples: coal, some iron and disseminated copper deposits). A normal density of drillholes allows the definition of a high level of A and B reserves.

**Group 2 deposits** – Large deposits with different and sometimes complicated forms and uneven distribution of minerals (examples: some iron and sedimentary copper deposits). Only up to B category reserves may be defined with a normal grid of drillholes. A combination of drilling and underground workings may be necessary to define the reserves. Category A reserves can be established only by close spaced drilling and underground workings.

**Group 3 deposits** – Smaller sized deposits with uneven distribution of minerals (examples: some veins, skarns, dykes, and pegmatite deposits). Drillholes can only establish C1 reserves. B reserves can be established only with underground workings.

**Group 4 deposits** – Smaller sized deposits similar to Group 3 deposits or with even more complex shapes (examples: some veins, skarns, dykes, pegmatite deposits and gold placers). Category A reserves cannot be established with drilling or a normal grid of underground workings. Drilling in combination with underground workings is necessary to establish category B reserves.

**Group 5 deposits** – Small pocket deposits. Category A and B reserves cannot be established. Only category C reserves can be established, by systematic prospecting.

### **Western Reserve and Resource Classification Systems**

Prior to the 1990s, the major mining countries, including Australia, Canada, South Africa and the USA, each used their own particular codes of practice, laid down by their own technical institutes. However, in recent years, the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (“JORC”) has been the leader in the international standardisation process. The JORC code was first published in 1988 with the most recent version having been published in 2004. This code has formed the basis of the code used in most other Western countries, and as such has largely been accepted as a *de facto* Western standard.

The definitions of the various classes of mineralisation under the JORC code are as follows:

An **‘Inferred Mineral Resource’** is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and reliability.

An **‘Indicated Mineral Resource’** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

A **‘Measured Mineral Resource’** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

A **‘Probable Ore Reserve’** is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is justified.

A **‘Proven Ore Reserve’** is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is justified.

Like the Russian system, there is classification according to increasing levels of confidence derived from progressively more detailed exploration data. Unlike the Russian system, there is an explicit separation between this and the economic and technical factors – which are reflected in a transfer from resources to reserves.

**The boundaries between ore classes are flexible.** Particularly for resources, it is up to a qualified ‘Competent Person’ to decide when sufficient data is available to move ore resources from inferred to indicated, and from indicated to measured. This contrasts with the Russian system, where the transfer between categories is decided on much more objective criteria.

#### Reconciliation of Russian and International Reporting Systems

A broad equivalence between the classifications may be presented as:

Russian International reporting Code, JORC, etc	
A,B	Proved Reserve/Measured Resource
C <sub>1</sub>	Proved or Probable Reserve/Indicated Resource
C <sub>2</sub>	Probable reserve/Indicated Resource/Inferred Resource
P <sub>1</sub>	Inferred Resource
P <sub>2</sub>	Reconnaissance Mineral Resource (UNFC code 334)
P <sub>3</sub>	no equivalent

Reserves (in western classifications such as JORC) will generally contain material of categories A, B, and C<sub>1</sub>, but adjacent to existing or planned mining operations C<sub>2</sub> will often also be considered as part of the reserves. In exploration areas (where no mine planning has been done), C<sub>2</sub> might more appropriately be thought of as indicated resource.

For material to be included in A, B, and C<sub>1</sub> categories there has generally been sufficient technical and economic study carried out to interpret them as reserves. C<sub>2</sub>, as noted above, depending on the circumstances, may correspond to inferred or indicated resources or to a probable reserve.

The Russian classification allows for something known as a ‘sub-economic reserve’ (often material that is classified as “zabalansoviye” resources). This is material that has been intensely drilled and analysed (including economics, engineering, etc.) but which is not economic under current conditions. This material would not be considered a ‘reserve’ according to the SEC standard, but could well fit within the Measured and Indicated category under the International Code, JORC code or Canadian National Policy 2-A. Moreover, the intent of the classification is the same. This is material that has been the subject of a full feasibility study, but which does not fall into an economic reserve at present.

When expressing Russian classified reserves and resources in terms of one of the western codes, it is important that a *competent person* (in the sense of the International Reporting Code definition) who understands both systems, should carry out the ‘conversion’. It is important to note that in the western codes, the methods of analysis are not defined. For example, the JORC definitions use words such as ‘appropriate’ and ‘estimation’. Much reliance is placed on the experience of the competent person supervising the analysis. However, the exact methodology of the analysis is not defined – and is deliberately left open to allow for developments in exploration, mining and geostatistics.

**APPENDIX 2:  
INDEPENDENT EXPERT'S REPORT**

**JSC VASILEVSKY GOLD MINE:  
INDEPENDENT REVIEW**

Prepared by:

**SRK Consulting (UK) Ltd.  
Windsor Court  
1-3 Windsor Place  
Cardiff  
CF10 3BX**

**Tel: +44 (0) 29 - 2034 8150  
Fax: +44 (0) 29 - 2034 8199  
[www.srk.co.uk](http://www.srk.co.uk)**

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## JSC VASILEVSKY GOLD MINE: INDEPENDENT REVIEW

The Directors  
JSC Vasilevsky Gold Mine  
7 Radio Street  
Moscow  
Russia 105005

Dear Sirs

### 1. INTRODUCTION

#### 1.1 Background

This report comprises SRK Consulting (UK) Ltd. (SRK)'s independent technical review of the material assets and declared Mineral Resources currently held by JSC Vasilevsky Gold Mine (JSC Vasilevsky).

SRK has authorised the contents of this report in "Appendix 2: Independent Expert's Report" in these Listing Particulars prepared in connection with the application for listing of the Bonds on the Official List and to be admitted to trading on the PSM. This report is included, in the form and context in which it is included, with the consent of SRK.

SRK consents to the references in the Listing Particulars to this report and SRK's name in the form and context in which they appear and has authorised the contents of this report. SRK accepts responsibility for this report and to the best of the knowledge and belief of SRK (having taken all reasonable care to ensure that such is the case) the information contained in this report is in accordance with the facts and does not omit anything likely to affect the import of such information.

The specific asset reviewed was a 100% interest in the Vasilevsky Gold Project (Vasilevsky) some 330 km north of the city of Krasnoyarsk in the Krasnoyarsk region of the central Russian Federation. Vasilevsky is a partially constructed open-pit gold mine within the Partizansky Gold Ore Cluster which once complete is planned to process up to some 1 million tonnes per annum (Mtpa) of ore sourced from a number of deposits located in the Partizansky Ore Cluster. Initial production will be from the Vasilevsky, Nikolaevsky and Gerfed deposits with the Ilyinsky and Nizne-Talovsky deposits to follow. Figure 1.1 shows the location of the Partizansky Ore Cluster.

**Figure 1.1: Location of the Partizansky Ore Cluster**





## 1.2 Basis of opinion

This report is based on:

- a visit to the project site by a team of SRK experts;
- discussions with directors, employees and consultants of JSC Vasilevsky regarding all its projects;
- a review of planned construction/exploration expenditures for the 18 months ending September 2006, provided by JSC Vasilevsky and its consultants for all its assets;
- a review of the reported estimates and classifications of Mineral Resources inclusive of check calculations and investigative work as required; and
- the presentation, based on the above, of amended Mineral Resource Statements reported using the 2004 Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

SRK has reviewed the mining authorisations, licences and exploration permits in as far as these may influence the technical status and development of the different assets and to confirm that the quoted Mineral Resources fall within these. SRK has not undertaken a legal due diligence study such as would be required to confirm that all statutory consents are in force and current.

In deriving the amended Mineral Resource Statements, SRK has not independently verified the underlying sampling and assay data, but has reviewed other independent verification work commissioned by JSC Vasilevsky and accepted the results of this work in good faith.

SRK has not recalculated Mineral Resource estimates for Vasilevsky. SRK has, however, undertaken sufficient check calculations and, where appropriate, made necessary amendments to the estimates prepared to reflect SRK's opinion in the amended estimates presented herein.

## 1.3 Qualifications of Consultant

SRK is part of an international group (the SRK Group) which comprises over 500 professional staff offering expertise in a wide range of engineering disciplines.

The SRK Group's independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. The SRK Group has a demonstrated track record in undertaking independent assessments of Mineral Resources and Ore Reserves, project evaluations and audits, competent person's reports and independent feasibility evaluations on behalf of exploration and mining companies and financial institutions worldwide. The SRK Group also has specific experience in transactions of this nature.

This report has been prepared by a team of consultants based at the SRK Group office in Cardiff (United Kingdom). These consultants are specialists in the fields of geology, Mineral Resource/Ore Reserve estimation and classification, open-pit and underground mining, geotechnical engineering, metallurgical processing, hydrogeology and hydrology, tailings management, infrastructure, environmental management and mining economics.

Neither SRK nor any of its employees employed in the preparation of this report has any beneficial interest in the assets of JSC Vasilevsky. SRK will be paid a fee for this work and other project related work in accordance with normal professional consulting practice.

The individuals responsible for this report, listed below, have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

- Michael Armitage, CEng, CGeol, MIMMM, PhD;
- Richard Clayton, CGeol, FGS, MSc;
- John Miles, CEng, ARSM, MIMMM;
- Paul Riley; CEng, FIMMM;
- Mark Dodds-Smith, CEng, PhD.

#### **1.4 Reliance on and Limitation of Information**

The opinions expressed by SRK in this document are based in part on observations made during site visits to the Vasilevsky project and Nikolaevsky deposit held over a 5-day period in December 2004. These observations have been supplemented by discussions held with JSC Vasilevsky staff and consultants, and the review of data and documentation either provided to SRK by JSC Vasilevsky, or requested during and following the site visits. All information received has been accepted by SRK in good faith. SRK has not undertaken any independent testing, analyses or calculations beyond limited high-level checks intended to test the material accuracy of the data provided.

This report comments on the future development plan for the assets. Work is currently underway to develop these plans further and improve the confidence in the potential resource and reserve base and planned production rates. SRK's comments and opinions on these, whilst based on all the information made available to SRK, should therefore be considered in this context.

## **2. LOCATION AND LICENCE**

JSC Vasilevsky's gold assets (Vasilevsky, Nikolaevsky, Gerfed, Ilyinsky and Nizhne-Talovsky deposits) are part of the Partizansky Gold Cluster which is located in the Motigino District of the Krasnoyarsk Region of Eastern Siberia, Russia. The cluster takes the form of a triangle with sides of some 35 km by 25 km by 25 km.

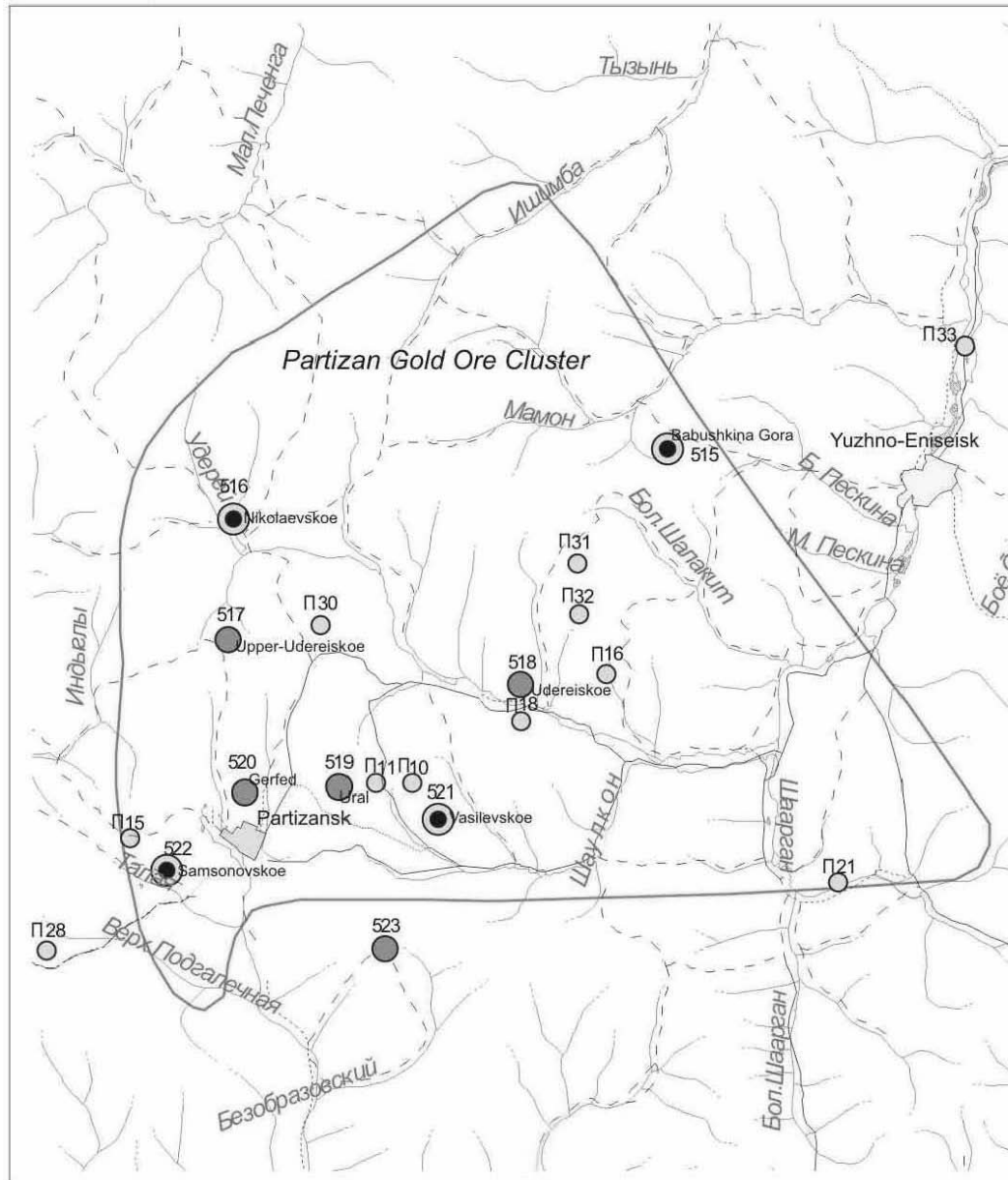
The Vasilevsky Deposit is situated some 85 km northwest of the town of Motigino, located on the north bank of the Angara River. It was discovered in 1949 and explored by major campaigns during 1953-1959 and 1974-1990, through an expedition made by Sibzolorazvedka. The Nikolaevsky Deposit is located 7 km to the northwest of the Vasilevsky deposit and was discovered in 1957. The Gerfed, Ilyinsky, and Nizhne-Talovsky deposits are located 7 km to the west, 8 km to the south-west and 9 km south-west of Vasilevsky respectively. Figure 2.1 shows the location of the principal deposits within the Partizansky Ore Cluster.

Gold in the area has been extensively exploited by alluvial dredging of the rivers and water courses. Only limited mining of the primary deposits has been undertaken and it is planned that the process facility located at Vasilevsky will, when commissioned, treat ore from all of the above named deposits.

JSC Vasilevsky holds mining licences for both the Vasilevsky (valid from 1998 to 2014) and Nikolaevsky (valid from 1998 to 2012) deposits. The licences are currently being updated to incorporate a number of changes to the production profile and the revision has been approved by the provincial authorities. In 1997, the Government advanced 1.6 tonnes (t) of gold as a loan towards the development of the process facility, but unfortunately the development of this and the associated infrastructure was suspended in 1998 as a result of the currency crisis. JSC Vasilevsky also holds exploration and mining licences for the Gerfed deposit (valid from 2005 to 2025) and the Ilyinsky and Nizhne-Talovsky deposits (valid from 2005 through to 2020).

Vasilevsky recommenced construction in May 2004, completed the construction of the process plant and infrastructure facilities substantively as envisaged by the original design and work, and commenced production, albeit intermittently, in September 2005.

**Figure 2.1: Deposit Location Plan**



The area is very prospective and JSC Vasilevsky now intends to undertake exploration to further define the already known deposits and thereby confirm the additional satellite mining potential. SRK understands that the local authorities have awarded JSC Vasilevsky a licence to commence during 2005-2006 exploration for additional deposits in the Vasilevsky-Uderei Zone located in the central part of the Partizansky ore cluster, an area which SRK considers has significant potential for additional resources.

### 3. GEOLOGY

#### 3.1 Regional Setting

The Partizansky Gold Cluster is located in the Enisey Gold Province (South-Enisey Gold sub-province) and within the Central Enisey Gold Belt, one of the leading gold producing regions in Russia. Gold mineralization in the Central Enisey Gold Belt, and sub-parallel secondary structures,

is controlled by a system of linear structures. Other well documented deposits in the belt include Olimpiada, Eldorado and Veduga.

There are six known gold deposits in Partizansky Gold Cluster, some 25 gold occurrences and almost all the rivers and streams in the region contain alluvial gold which has been the target of industrial activity for more than 160 years. Some 245 t of gold is reported to have been mined in the area to date.

Two main zones of gold mineralization make up the Partizansky Gold Cluster; the Gerfed-Nikolaevsky zone and the Udereisko-Vasilevsky zone. The latter is spatially controlled by north-east striking axis of the Vasilevsky anticline while the Gerfed-Nikolaevsky zone is controlled by a zone of sub-parallel steep dipping faults.

The gold mineralization in the Partizansky Gold Cluster has also been subdivided into the following mineralization types:

- Gold-Quartz (Vasilevsky, Nikolaevsky and Gerfed);
- Gold-Quartz-Sulphide (Babushkina Gora);
- Gold-Sulphide (Babushkina (Gora);
- Gold-Quartz-Antimony (Udereiskoe); and
- Supergene enrichment / residual (Samson, Gerfed, Borovinskoe).

The stratigraphy of the area is represented by Proterozoic, Mesozoic and Cenozoic sediments. The Proterozoic sediments consists of marbles, quartzites and schists, the Mesozoic sediments, developed in limited areas west of Vasilevsky deposit, consist of clay and bauxite and the Cenozoic sediments are represented by clay, sand and gravel. Granitic plutons (the Tatarski massive), stocks, dykes and sills of basic composition, and alkaline and carbonatite dykes all occur in the region.

The regional metamorphism is to amphibolite facies, but this is overprinted by contact metamorphism which extends for several hundred metres from the contact of the Tatarski massive and which takes the form of silicification, amphibolization and albitization. Skarns are also developed in some places. Dynamic metamorphism developed along zones of dislocations (shear zones) predominately with north-west strike and represented by strong schistosity, chloritization and sericitization.

The major fold structure in the area is Vasilevsky anticline, the central zone of which is complicated by folding of second and third orders. Although many faults crosscut the area variously striking northwest-southeast, northeast-southwest, north-south and east-west, most of the mineralization is related to the northeast-southwest striking features. Apart of the faults which have been mapped at surface there are number of linear structural zones evident only from remote forms of assessment and it is evident that these are directly related to the gold mineralization.

### **3.2 Deposit Geology**

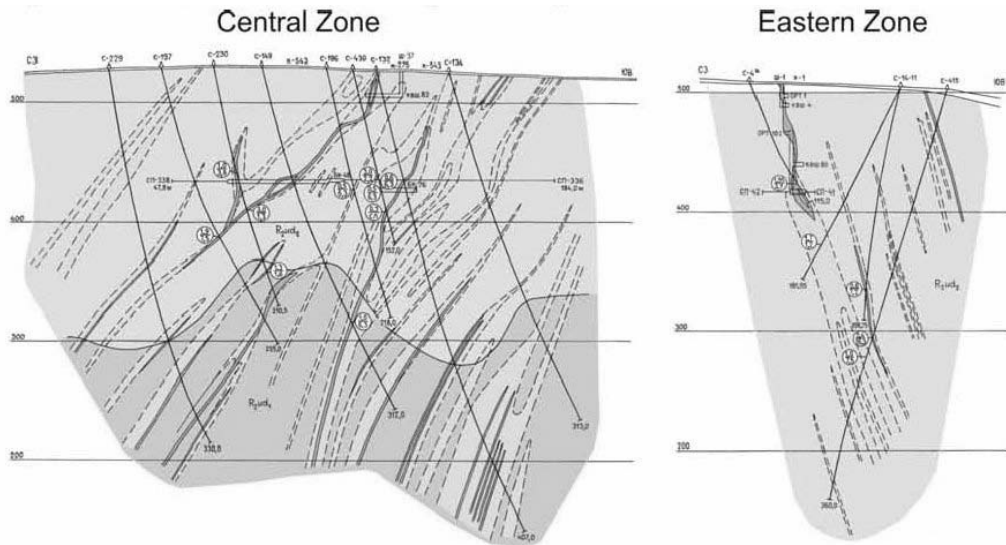
#### ***Vasilevsky***

The Vasilevsky deposit comprises some 150 separate quartz veins most of which strike northeast-southwest and only one of which strikes north-south. These veins have been grouped into five ore zones: Eastern, Central, Western, and Fedinskoye.

The Eastern zone has been studied the most and is some 2,200 m length and 500 m wide. The Central zone is located 350 m west from Eastern zone, is separated from the Eastern zone by a relatively narrow anticline fold and is some 1,700 m in length and 500 m wide. The Western zone is 500 m west of the Central zone in the axis part of Vasilevsky syncline. The Fedinskoye zone is 500 m north-west of the Western zone, has an established length of about 800 m, is open in both directions, but has only been explored to a limited degree. Finally, the New Vasilevsky zone is some 200 m south-west of the Western zone and is poorly explored.

Figure 3.1 below presents example cross-sections through the Central and Eastern zones.

**Figure 3.1: Example cross-sections through Vasilevsky ore zones**

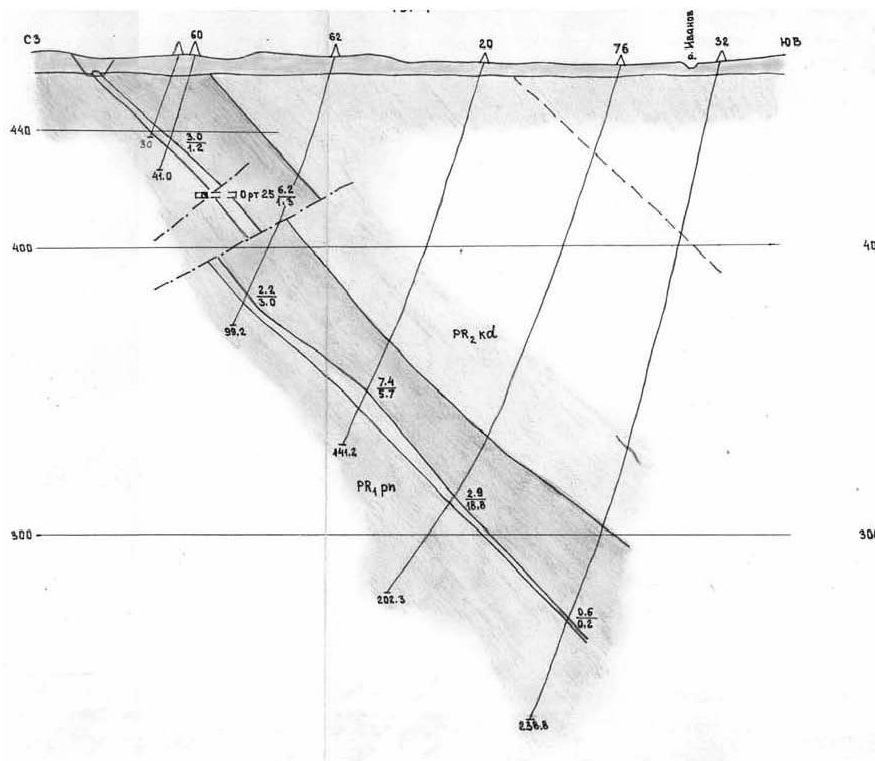


**Nikolaevsky**

The Nikolaevsky deposit is located some 7 km from the Vasilevsky mineral processing plant. The gold mineralization occurs within a complex quartz reef. The host rocks are quartz-sericite, quartz-chlorite schists and there are also small gabbro-dyabase dykes in the immediate vicinity. Structurally, the area around Nikolaevsky Deposit comprises a north-northwest-south-southeast striking monocline which dips at between 30° and 50° to the east.

Figure 3.2 presents an example cross-section through the Nikolaevsky deposit.

**Figure 3.2: Example cross-section through the Nikolaevsky deposit**

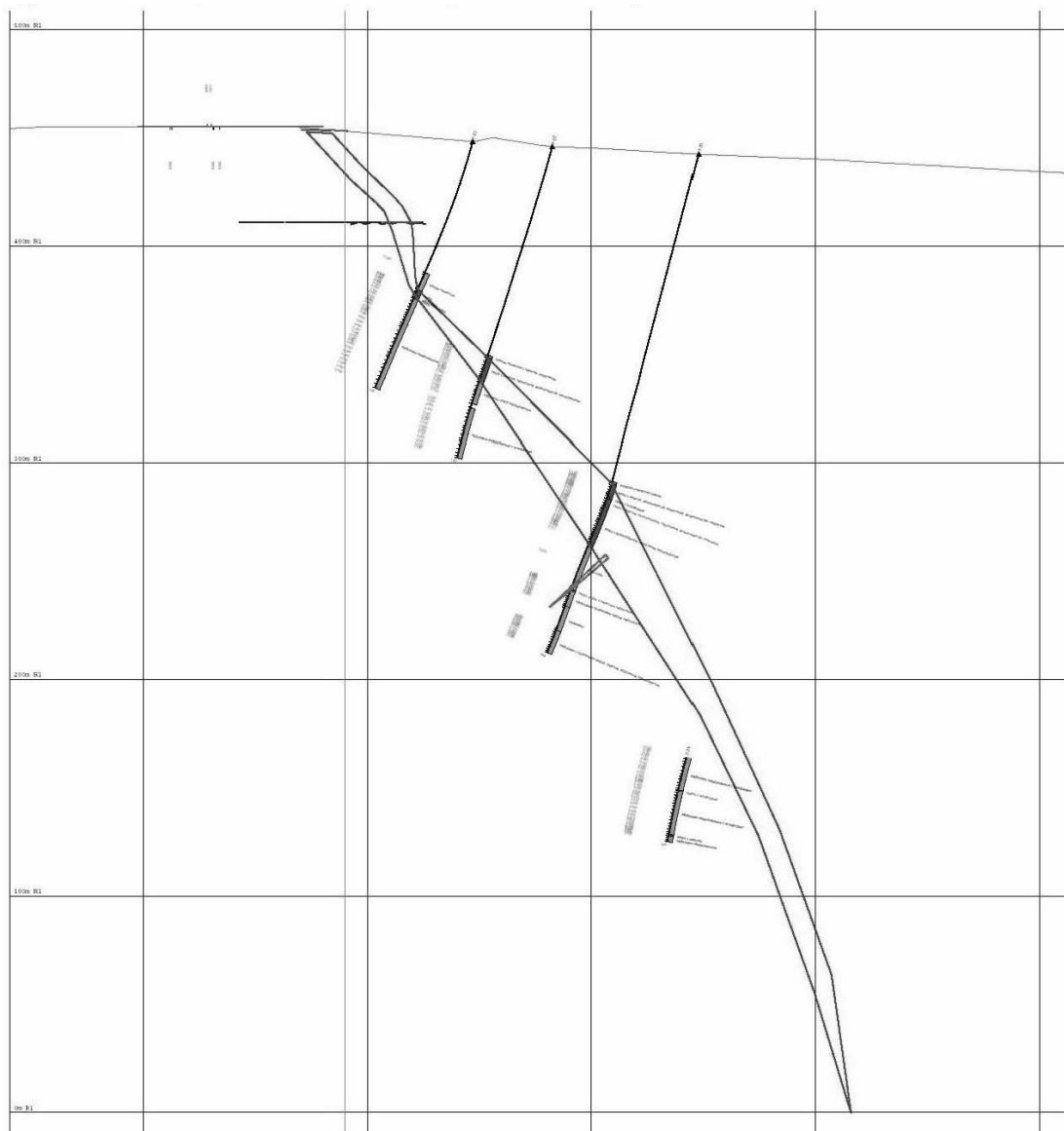


### ***Gerfed***

The Gerfed deposit is located some 7 km from the Vasilevsky process plant and also belongs to the Partizansky ore cluster. It mainly consists of a main Magistralnya quartz veins, several parallel veins and a series of their branches. The branching veins are located in the hanging wall of the Magistralnya veins. Related to Magistralnya vein is the Upper Borovaya which is located in the north. The deposit consist of 11 quartz lenses up to 20 m thick with lengths varied from 40 to 800 m long which strike north-south along a narrow (150-200 m wide) strip, which marks a major thrust fault known as the Mejster thrust. The gold mineralization of the Magistralnya vein is analogous to the Vasilevsky deposit while the branching veins contain more sulphide mineralization. The gold mineralization is distributed irregularly with a tendency to accumulate higher grades towards the footwall. The combined strike length of eleven lenses is some 3,260 m along a total strike length of 5,000 m.

Figure 3.3 presents an example cross-section through the Gerfed deposit.

**Figure 3.3: Example cross-section through the Gerfed deposit**



### ***Ilyinsky and Nizhne-Talovsky***

The Ilyinsky and Nizhne-Talovsky deposits are part of a cluster of gold occurrences limited by the southern border of the Gerfed deposit and located some 8 km from the Vasilevsky plant. The cluster is divided into Western and Eastern zones. The Western zone consists of volcanogenic rock

sediments of the Penchenga suite which contain deposits of the Ilyinsky group (Old Ilyinsky and New Ilyinsky). The Eastern zone, which accommodates the Nizhne-Talovsky gold deposit, consists of schists of the Korda suite. The gold mineralization of the Ilyinsky occurrence group is gold-quartz and oxidized gold-sulphide. The Nizhne-Talovsky occurrence is specified by Russian standards as a gold residual mineralization zone which is some 600 m long, 150 m wide and >70 m deep.

### 3.3 SRK Comments

The Partizansky Gold Cluster clearly represents a significant area of interest in terms of gold exploration. The geological setting is highly favourable for gold, several gold deposits have already been identified, many more gold occurrences have been recorded and there has been a significant amount of historical alluvial mining activity. SRK agrees with JSC Vasilevsky that the full potential of the area has yet to be realised and that it therefore warrants further exploration. SRK has recommended to JSC Vasilevsky that this work commences with the compilation of all geological and geophysical data and the targeting of areas based on this work for more detailed follow up.

## 4. MINERAL RESOURCES

### 4.1 Introduction

This section summarises and comments upon the most recent Mineral Resource estimates produced for the Vasilevsky, Nikolaevsky and Gerfed deposits which have recently been reported by Micromine Proprietary Limited (Micromine) and which are presented in Section 4.5 below. These comments are based on SRK's review of available documentation, specifically Micromine reports dated January 2005 and March 2005, and also limited check calculations undertaken on sample data supplied by JSC Vasilevsky. SRK has visited both the Vasilevsky and Nikolaevsky deposits, but has not visited Gerfed, Ilyinsky and Nizhne-Talovsky.

The Mineral Resources associated with the Vasilevsky deposit occur in five distinct ore zones named the Central, Eastern, Western, Fedinskoye and New Vasilevsky zones. Those at Nikolaevsky occur within a single distinct ore zone, while those at Gerfed are associated with a single distinct ore zone with associated bifurcations.

To date, no Mineral Resources have been delineated for the Ilyinsky or Nizhne-Talovsky deposits. Exploration to date has identified veins up to 10 m wide with gold grades of up to 6.8 g/t at Ilyinsky while the average grade at Nizhne-Talovsky is reportedly some 3 g/t.

### 4.2 Quantity and Quality of Data

#### *Vasilevsky and Nikolaevsky*

The deposits at Vasilevsky and Nikolaevsky have been explored using a combination of surface trench sampling, underground development sampling and diamond drillholes. The majority of the exploration at Vasilevsky was undertaken between the discovery of the deposit in 1950 and 1958. Nikolaevsky was discovered in 1957, with the majority of the work completed by 1964.

Table 4.1 below summarises the density of exploration data available at each of the Vasilevsky ore zones and also at Nikolaevsky.

**Table 4.1: Exploration data spacing at Vasilevsky and Nikolaevsky**

<b>Zone</b>	<b>Drillholes</b>	<b>Trenches</b>	<b>Underground Levels</b>
Eastern Vasilevsky	30-50 x 50 m and 50 x 100m	20 m	430, 485 and 510 m
Central Vasilevsky	50 x 50 m and 50x 100m	20-30 m	430 and 510 m
Western Vasilevsky	50-100 x 200 m	15-40 m	n/a
Fedinskoye	60-70 x 300 m and 300 x 400 m	15-25 m	n/a
New Vasilevsky	50-60 x 400 m	n/a	n/a
Nikolaevsky	40 x 40 m, 50 x 50 m and 50 x 100 m	10-20 m	415 and 445 m

The trenches were stripped down to the bedrock and channel samples were taken at approximately 1 m intervals. The underground development was also channel sampled along the face at approximately 1-2 m intervals, as well as along the sidewalls of cross-cuts driven at regular intervals across the width of the principal ore zones. The drillholes were drilled using a single tube technique, principally with a core diameter of 58 mm, but also some with a core diameter of 45 mm. The sampling interval was usually 1 m, although this was varied in accordance with geological contacts. The core recovery obtained from these drillholes was reportedly around 90%, with some areas of 80% or lower. In SRK's experience, these recoveries are good for Soviet-era single tube drilling, although not as reliable as contemporary drilling. The results from the drillholes are considered by JSC Vasilevsky to be less reliable than those from the channel samples, in particular those from the underground development.

The preparation of the sample for analysis was in line with the typical Soviet practice at the time. Approximately 8 kg of sample was passed through two stages of crushing before being passed through three stages of sample reduction. Following this, 1 kg was pulverised before being split into two, with 0.5 kg being sent for analysis. This was further reduced into two 50 g aliquots which were analysed for gold content using a fire assay technique. The final grade for the sample was then obtained by taking the average of the two results.

Quality control was maintained using a system of blanks, standards and repeats as dictated by Soviet regulations of the period. Repeat samples were reportedly taken for approximately 5% of the data and supported by 'round-robin' style external laboratory checks. Satisfactory results were reported and agreed by the State Committee for Mineral Reserves (GKZ), the body responsible for ensuring the appropriate exploration and exploitation of Mineral Resources and Ore Reserves during Soviet and current time.

Estimates for the density of the ore bodies and surrounding waste rock were derived using samples taken for the purpose. For the purpose of the January 2005 estimate, Micromine was advised by JSC Vasilevsky to use a density of 2.67 t/m<sup>3</sup>.

All the original exploration data were made available to Micromine in a hardcopy format. This has been captured by Micromine into an electronic format. Transcription errors, where identified, were cross-checked with the original data and corrected. Where it was not possible to confirm the veracity of the electronic data, it was excluded from the database. This resulted in 15 drillholes being excluded from the Vasilevsky estimate and one from the Nikolaevsky estimate. SRK considers this approach to be reasonable.

During the site visit, SRK was informed that the initial sampling undertaken at the deposits was restricted to the visible quartz veins and excluded any adjacent more disseminated mineralisation. The upper part of the Eastern Zone of the Vasilevsky deposit has now been pre-stripped and a certain amount of ore stockpiled. A check sampling exercise was conducted during 2004 on the exposed ore by trenching across the full width of the mineralization and comparing the results with the 1950-59 exploration results. It was found that the original exploration in this area defined a grade of 9.2 g/t over a width of 2.5 m, whilst the check sampling, inclusive of the disseminated mineralisation, returned a lower grade of 6.1 g/t, but over a much higher width of 7.4 m. A comparison of the weighted average indicates the possibility of a higher tonnage orebody at a slightly lower grade, representing a significant increase in gold content. In addition to this, at Nikolaevsky, it is reported that a comparison between underground bulk samples and channel samples indicates that the channel samples may underestimate the grade. SRK is unable to verify this, but certainly the combination of thicker ore zones at Vasilevsky and higher grade at Nikolaevsky constitutes a significant upside which should be investigated further.

### ***Gerfed***

The Gerfed deposit was discovered in 1890 and, for two decades, was mined on a small scale, mainly for visible gold. The first modern exploration programme was undertaken between 1907 and 1917, when English prospectors held the concession for the deposit. It is estimated that between 1893 and 1914 a total of 183 kg of gold was mined from the deposit, with a reported average gold content of 13 g/t.

The systematic exploration of the deposit began only in 1948 and continued into the 1950s and 1960s with the aim delineating reserves for a permanent operation. During 1958-1964, the Partizansky Expedition conducted geological research that allowed for the recognition of geological structures



and the gold potential of the Magistralnya and Upper-Borovaya veins. A significant volume of exploration was attributed to surface trenching and underground development. The amount of drilling undertaken was insignificant. A number of drives were either not registered or properly surveyed.

Another period of exploration occurred between 1974 and 1975. During this period, the quartz lenses were studied in detail. A third period of exploration was undertaken by SibZolotoRazvedka during 1989. The volume of exploration work, including surface and underground drilling, trenching and sampling, was significantly increased. Unfortunately, this exploration work was shortlived due to lack of centralised funding, and was only resumed recently. The exploration work conducted before the end of 2004 is summarized in Table 4.2 below.

**Table 4.2: Exploration data at Gerfed**

Surface Exploration Drilling .. .. .	118 holes (19,844 m)
Underground Exploration Drilling .. .. .	23 holes (1,142 m)
Trenches .. .. .	188 trenches
Test Pits .. .. .	16 pits
Underground Development .. .. .	1,636 m

SRK has not received any information regarding the quality of the sampling and the quality assurance procedures applied. Notwithstanding this, it is SRK's experience that exploration data were collected in a diligent and professional way during the Soviet era.

As at Vasilevsky and Nikolaevsky, the original exploration data was made available to Micromine in a hardcopy format and captured by Micromine into an electronic format. Transcription errors, where identified, were cross-checked with the original data and corrected.

#### **4.3 Estimation Methodology**

The first stage of Micromine's resource estimation methodology was to produce a three-dimensional wireframe model from sectional and plan view interpretations of the ore zones. These were based on a cut-off grade of 0.5 g/t at Vasilevsky and Nikolaevsky and using geological boundaries at Gerfed. Where it was not possible to correlate individual zones between sections, the interpretation was extended halfway between the adjacent sections. This has resulted in a continuous orebody at Nikolaevsky and Gerfed and also at Vasilevsky, where underground development is present, but a fragmented discontinuous orebody on the periphery of the main ore zones and less well explored zones at Vasilevsky.

The wireframe models were then used to constrain the sample data for statistical analysis. The influence of anomalously high-grade samples were then restricted through the application of a cuts based on the statistical distribution of the data. Geostatistical analysis was then performed on the cut data and used to determine parameters for the interpolation of grade into a three-dimensional block model using Ordinary Kriging (OK). Inverse Distance Weighting (IDW) was also used as a check estimator with the results being compared with the OK results. SRK notes that while this comparison correlates well for Nikolaevsky and Gerfed, there is a discrepancy between the results at 0 g/t cut-off at Vasilevsky. It is recommended that this is investigated further to ascertain the reason for this.

#### **4.4 Classification**

The amended Micromine resource estimate presented in section 4.5 below is classified in accordance with the 2004 version of the JORC Code. The classification has been performed on a block by block basis using statistical parameters. Effectively, the Indicated Mineral Resources defined by Micromine comprises those blocks located within the range of influence as defined by the geostatistical analysis, while those blocks beyond the geostatistical range of influence have been classified as Inferred. No Measured Mineral Resources have been defined by Micromine for the Vasilevsky, Nikolaevsky or Gerfed deposits since the original exploration was undertaken in the 1950s and 1960s and not available for independent verification. SRK concurs with this approach.

SRK considers block by block classification solely dependent on estimation parameters, but ignoring geological continuity, to be inappropriate. SRK does, however, agree that those portions of the orebodies covered by underground development and sampling could be classified as Indicated, while those only covered by drilling should be classified no higher than Inferred.

#### 4.5 Mineral Resource Statements

SRK's Mineral Resource statements for Vasilevsky, Nikolaevsky and Gerfed based on a cut-off of 1.5 g/t gold (Au) are presented below in Tables 4.2, 4.3 and 4.4. SRK has amended the original Micromine statements to reflect the findings of SRK's review.

**Table 4.3: Vasilevsky Mineral Resource Statement**

Resource Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (t)
Measured .. .. .	–	–	–
Indicated .. .. .	1.9	5.7	10.8
<b>Sub-total</b> .. .. .	<b>1.9</b>	<b>5.7</b>	<b>10.8</b>
Inferred .. .. .	2.8	4.5	12.5
<b>Total</b> .. .. .	<b>4.7</b>	<b>5.0</b>	<b>23.3</b>

**Table 4.4: Nikolaevsky Mineral Resource Statement**

Resource Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (t)
Measured .. .. .	–	–	–
Indicated .. .. .	1.6	5.0	7.8
<b>Sub-total</b> .. .. .	<b>1.6</b>	<b>5.0</b>	<b>7.8</b>
Inferred .. .. .	0.3	2.8	0.9
<b>Total</b> .. .. .	<b>1.9</b>	<b>4.7</b>	<b>8.7</b>

**Table 4.5: Gerfed Mineral Resource Statement**

Resource Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (t)
Measured .. .. .	–	–	–
Indicated .. .. .	0.8	3.4	2.5
<b>Sub-total</b> .. .. .	<b>0.8</b>	<b>3.4</b>	<b>2.5</b>
Inferred .. .. .	8.3	3.0	25.0
<b>Total</b> .. .. .	<b>9.1</b>	<b>3.0</b>	<b>27.5</b>

In addition to the Mineral Resource presented above, there is also a significant amount of material at Gerfed which Micromine labelled as 'unclassified' in terms of the JORC code, due to incomplete sample data in these areas. This material constitutes a significant exploration target and SRK is confident that additional Mineral Resource could be delineated in these areas following additional exploration drilling.

#### 4.6 SRK Comments

In general, it is SRK's opinion that the quantity and coverage of exploration data is reasonable for the Eastern and Central zones of Vasilevsky and also for the Nikolaevsky and Gerfed deposits. Both the Western and Fedinskoye zones at Vasilevsky have poorer coverage heavily dependant on diamond drilling, while at New Vasilevsky, the coverage is very poor. The quality of the drilling is generally good, especially for Soviet era single tube drilling. However, the channel samples, especially those from underground development, are considered by JSC Vasilevsky and Micromine to be more reliable.

SRK has not reviewed the laboratory quality control data in detail; however, it is reported by Micromine to be good. It is SRK's experience that Soviet era quality control procedures were rigorously applied and likely to be analytical focused rather and sample quality focused. At the Vasilevsky deposit, SRK has noted that the average grade of the drillhole samples are much lower than the channel samples or trenches. This is reportedly due to the concentration of channel samples in higher grade sections of the orebody of the ore body and may also be a function of core recovery. SRK recommends confirmatory drilling using modern drill rigs to assess the reliability of the historical drilling. This may increase confidence in this drilling and enable the reclassification of much of the inferred material as Indicated.

The Indicated Mineral Resource estimates derived by Micromine are primarily based on underground channel sampling, while the Inferred Mineral Resource estimates are primarily based on drillhole samples. SRK considers that this is appropriate and that sufficient data of sufficient quality is available to derive Indicated and Inferred Mineral Resources at the Eastern and Central zones of Vasilevsky and also at Nikolaevsky and Gerfed, but not at the Western zone, Fedinskoye or New Vasilevsky zones of the Vasilevsky deposit. However, additional exploration may result in resources also being delineated in these areas.

Information supplied regarding bulk sampling at Vasilevsky and Nikolaevsky also indicates the possibility that channel sampling is understating the grade of the orebody. While SRK cannot confirm this is the case, it is recommended that this be investigated further.

A fairly standard approach to the resource estimation has been applied by Micromine. The production of a three-dimensional wireframe model has resulted in a fragmented model at Vasilevsky and a fairly continuous model at Nikolaevsky and Gerfed. The approach to cutting anomalously high grades is considered appropriate, while the geostatistical analysis indicates poor quality semi-variograms, which are often contradictory. There is a concern that the OK and IDW grade estimates for Vasilevsky at 0 g/t are 18% different, although it is worth noting that at the cut-off of 1.5 g/t this difference is reduced. Notwithstanding this, SRK considers that much of the risk associated with this is covered in the classification of the majority of the Vasilevsky deposit as Inferred.

SRK understands that Micromine downgraded the resource classes for the Vasilevsky, Nikolaevsky and Gerfed deposits due to the risk associated with the quality of drilling and analytical database. SRK supports the recommendations for an additional drilling programme to confirm the quality of the historical data and improve confidence in the estimate.

## **5. MINING**

### **5.1 Introduction**

This section contains SRK's review and comment of the mining aspects of the project, including the current status of the technical investigation and commissioning of the facilities, as well as an outline of the likely further technical work needed to complete the project development. The deposits of Vasilevsky, Nikolaevsky and Gerfed have been extensively explored, whilst a certain amount of feasibility type investigation was undertaken on the Vasilevsky deposit leading the 1994 TAO (Russian format feasibility study) design report. This report outlined the development of a small open pit at the eastern zone at Vasilevsky followed by the establishment an underground operation. In SRK's opinion, the TAO appears to have been undertaken using mainly conservative factors. This and the focus on a small part of the deposit resulted in the definition of a small quantity of in-situ resource of 400,000 t available for mining. Updated computerized resource modeling has been undertaken by Micromine for all three deposits and it is the intention of JSC Vasilevsky for this to form the basis of all open pit optimisation and mine design for the project.

### **5.2 Mine Design**

#### **5.2.1 Mining Methods and Equipment**

Conventional open-pit mining is envisaged by JSC Vasilevsky, using a standard truck and shovel mining method. The mining equipment fleet is planned to be a combination of conventional Russian mining equipment and more modern foreign-manufactured equipment. A hydraulic backhoe type excavator is planned for ore loading in the narrower ore zones in an effort to reduce dilution. A certain quantity of equipment exists at site, including two rope shovels and various on-highway trucks of different sizes, but typically some 20 or 30-tonnes. The equipment is currently being used to continue the waste stripping of the Vasilevsky eastern zone and construct the tailings and explosive magazine facilities.

It is envisaged that open pits will be established at each of the three deposits, including each of the three distinct ore zones present at the Vasilevsky deposit. Underground mining and infrastructure is planned to be established to continue the extraction of the ore at depth, where the economics allow. Currently, it is planned to establish underground mining at the eastern zone of the Vasilevsky deposit, once the open pit is sufficiently established, through a portal developed in the sidewall of the pit. All ore is planned to be trucked to the process facility located at Vasilevsky or tipped at an adjacent stockpile. Ore from the Nikolaevsky and Gerfed deposits as well as other satellite deposits will need to be trucked along either established roads or new routes developed for this purpose. The

establishment of a satellite trucking operation, in terms of distances and topography, does not appear onerous.

## **5.2.2 Project Status**

### ***Vasilevsky***

The Vasilevsky deposit comprises the eastern, central and western ore zones comprising numerous separate veins that dip from some 30° to sub-vertical. Typical widths vary from 2.5 m to 20 m and the ore zones are offset perpendicular to the principal strike direction over a distance of some 650 m. Drilling has established the extension of the ore body at the eastern zone to some 350 m in depth and the central and western zones to some 150 m. Underground exploration development was undertaken at the eastern and central zones following the ore along strike. At Vasilevsky, a much longer strike length of some 1 km was established at the 100 m depth to the 500 m defined on the surface. Current investigations consider that separate open-pits will be established at each of the ore zones.

The 1994 TAO defines the establishment of all open-pit and underground mine at the eastern zone. Open pit dimensions at surface were some 600 m on strike and 300 m in width and the final depth was planned to be some 105 m. The open pit design provides for 20 m final bench heights with conservative inter ramp slopes of some 34-40°. A single haul road was planned at a width of 18 m and an inclination of only 7%. The conservative slope angles result in relatively high stripping ratios of 9 m<sup>3</sup>/t of ore, as well as the limited mining depth. JSC Vasilevsky considers that a deeper open pit can be considered and that the underground mine can be developed to a depth of some 500 m below surface.

As the eastern zone of the Vasilevsky deposit is the most advanced prospect in terms of exploration and technical investigation, initial operations will commence at this zone. JSC Vasilevsky plans to supplement the open pit production with high grade ore derived from certain veins by underground mining. The SibGiproZoloto organisation is responsible for the investigations, although no work was able to be presented during SRK's visit. Compressive strengths vary from 60-120 MPa in the slate waste to some 140 MPa in the quartz orebody. In general, the geotechnical conditions are considered to be good. Water inflows to the planned open pit are low, at less than 10 m<sup>3</sup>/hr on average, whilst the existing underground adits can be used for drainage purposes. An ore and waste density of 2.65 t/m<sup>3</sup> and 2.75 t/m<sup>3</sup> respectively has been defined for the purposes of the mine design.

### ***Nikolaevsky***

The Nikolaevsky deposit is located only some 7 km northwest of Vasilevsky and current access is via the settlement of Partizansk. A new gravel road is planned to be established directly linking the deposit to the process plant at Vasilevsky. The orebody geometry is simpler than at Vasilevsky and the current area of interest is defined by a single vein over a strike length of some 1.5 km. The orebody dips at some 40-70°, with a more regular width of some 0.3-10.5 m. Underground exploration development has been established in the north on two horizons to a depth of 50 m below surface. The orebody is known to extend to some 500 m in depth.

A mine design has not been undertaken, as yet, for Nikolaevsky, although it is envisaged by JSC Vasilevsky that two open-pits, one in the north and one in the south, will need to be established to a depth of some 150-170 m. An underground operation is also envisaged. The hydrogeological conditions have been studied and are more onerous than at Vasilevsky, due to water inflows associated with the Uderei River. Inflows into the current underground workings have been measured at some 130 m<sup>3</sup>/hr, with maximum water inflows of some 200 m<sup>3</sup>/hr to 250 m<sup>3</sup>/hr anticipated. This water inflow can be considered moderate and would need to be specifically considered as part of the mine design.

SRK understands that similar methods and design parameters are applicable to the Nikolaevsky deposit as that planned at Vasilevsky. A satellite hauling system for the transport of ore to the processing facility will be required and will result in additional mining costs for this ore.

### ***Gerfed***

The Gerfed deposit principally comprises the Magistralnaya quartz vein and several small parallel veins to the west in the hanging wall of the deposit. The orebody strikes north-south for some 3.3 km and dips at some 40-50° to the southeast and east. The deposit geometry is similar to the Nikolaevsky deposit and the orebody has been defined to some 400 m in depth. JSC Vasilevsky has

only recently acquired the licence for this deposit and no mine design has been completed. JSC Vasilevsky considers that three open pits can be established along the strike length of the orebody and this broadly corresponds with the observed grade distribution along the strike. Similar open pits to those planned at Vasilevsky and Nikolaevsky are envisaged to depths of some 100-150 m with the subsequent establishment of an underground operation where the economics allow.

### **5.3 Ore Reserve Definition**

#### **5.3.1 Open-pit Optimisation**

The 1994 TAO design completed for the eastern zone of the Vasilevsky deposit is considered, by SRK, to include conservative values for many of the design parameters and therefore not reflective of an ultimate open pit design. The in-situ reserves submitted and approved by the GKZ for the Vasilevsky and Nikolaevsky deposits were based on a 4 g/t cut-of-grade. No in-situ reserves were submitted to the GKZ for the Gerfed deposit. An open pit optimisation exercise for the Vasilevsky, Nikolaevsky and Gerfed deposits was undertaken by SRK to confirm that ore has potential to be mined by open pit and to determine likely production rates. The results of this exercise confirmed a relatively shallow open pit for the Vasilevsky deposit as indicated by the 1994 TAO design but at more favourable stripping ratios. The exercise also indicated that underground mining would need to be introduced earlier than originally assumed. The results of the open pit optimisation were not developed by SRK to a final mine design stage suitable for supporting the definition of an Ore Reserve.

#### **5.3.2 Modifying Factors**

The 1994 TAO design estimated mining losses and dilution at 3% and 20% respectively and a diluting grade of 2 g/t was used. The October 2004 business plan presented by JSC Vasilevsky and reviewed by SRK includes dilution at some 6.9%, although SRK understands that JSC Vasilevsky intends to apply dilution equivalent to 10% in future projections. This level of dilution is considered more appropriate by SRK and mining ore losses should be low at some 3-5%, considering the regular ore zone geometry at most of the deposits.

#### **5.3.3 Potential Ore Reserves**

The absence of a mine design at the deposits and the inadequacy of the 1994 TAO design for the eastern zone of the Vasilevsky deposit prevent the reporting of Ore Reserves according to the JORC guidelines. The grade of the Mineral Resource of some 3.3-4.7 g/t at a cut-off-grade of 1.5 g/t indicates to SRK that Ore Reserves will likely be defined. Although the deposits are amenable to open pit mining and are within a reasonable distance of the Vasilevsky process facility, an underground operation will likely need to be established in the next 3-5 years.

### **5.4 Production Plan and Scheduling**

Although Ore Reserves for the project have not, as yet, been defined, JSC Vasilevsky has developed a production schedule and commissioned the process facility. JSC Vasilevsky plans to commence at a rate of some 0.3 Mtpa from the Vasilevsky deposit and introduce ore from the Nikolaevsky, Gerfed and other satellite deposits and increase the production rate. The scheduling is focused on initial open pit operations and subsequent underground ore production. Although no mine design or detailed production schedule is available, provisional open pit optimisation and underground production studies undertaken by SRK suggest that a production rate of at least 0.4 Mtpa appears sustainable. This production rate is compatible with the capacity of the current process facility. The prospectivity of the Partizansky Cluster and the likely increased thickness of the mineralization at Vasilevsky compared to that originally defined by exploration, suggests that a higher production rate than the 0.4Mtpa determined by SRK is possible.

A waste stripping schedule needs to be developed by JSC Vasilevsky to support equipment and cost forecasts for the open pit as well as further investigation of the earlier introduction of underground mining.

In addition to the run of mine production, JSC Vasilevsky intends to treat some 0.5 Mt of slurry from the waste dump of the Samson deposit as part of the commissioning phase of the process facility.

## **5.5 Mining Costs**

Mining operating costs have been currently developed by JSC Vasilevsky to support the first 18 months of the production programme only. These mining costs are based on estimates of labour, fuel, lubricants and electrical power and are calculated to be some US\$0.6/t of rock mined (ore plus waste). The production profile in the first 18 months does not include any significant waste stripping and, due to this and also the provisional budgeting process, it appears to SRK that these costs are lower than what should be expected in the long term. SRK understands that SibGiproZoloto is commissioned to develop appropriate mining costs, but SRK would anticipate, for the size and type of operation at Vasilevsky, that unit mining costs of some US\$1.5/t to US\$2.0/t of rock mine are more appropriate.

Very little detail of mining capital costs are currently available, although SRK understands that the principal mining equipment is engaged on a contract basis. The capital costs therefore need to be reflected in terms of a slightly higher operating cost.

## **5.6 SRK Comments**

While limited technical work has been completed to date on the mine design, the definition of Ore Reserves and the ore and waste scheduling aspects of the project, SRK understands that JSC Vasilevsky has commissioned the SibGiproZoloto organisation to undertake this as well as develop appropriate mining costs. However, the deposits are considered, by SRK, to be amenable to open pit mining followed by the establishment of underground mining. JSC Vasilevsky intends to employ a combination of Russian and western manufactured equipment, where appropriate, to establish a conventional truck and shovel operation. The mining methods and approach is supported by SRK and will lead to relatively low mining costs, ore losses and dilution.

Due to the absence of a mine design and ore and waste schedules for this deposit, SRK is not able to confirm Ore Reserves for the project. A mining optimisation exercise undertaken by SRK, however, indicates that a production rate of at least 0.4Mtpa should be achievable considering the orebody geometry and the likely grades. This conclusion is supported by the possible underestimation of the width of the orebody by the exploration drilling and the potential of the Partizansky Cluster as a whole. SRK's mining optimisation exercise also indicated that underground mining will likely need to be established in the next 3-5 years to take over from open pit mining at these deposits.

SRK recommends that JSC Vasilevsky undertakes an appropriate mine design exercise for each of the deposits, preferably contracted to a western based mining consultancy, and considers more aggressive open pit design parameters, particularly in terms of pit slope angles. An investigation into the earlier introduction of underground mining also needs to be undertaken. Following this work, an appropriate mine design and ore and waste production schedule can be developed leading to more confidence in the equipment, revenue, operating cost and capital forecasts. SRK would expect this process to define Ore Reserves in accordance with the JORC code at each of the deposits.

## **6. MINERAL PROCESSING**

### **6.1 Introduction**

JSC Vasilevsky has constructed a gold processing plant to treat 300 ktpa of ore from the Vasilevsky and surrounding deposits. Construction of the plant was originally commenced in the mid 1990s, but due to the economic crisis in Russia, construction work was suspended in 1998. Construction recommenced in May 2004.

A revised TAO for Vasilevsky was prepared by Irgiredmet and issued in July 2004. This document summarises the investigations previously undertaken and details the project for the treatment of material from the Vasilevsky deposit only at a throughput of 300,000 tpa. This is the basis of the current project as constructed. In addition to the Vasilevsky deposit, ores from JSC Vasilevsky's other deposits are proposed to be treated at the Vasilevsky plant. The ores from all deposits are reported to be geologically similar to the Vasilevsky material, although this is yet to be confirmed by metallurgical testwork.

A plant throughput of 300,000 tpa of ore is initially proposed using a single process stream. Details of the optimum method of increasing the treatment rate are still to be investigated and presented.

## 6.2 Ore Characteristics

The ore at Vasilevsky consists of gold quartz low sulphide veins. Iron and arsenic sulphide minerals have been generally oxidised and sulphide sulphur levels are reported to be low. The gold at Vasilevsky is indicated to be generally finely disseminated, although coarse grains (150 - 700 micron) are also reported. Around 85% of the gold is indicated to be free, coated with iron oxides or intergrown. Less than 15% is shown to be associated with sulphides and secondary minerals.

Ores at Nikolaevsky, Gerfed, Ilynsky and Nizhne-Talovsky deposits are reported to be geologically similar to Vasilevsky and are expected to respond similarly through the Vasilevsky plant. Further investigations and testwork will be required to confirm the performance, expected recoveries and operating parameters.

The Vasilevsky ore is indicated to be relatively consistent across the deposit, although it is noted that the sulphide sulphur level reported in samples assayed varied from around 0.01% to 0.5%. The anticipated average feed grade to the plant from Vasilevsky is 7.0 g/t.

## 6.3 Metallurgical Testwork and Investigations

Various metallurgical testwork campaigns have been conducted on the Vasilevsky ore since 1993 by Irgiredmet and Kazmekanobr. These investigations have investigated the application of gravity, flotation, cyanidation and sorption techniques in different configurations to achieve high gold recoveries. Both bench and semi-industrial scale tests have been conducted. Samples tested have varied significantly in grade from around 3 g/t to over 16 g/t. Higher gold recoveries have been achieved on samples with higher gold grade and a strong correlation has been shown between head grade, tails and recovery.

Treatment of the ore has been successful using gravity concentration, flotation and cyanidation and the ore is shown to be generally “free-milling” and not particularly refractory. Over 80% of the gold can be recovered into a low grade gravity concentrate. Flotation or cyanidation on the gravity tails can increase overall gold recovery to over 90%.

Direct cyanidation of the milled ore has given recoveries of 80-90% depending on the head grade, although a relatively fine grind is indicated to be necessary.

To avoid or minimise the use of cyanide for ecological reasons, focus was placed on obtaining gravity concentrates that could be smelted directly, with the gravity tails discarded without further treatment. This proved not to be successful, although it was possible to produce a high grade smeltable gravity concentrate, “golden head” and a lower grade “industrial product” (gravity middlings) with overall gold recoveries of 80-90%, depending on the feed head grade. It is therefore possible to generate a variety of gravity concentrates of different grades and recoveries from the Vasilevsky ore. Treatment of the lower grade industrial concentrates by cyanidation has also been shown to be practical with recoveries of over 90-95% being achieved. Due to the intergrowth of gold with other minerals, including quartz, fine grind is indicated to be beneficial to achieving high gold recoveries by all recovery techniques.

Initial testwork was focused on the incorporation of a Semi Autogenous (SAG) ball mill configuration, although it was noted that a large amount of critical size material could be expected to build up within the SAG mill. Further testwork was undertaken and parameters were established by Irgiredmet for a circuit incorporating fully autogenous milling as the first stage of comminution. A fine grind of 90-95% < 75 micron is shown to give optimum gold recoveries by cyanidation.

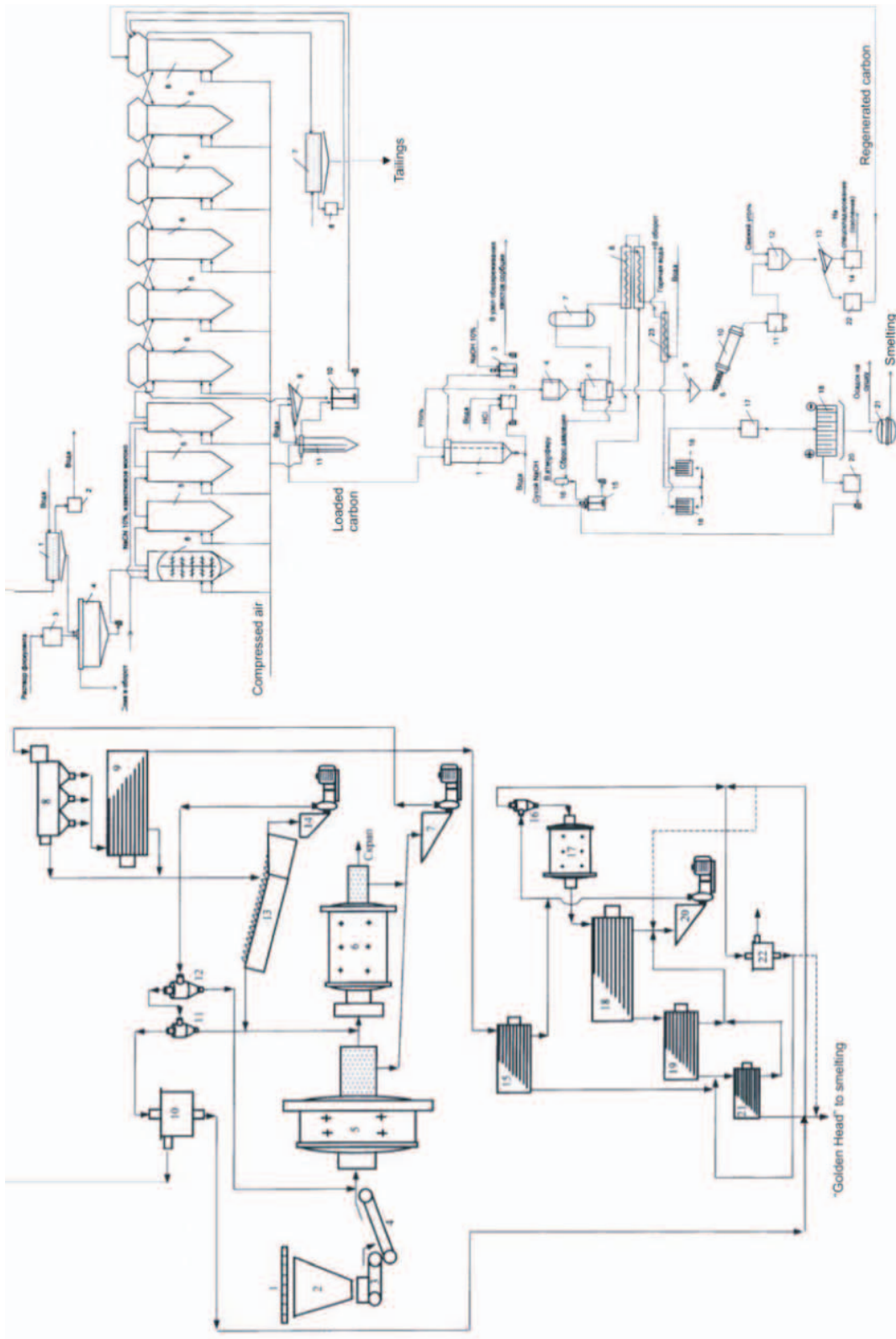
In summary, the Vasilevsky ore is amenable to various alternative techniques to recover the gold and associated silver. The selected process flowsheet incorporates recovery of gold into a high grade gravity concentrate “golden head” with the gravity tails processed by cyanidation. The production of the golden head for separate treatment is reported to reduce cyanide consumption when processing the gravity tails compared to cyanidation of the whole milled ore stream. Overall, SRK believes the flowsheet selected to be suitable for effective treatment of the low sulphide ores and offers potential for further optimisation.

## 6.4 Process Flowsheet

The selected flowsheet incorporates two stage milling with gravity recovery of gold in the milling circuit and scavenged from the milled product. No crushing is incorporated at the current time with Run-of-Mine (RoM) material being fed into the milling stage. Several stages of concentrate

cleaning with regrind are employed to produce a smeltable gravity gold concentrate. Tails from the milling / gravity circuit are subjected to cyanidation with the dissolved gold recovered by activated carbon, stripped and electro-won onto steel cathodes. The cathode sludge and gold head are smelted to produce dore bars. Figure 6.1 presents a schematic flowsheet for the currently envisaged plant.

**Figure 6.1: Vasilevsky Flowsheet**





The mine is scheduled to produce RoM ore with a top size of 400 mm. Feed to the plant is received at the feed receipt hopper fitted with a 400 x 400 mm static grizzly to protect against oversize. Oversize will be broken on the grizzly or could be removed to be broken and then returned. Ore will then be fed from the feed hopper to a large diameter Autogenous Grinding (AG) mill. The AG mill will discharge via a trommel with the trommel oversize passing directly to a ball mill and the undersize (-6 mm) passing to a sump and from there to a gravity jiggling circuit. There is currently no provision for removal and crushing of coarse material in the AG mill discharge.

Tails from the jig are routed to a spiral classifier where the coarse fraction is returned to the ball mill while the sand / slime fraction pass to a two stage hydro-cyclone classification circuit, with the primary cyclone underflow returning to the AG mill and the overflow being retreated in a second stage of smaller cyclones with the undersize returned to the ball mill. Final mill product at nominally 90-95% < 75 micron passes via a centrifugal gold concentrator used to scavenge fine free gold to the cyanidation circuit.

Jig concentrates are initially cleaned on two stages of shaking tables with the tails from the first stage returned to the spiral classifier. Table concentrate is routed to final cleaning. Tails from the second stage of cleaning tables passes to a sump and from there to a regrind milling circuit. Feed to the mill is first classified in hydrocyclones with the underflow reporting to the mill and the overflow passing to a scavenging centrifugal concentrator.

Discharge from the regrind mill passes over a shaking table and the concentrate is further cleaned using two final stages of shaking tables to produce the high grade “golden head” concentrate at 10% gold. Tailings from final cleaning tables return to the regrind milling circuit. Gold scavenged from the primary milling circuit cyclone overflow and the overflow from the regrind mill cyclone passes to a further stage of centrifugal concentration before the tails are routed to the cyanidation circuit. Scavenged concentrate is returned to the final cleaner table circuit.

Fine slime from the milling and gravity circuit is treated by cyanide leaching. The feed to the cyanidation circuit is firstly screened to remove tramp material and then thickened. Thickener underflow at 50% solids is treated in four stages of high efficiency leaching reactor columns before passing to six adsorption stages where the dissolved gold is loaded onto activated carbon in the countercurrent circuit. Cyanide is added in the leach circuit. Slurry residence time in leach is nominally 7-8 hours with a further 11-12 hours in adsorption. Vessels are air agitated.

After the last stage of adsorption, the slurry is screened to recover fugitive and fine carbon. The tails slurry is detoxified with calcium hypochlorite and ferrous sulphate to oxidise and complex residual cyanide in the slurry before being dispatched to the tailings storage facility.

Loaded carbon is recovered from the first adsorption tank for the gold to be stripped from the carbon at elevated temperature. The loaded carbon is first washed to remove adhering slurry and is then acid washed with a weak solution of hydrochloric acid to remove base metals co-loaded onto the carbon. After water washing, residual acid is neutralised with caustic before the carbon is transferred to the desorption vessel where the gold is stripped from the carbon using a caustic cyanide solution under pressure at 160°C. The eluate solution from the column containing the stripped gold is passed to electrowinning where the gold is recovered onto cathodes and reports as a cathode sludge, which is dewatered in a filter.

Following removal of the gold, the carbon is thermally regenerated at 600-650°C to remove adsorbed organic compounds before being screened to remove carbon fines and is returned to the last stage of the adsorption circuit. The cathode sludge is calcined and smelted with fluxes in an induction furnace to produce doré bars. Slag from the furnace is crushed and returned to join the ore feed to the plant. The “golden head” concentrate from the final cleaning table is also calcined and smelted to produce doré bars in a separate circuit. Off gases containing sulphur dioxide and arsenic from sulphide minerals recovered with the gold into the gravity concentrate are scrubbed after removal of any gold containing dust. The golden head is reported to contain 10% arsenopyrite and safe disposal of the scrub solution bleed will need to be considered.

## **6.5 Forecast Plant Performance**

The plant is designed to nominally process 300,000 tpa and SRK’s review of the major equipment sizes has not highlighted any significant areas of concern. Overall recoveries are predicted at 89%, from the design average head grade of around 7.0 g/t but calculated to vary between 85% at a head grade of 3.5 g/t to 92-93% at 16-17 g/t feed grade.

SRK has not yet been provided with detailed information on the operating cost of the treatment plant regarding labour breakdown, power consumption (see below), reagents and consumables – unit consumptions and costs. However, SRK forecasts the operating cost for the plant at a throughput of 300,000 tpa would be typically in the range of US\$15-18/t using the process technology described.

A list of recommended plant measurements is included in the Irgiredmet report, including measurement for both plant monitoring and gold accounting. By incorporating RoM milling and recovering a gravity concentrate in the milling circuit, it will not be possible to directly measure the gold feed to the plant and this will need to be achieved by calculating the gold recovered in the gravity concentrate and that reporting in the feed to leach (thickener underflow stream). A rough assessment of the feed grade could be achieved from a measurement of the feed delivered from the mining operation, and also by grab samples on the mill feed, although these are not expected to be very accurate. It may be possible to install a RoM sampling system, although the cost of such a circuit may not be justified considering the throughput and cost of the plant. However, metal accounting without such a system will not cover the whole circuit and there is potential for gold loss before accurate accounting points are reached.

## **6.6 Spillage Control, Security and Safety**

Facilities for the control and retention of spillage on the plant were noted to be relatively limited. JSC Vasilevsky has advised that monitoring and spillage control equipment will be installed prior to plant commission to handle accidental spillage and prevent possible discharge of gold and cyanide bearing solids and solution out of the process areas.

JSC Vasilevsky reports that a separate independent security department has been established on the mine. Perimeter protection is incorporated around the plant as well as high security and limited personnel access for sensitive areas. However, the extensive and complex gold gravity circuit and production of a high grade concentrate will result in security precaution being difficult to maintain and extra vigilance and procedures for operating and maintaining equipment and access of personnel will be required.

The standard of access walkways, platforms and stairways was noted to be generally better than normally encountered in the former Soviet Union (FSU), although still below the level that would normally be acceptable internationally. It is recommended that suitable safety procedures and provisions are put in place regarding the use of personnel protection equipment.

## **6.7 SRK Comments**

SRK considers the overall flowsheet to be sound, although some of the equipment selected is relatively unusual and novel by standard gold industry practices. There is no significant live storage of ore between the feed receipt and the milling circuit. This could result in low plant availability and poor control of mill performance. SRK recommends that this is investigated further.

SRK does have a query relating to the production of the very high grade gravity concentrate. As detailed above, the gravity circuit is extremely complex and can be expected to be relatively labour intensive. There is also a high security risk associated with the amount of equipment being operated and requiring maintenance and with producing a gold concentrate with a high gold concentration.

Although cyanide leach and carbon in pulp would appear to be the most appropriate method of obtaining high recoveries on the basically free-milling ore, the equipment selected in the leach and adsorption circuit is relatively novel in the West, although it is understood that similar equipment is used by a number of Russian and CIS gold producers.

In summary, SRK considers the plant has been appropriately designed to treat ore from the Vasilevsky deposit at the initially envisaged rate of 300,000 tpa. The plant would also appear to be suitable for the processing of other low-sulphide free milling ores in the Partizansky Cluster.

JSC Vasilevsky's long term plans to treat ore from Vasilevsky, Nikolaevsky, Gerfed, Ilyinsky and Nizhne-Talovsky deposits and to increase throughput are still at a preliminary stage. Issues such as integration of the expanded facilities with the current Vasilevsky plant, ore transport and optimum plant location are subject to ongoing investigation and the feasibility of this is to be confirmed.

## **7. INFRASTRUCTURE**

### **7.1 Electrical Power**

Electrical power to the Vasilevsky site is currently supplied by a 35 kV line from Partizansky with an initial forecast demand calculated by JSC Vasilevsky of 4 MW. The installed power on the treatment plant is 2.5 MW.

Negotiations are currently taking place with Krasnoyarskenergo for supply of the necessary, power including requirements for the first phase of expansion to 1.0 Mtpa. JSC Vasilevsky estimates that the projected plant power consumption will not exceed 7-8 MWh for the phase 1 expansion.

To meet the increased demand for power, JSC Vasilevsky envisages that power to the plant will be supplied by a new 110 kV line, which is planned to be installed during 2006.

Emergency power supply to the plant can be provided by two diesel powered generators rated at 250 and 600 kW. These are sufficient for emergency services only, including the heating plant to prevent the buildings and equipment from freezing. Additional emergency power will be required if the proposed plant capacity increases are implemented.

### **7.2 Water Supply**

Water will be supplied to the plant from boreholes some 1.5 km distant from the plant site. These will supply domestic, potable and process make-up water. In addition, water can be recovered from the tailings storage facility (TSF) and it is forecast that up to 60% of the water in the tailings can be reclaimed and returned to the plant. JSC Vasilevsky report that water can be reclaimed from the TSF throughout the year.

The supply of water from the boreholes is initially expected to be 1,220 m<sup>3</sup>/day maximum, which is generally sufficient to cater for water consumption on the plant (1,000 m<sup>3</sup>/day) and other areas until water is recovered from the TSF to supply the majority of the process water requirements.

Future additional water supply for the increased throughput is planned from additional boreholes.

### **7.3 Services**

Hot water will be supplied on the site by a diesel fired boiler plant. Other support services, including accommodation, canteen, are already available on site. Offices, maintenance facilities and warehouses are planned.

## **8. ENVIRONMENT**

### **8.1 Environmental and Social Conditions**

Vasilevsky is located in a sparsely populated area. The site is typical of much of the area, being characterised by generally undulating terrain with some low hills. Most of the area is covered by forest, predominantly mixed coniferous with some birch, and is typical of the area known as the "taiga" (or Northern Coniferous Forest), which extends across much of Russia. The forest supports a diverse range of fauna, including bears, although hunting (both legal and poaching) has reportedly reduced the numbers of many commercially important mammals in the area.

The area has a long history of gold mining and exploration and once supported an extensive alluvial mining industry. Most of the alluvial deposits have now been worked out, but the largely un-restored workings still characterise many of the small river valleys. Although the local rivers, all of which drain into the large Yenisey river system, probably once supported good fisheries and the water quality is now generally adequate, the physical disturbance caused by alluvial mining has left a legacy of degraded river systems and low productivity fisheries.

More recently, small open-pit workings have been developed, although the total area of land affected by mining operations is very small in comparison with the extent of the forest ecosystem. The forest cover is also relatively easy to re-establish after mining operations have ceased, providing appropriate revegetation techniques are employed. Accordingly, the area is not considered to be unduly sensitive from an ecological perspective.

The district administrative centre, the town of Motigino, is located some 85 km to the south of the site. The town is a base for geological survey and the forestry industry, as well as for local infrastructure and service industries. The nearest settlement to JSC Vasilevsky is Partizansky (population approximately 1,000), which is located some 7 km to the north-west of the site. This

settlement has experienced a decline in its economic circumstances in recent years, principally as a consequence of the decline in the alluvial gold mining industry. The only other major economic activity in the area is forestry, Krasnoyarsk being a major centre for forestry and associated industries.

## **8.2 Environmental Permitting**

Vasilevsky was originally permitted in 1995 for a 200,000 tpa mining operation and associated processing plant. SRK understands that these have now been amended to reflect a production rate of 300,000 tpa. A full OVOS (Russian equivalent of an Environmental Impact Assessment) was completed in 1993 by the experienced technical institute SibGiproZoloto and, having passed through the formal Expert Review process, was approved by the Krasnoyarsk Regional Committee on Ecology. The approval was endorsed at a national level in 1997 by the Russian Federation Committee on Ecology.

Subsequent to the approval of the OVOS, the Russian regulatory system requires 9 subsidiary permits to be issued covering the following areas: Sanitary Epidemiological Service, Labour Safety and Emergency Planning, Hunting Control, Fisheries Management, Industrial Safety, Forestry, Water Usage, Hazardous Materials Usage and Waste, Emissions and Discharges. The applications for these permits are usually made in conjunction with the development of detailed design criteria and operating practices. Eight of the 9 permits had been received as of December 2004; the remaining permit, Hazardous Material Usage, is reported to have been received in March 2005.

Formal approval will also be required for all changes to the original project, including the incorporation of additional open-pits and the increase in throughput, will be required. However, informal discussions with the local regulatory authorities suggest that this will not be unduly problematic, although the approval process can be time-consuming and bureaucratic.

The original OVOS was conducted in accordance with the normal Russian practice and regulatory requirements of the time. The OVOS describes the existing “baseline” environmental conditions and identifies and assesses the likely environmental impacts; appropriate mitigation and management measures are described and have been incorporated into the project design. However, although the approval remains valid, the scope and detail of the OVOS does fall some way short of both current Russian practice and good international practice.

Some of the areas in which the OVOS would be considered deficient in comparison with current practice have been addressed by recent work commissioned by the company. In particular:

- The requirement to issue a number of subsidiary permits in conjunction with the development of detailed design criteria and operating practices allows for many issues to be re-evaluated. Most of these permits have been applied for only in recent years and the applications have been subject to scrutiny in accordance with current Russian practice.
- There have been some changes to the original project design. These changes, which have included new locations for waste rock, changes to the tailings facility and process water supply, have required authorisation from the regulatory authorities. This has also enabled these aspects to be scrutinised in accordance with current Russian practice.

Furthermore, environmental monitoring and statutory reporting in accordance with the regulatory requirements has been undertaken to date, although in the absence of any processing operations there has been little impact to report.

Consequently, the project has been designed in such a way as to incorporate environmental management and monitoring practices that have the potential to provide an adequate basis for the continued development of the operation. Nevertheless, the project is designed to conform to Russian regulatory requirements only and is not fully compliant with all aspects of good international practice, including certain requirements specified in guidance documents produced by the World Bank Group. The key areas where the project does not currently conform to good international practice include:

- health and safety;
- emergency response procedures;
- environmental management systems; and
- closure planning.

There are, however, no fundamental issues that would not be amenable to management according to good international practice. Consequently, extending the scope of environmental management to ensure conformity with, for example, guidance produced by the World Bank Group, should this be considered appropriate, is not considered to be especially problematic.

### 8.3 Key Environmental Issues

The key issues that will require careful management include:

- **Tailings management**

The tailings dam has been designed by an experienced Russian institute and subject to regulatory scrutiny and approval. Phase 1 of the dam construction is scheduled for completion in spring 2005; this will give some 2.5 years of storage capacity at a production of 300,000 tpa. Phase 2 of the dam construction will provide some 12 years of storage at this rate of production.

The dam does not incorporate an artificial liner, but relies on the presence of several metres of in-situ natural clays for seepage control. An interception channel downstream of the dam wall will collect any seepage through the wall itself, which will then be pumped back into the dam.

The cyanide in the tailings will be detoxified prior to discharge to the tailings dam using the standard Russian system of alkaline chlorination. The dam will be operated as a zero discharge facility with all supernatant water being recycled directly to the plant.

Although there is limited geochemical data on the tailings, the generally low levels of sulphides in the orebody suggests that acid generation and trace element mobilisation are unlikely to be significant problems.

Despite the adequacy of the approach to tailings management, there will still be a need for sound management of tailings disposal and water balance, including:

- good spillage prevention and emergency response procedures;
- good management of supernatant water balance, especially under peak flow conditions (including snow melt); and
- good monitoring of any residual seepage into groundwater.

- **Surface water management and discharge control**

Despite the generally poor quality of the local river system, there will still need to be active management of surface water, including erosion control and treatment of surface run-off from operational areas, including the open-pit plant area and rock dumps, to reduce suspended solids concentrations and remove oil.

- **Waste rock management**

Although there is limited geochemical data on the waste rock, the generally low levels of sulphides in the orebody suggests that acid generation and trace element mobilisation are unlikely to be significant problems. Nevertheless, waste rock will need to be monitored to ensure that no “hotspots” of acid generation occur and standard practice for the control of erosion and the collection of run-off water will be required.

- **Reagent handling and storage**

Careful handling of reagents, including cyanides, acids, lime and hypochlorite will be required. Adequate spillage prevention measures and emergency response procedures must be implemented.

- **Closure planning**

Revegetation of completed waste rock dumps and the tailings dam is envisaged as part of the original project design. The approach is based on the use of stored topsoil and establishment of forestry. However, these plans are largely prescriptive, based on the expected development of each facility. The conceptual plans do not include the processing plant and associated infrastructure. There is no separate financial provision for eventual closure.

### 8.4 SRK Comments

In summary, SRK is of the opinion that:

- The site is not especially sensitive from an environmental, social or cultural perspective.
- Environmental considerations have been incorporated into the project design and should provide an adequate basis for the management of key environmental issues as the project develops.
- All of the key issues identified by SRK are amenable to management using standard industry techniques.
- SRK understands that the project either has or is in the process of acquiring all necessary permits to develop and operate a 300,000 tpa project based on the JSC Vasilevsky open-pit.
- SRK does not envisage that the permitting of any changes or extensions to the initial project would be unduly problematic, providing that the sufficient time was allowed for within any development programme to complete the necessary regulatory processes.
- Environmental management is based exclusively on Russian practice and, whilst this can provide an adequate basis for the management of key issues, it does not comply with all aspects of current international good practice, as defined in guidance documents produced by the World Bank Group.
- Extending the scope and content of environmental management to ensure conformity with international good practice, should this be considered appropriate, would not be unduly problematic.

## 9. CAPITAL COSTS

SRK understands that some US\$33.4 million was spent during the first construction phase predominantly financed by the State gold loan of which US\$17.5 million was spent on direct equipment and construction costs. Site development recommenced in May 2004 and SRK understands that up until end-2004 a further US\$12 million had been spent. Of this, over US\$10 million had been spent on direct project costs including the mining equipment, process plant, tailings storage construction, infrastructure and services.

The capital budget for 2005 was almost US\$13 million, of which US\$12 million was planned to be spent on the project. A further US\$7.7 million is indicated for 2006, the majority of which is scheduled for the open pit operation. Studies are currently ongoing to assess the capital expenditure required beyond 2006.

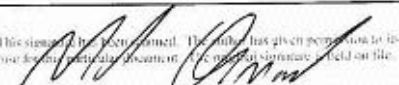
## 10. CONCLUDING REMARKS

While SRK has recommended further work be undertaken to confirm the Mineral Resource and explore for additional mineralization in the vicinity of the proposed project site, it is clear that the Partizansky Gold Cluster represents a significant gold resource and that JSC Vasilevsky is in a good position to develop this.

The history of the project, however, has resulted in a position whereby the process plant and infrastructure has been constructed, but where the mine design, Ore Reserve and project economics are still in the process of being re-assessed. Certainly, the optimum mine plan produced by this work will likely be different to that originally envisaged and on which the plant design is based.

The challenge facing JSC Vasilevsky is therefore to complete the outstanding design work as soon as possible, to re-evaluate the economics of the proposed development plan and, notwithstanding the fact that it is likely that material modifications in plant/infrastructure design will be difficult to incorporate, to make efforts to optimise the project in the light of the results of this work.

**For and on behalf of SRK Consulting (UK) Ltd.**



This signature is not official. The holder has given permission to use this signature for the purpose of the document.

**Dr Mike Armitage**  
**Managing Director**

**APPENDIX 3:  
GLOSSARY OF TECHNICAL TERMS**

The following expressions in this document have the following meanings unless the context otherwise requires or unless it is otherwise provided:

<b>“adit”</b>	a horizontal opening into a mine, started from a hillside;
<b>“alteration”</b>	referring to physical or chemical change in a rock or mineral subsequent to its formation;
<b>“assay”</b>	valuable metals tests;
<b>“Au”</b>	the chemical symbol for gold;
<b>“bullion”</b>	gold or silver bars or ingots;
<b>“cash operating costs”</b>	unless otherwise stated, cash operating costs determined in accordance with the internationally recognised Gold Institute Standard (“GIS”);
<b>“concentrate”</b>	a metal-rich product resulting from a mineral enrichment process such as gravity concentration or flotation;
<b>“core”</b>	sample of rock produced by diamond drilling;
<b>“crystal”</b>	a mineral grain with faces developed which reflect the internal atomic structure;
<b>“cuttings”</b>	sample of rock produced by percussion and rotary drilling methods such as reverse circulation drilling;
<b>“cyanide leach”</b>	the dissolution of minerals and metals into a weak solution of cyanide;
<b>“deposit”</b>	a coherent geological body such as a mineralised body;
<b>“diamond drilling”</b>	rotary drilling using diamond-set or diamond-impregnated bits, to produce a solid continuous core sample rock;
<b>“dilution”</b>	reduction of ore grade by contamination with waste material;
<b>“dip”</b>	the angle at which layered rocks, foliation, a fault, or other planar structures, are inclined from the horizontal;
<b>“disseminations”</b>	descriptive of mineral grains which are scattered throughout the host rock;
<b>“drilling”</b>	in mineral exploration, boring a hole into prospective ground to recover cuttings indicative of rock types and grades of mineralization;
<b>“drive”</b>	a tunnel driven downwards from the surface to the orebody, compare adit;
<b>“dyke”</b>	a tabular igneous intrusion which cuts across the bedding or other planar structures in the country rock;
<b>“exploration”</b>	activities associated with ascertaining the existence, location, extent or quality of mineralised material, including economic and technical evaluations of mineralised material;
<b>“fault”</b>	a break in rock strata continuity with strata remaining parallel but displaced relative to one another on either side; strata on opposite sides of a fault may be displaced vertically and/or laterally relative to their original position;
<b>“feasibility study”</b>	an extensive technical and financial study to assess the commercial viability of a project;
<b>“feldspar (felspar)”</b>	a very abundant group of rock-forming silicate minerals in which calcium, sodium and potassium are in combination with aluminium;

<b>“flotation”</b>	A mineral concentration process where the surface chemistry of the desired mineral particles is chemically modified such that they preferentially attach themselves to bubbles and float to the surface while the gangue minerals are chemically suppressed and do not float;
<b>“footwall”</b>	a geological or mining term meaning the rock below a fault, or underlying a natural feature;
<b>“g/t”</b>	gramme per metric tonne;
<b>“geochemical”</b>	a prospecting technique which measures the content of specified metals in soils and rocks and stream sediments; sampling defines anomalies for further testing;
<b>“geophysical”</b>	prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc) of rocks and define anomalies for further testing;
<b>“grade”</b>	quantity of metal per unit weight of host rock;
<b>“granitic”</b>	a coarse grained igneous rock consisting largely of quartz and feldspar;
<b>“gravity concentration”</b>	a metallurgical process that separates metals from gangue using the specific gravity differential between the metal and the gangue;
<b>“grinding”</b>	reducing mineralised rock to the consistency of fine sand by crushing and abrading in a rotating steel grinding mill;
<b>“hanging wall”</b>	a geological or mining term meaning the rock above a fault, or overlying a natural feature (as opposed to footwall);
<b>“host rock”</b>	the rock containing a mineral or an ore body;
<b>“igneous”</b>	a rock formed by the solidification of a mineral rich molten liquid which is intruded into sedimentary rock or erupted from a volcano;
<b>“indicated”</b>	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed;
<b>“inferred”</b>	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability;
<b>“intrusion”</b>	rock formed by emplacement of molten magma into a high level, below the surface, where it cooled and crystallised to form a solid rock;
<b>“JORC”</b>	Joint Ore Reserves Committee, common reference to the Australasian Code for Reporting of Mineral Resources and Ore Reserves;
<b>“JORC Code”</b>	the Australasian Code for Reporting of Mineral Resources and Ore Reserves which sets out the minimum standards, recommendations and guidelines for Public Reporting of exploration results, Mineral Resources and Ore Reserves in Australasia;



<b>“Kg”</b>	Kilogramme;																		
<b>“km”</b>	kilometres;																		
<b>“losses”</b>	a proportion of the valuable mineral/element not recovered during mining;																		
<b>“make-up water”</b>	additional water required for mining and processing operation beyond that recycled from these operations;																		
<b>“Measured”</b>	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity;																		
<b>“Measures”</b>	Conversion factors from metric units to US units are provided below:																		
	<table border="1"> <thead> <tr> <th><b>Metric Unit</b></th> <th><b>US equivalent</b></th> </tr> </thead> <tbody> <tr> <td>tonne = 1 t .. .. .</td> <td>1.10231 tonnes</td> </tr> <tr> <td>1 gram = 1 g.. .. .</td> <td>0.03215 ounces</td> </tr> <tr> <td>1 gram per tonne = 1 g/t .. .. .</td> <td>0.02917 ounces per tonne</td> </tr> <tr> <td>1 kilogram per tonne = 1 kg/t .. .. .</td> <td>29.16642 ounces per tonne</td> </tr> <tr> <td>1 kilometre = 1 km .. .. .</td> <td>0.621371 miles</td> </tr> <tr> <td>1 metre = 1 m .. .. .</td> <td>3.28084 feet</td> </tr> <tr> <td>1 centimetre = 1 cm .. .. .</td> <td>0.3937 inches</td> </tr> <tr> <td>1 millimetre = 1 mm .. .. .</td> <td>0.03937 inches</td> </tr> </tbody> </table>	<b>Metric Unit</b>	<b>US equivalent</b>	tonne = 1 t .. .. .	1.10231 tonnes	1 gram = 1 g.. .. .	0.03215 ounces	1 gram per tonne = 1 g/t .. .. .	0.02917 ounces per tonne	1 kilogram per tonne = 1 kg/t .. .. .	29.16642 ounces per tonne	1 kilometre = 1 km .. .. .	0.621371 miles	1 metre = 1 m .. .. .	3.28084 feet	1 centimetre = 1 cm .. .. .	0.3937 inches	1 millimetre = 1 mm .. .. .	0.03937 inches
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<b>“metallurgical”</b>	describing the science concerned with the extraction, production, purification and properties of metals and their applications;																		
<b>“mineable”</b>	that portion of a mineralised deposit for which extraction is technically and economically feasible;																		
<b>“mineral”</b>	a natural, inorganic, homogeneous material that can be expressed by a chemical formula;																		
<b>“mineral deposit”</b>	is a mineralised body which has been delineated by appropriate drilling and/or underground sampling to support a sufficient tonnage and average grade of metal(s);																		
<b>“Mineral Resource/resource”</b>	a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form that there are reasonable prospects for eventual economic extraction;																		
<b>“mineralised material”</b>	a mineralised body which has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals to warrant further exploration. A deposit of mineralised material does not qualify as a reserve until a comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility;																		
<b>“mineralisation”</b>	a process of formation and concentration of elements and their chemical compounds within a mass or body of rock;																		
<b>“open pit”</b>	mining in which the ore is extracted from a surface pit. The geometry of the pit may vary with the characteristics of the orebody;																		
<b>“ore”</b>	mineral bearing rock that contains one or more minerals, at least one of which can be mined and treated profitably under current or immediately foreseeable economic conditions;																		
<b>“orebody”</b>	mining term to define that volume of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions;																		

<b>“ore grade”</b>	the average weight of the valuable metal or mineral contained in a specific weight of ore;
<b>“Ore Reserve”</b>	the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting material and allowances for losses which may occur when the mineral is mined;
<b>“ounce (oz)”</b>	troy ounce (31.103 gram, or 1.097 Avoirdupois ounce);
<b>“oz”</b>	troy ounce (= 31.1035 grammes);
<b>“precious metal”</b>	gold, silver and platinum group metals;
<b>“quartz”</b>	a mineral composed of silicon dioxide (SiO <sub>2</sub> );
<b>“rock”</b>	mineral matter of various compositions;
<b>“sampling”</b>	taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content);
<b>“sediment”</b>	formed of particles after transport by water, wind or ice;
<b>“sedimentary rock”</b>	rock formed from solid particles, whether mineral or organic, which has been moved from its position of origin and redeposited;
<b>“shaft”</b>	access to an underground mine consisting of a vertical, generally cylindrical opening;
<b>“specific gravity”</b>	the density of a substance relative to water;
<b>“stope”</b>	an underground opening in a mine from which ore has been or is being extracted;
<b>“strike”</b>	the direction or bearing of a bed or layer of rock in the horizontal plane;
<b>“strike length”</b>	Distance along strike (at right angles to dip);
<b>“stripping ratio”</b>	the ratio of waste rock to ore in an open-pit mine;
<b>“structure”</b>	the general disposition, attitude, arrangement or relative positions of rock;
<b>“sub-vertical”</b>	close to vertical;
<b>“sulphide ore”</b>	ore characterised by the inclusion of metal in the crystal structure of a sulphide mineral. The type of ore is often refractory;
<b>“tailings”</b>	finely ground rock from which valuable minerals have been extracted by milling;
<b>“tonnage”</b>	quantities where the tonne is an appropriate unit of measure. Typically used to measure reserves of gold-bearing material in situ or quantities of ore and waste material mined, transported or milled;
<b>“tpa”</b>	tonnes per annum;
<b>“vein”</b>	a thin sheet-like infill of a fissure or crack, commonly bearing quartz;
<b>“waste”</b>	rock containing no, or an un-economic quantity of the target elements.

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