Sierra Rutile Limited

Sierra Rutile Limited

Unaudited Interim Results for the Six Months Ended 30 June 2012

London, UK, 29 August 2012: Sierra Rutile Limited (AIM: SRX) ("Sierra Rutile" or the "Group") is pleased to announce its unaudited interim results for the six months ended 30 June, 2012 ("the Period").

Highlights

- 394% increase in sales to US$98.7 million (H1 2011 "the Prior Period": US$20.0 million).
- Step change in production from the Prior Period:
  - 57% increase in rutile production to 42,610 tonnes (Prior Period: 27,149 tonnes); and
  - 67% increase in ilmenite production to 10,315 tonnes (Prior Period: 6,164 tonnes).
- Rutile cash production costs[1] fell 22% from US$788/tonne in the Prior Period to US$617/tonne during the current Period.
- US$66.9 million EBITDA[2] for the Period from a loss for the Prior Period (US$(3.6) million).
- 68% EBITDA[2] margin (Prior Period: (18%)).
- US$56.2 million net profit for the Period compared to a net loss of US$14.6 million for the Prior Period.
- Non-controlling interest in Sierra Rutile's operating subsidiary eliminated through US$13.0 million payment to the Government of Sierra Leone ("GoSL").
- Strong balance sheet with cash at 30 June 2012 of US$23.3 million and borrowings of US$30.2 million, representing a net gearing ratio of just 4.4% (net debt/equity).

Commenting on the first half performance, Sierra Rutile Chief Executive Officer, John Sisay said: "These are a strong set of financial results that serve to illustrate the significant improvements we have implemented at Sierra Rutile since 2010. With our continued strong production from existing assets and the introduction of our growth projects, scheduled to deliver significant production increases over the coming years, we are extremely well positioned for the future."

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1 Cost of sales, less depreciation, less by-product ilmenite credit divided by rutile volume sold during the period. By-product ilmenite credit equals the volume of ilmenite produced in proportion to the rutile sold during the period, multiplied by the average ilmenite price achieved during the period.

2 Earnings before tax depreciation and amortisation, excluding exceptional items and non-cash stock option expense.

Financial Review

Revenue

Total Group revenue increased 394% to US$98.7 million (Prior Period: US$20.0 million) primarily due to higher sales volumes during the period (48% increase on the Prior Period), coupled with an extremely strong pricing environment (341 % increase in average rutile price from the Prior Period). This impact was slightly offset by Sierra Rutile stockpiling zircon during the Period, whereas in the Prior Period, Sierra Rutile sold 5,900 tonnes of a zircon concentrate.

Cost of Sales

Rutile cash production costs[3] decreased to $617/tonne for the Period, from $788/tonne in the Prior Period as investment in production assets and efficiencies of production increases began to yield results. On an absolute basis, cost of sales were 23% higher at US$32.3 million for the Period from US$26.3 million in the Prior Period due to the 48% greater volume of rutile sold.

Administrative Expenses

Administrative expenses increased to US$8.8 million for the Period from US$4.6 million in the Prior Period principally as a result of US$1.1 million of additional non-cash stock option expenses and a US$1.6 million provision for bonuses (no bonus provision was made in the Prior Period). The remainder of the increased costs was a result of the enlarged scale of the Group's operations.

Financial Expenses

Net finance costs decreased US$2.6 million from US$3.6 million in the Prior Period to US$1.0 million in Period, principally as a result of movements in foreign exchange rates on the euro denominated loan balance.

Financial Position

Net assets increased by 46% to US$155.9million (31 December 2011: US$106.7million). The main movements in the balance sheet were:

- Capital expenditures of US$23.0 million, added to property, plant and equipment. This was predominantly incurred on the new dry mining project as well as other assets to support the expansion of the business.
- Inventories (stock piles and stores) increased by 32% to US$27.0 million (31 December 2011: US$20.5 million), due to the increased levels of production.
- Cash increased to US$23.3 million from US$10.7 million.
- In addition, the Company made a PAYE prepayment of US$5.3 million to the GoSL in April 2012, of which US$4.4 million was outstanding at the end of the Period.

Movements in Equity

Equity increased due to the US$56.2 million profit for the period, offset by payments to the GoSL to purchase its non-controlling interest in Sierra Rutile's subsidiary Sierra Rutile Holdings Limited ("SRHL"). The non-controlling interest related to historical PAYE taxes that had been satisfied through the issuance of shares in SRHL to the GoSL under the Sierra Rutile Act 2002 (Amended 2004). See note 11 to the financial statements for more details.

Financing

As at 30 June 2012, after all capital expenditures, the non-controlling interest purchase and associated PAYE prepayments, Sierra Rutile had US$23.3 million of cash and US$30.2 million of debt outstanding, predominantly due to the GoSL, representing a net gearing level of just 4.4%.

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[3] Cost of sales, less depreciation, less by-product ilmenite credit divided by rutile volume sold during the period. By-product ilmenite credit equals the volume of ilmenite produced in proportion to the rutile sold during the period, multiplied by the average ilmenite price achieved during the period

Related Party

Related party transactions are disclosed in note 14 to the condensed set of financial statements. There has been no material changes in related party transactions described in the last annual report.

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the year and could cause actual results to differ materially from expected results. These risks were set out in detail in the Annual Report for the year ended 31 December 2011 and remain appropriate in 2012. Key risks relate to the following:

- Exploration and development risk
- Operating risks
- Estimates of mineral reserves and resources
- Insurance
- Competition
- Volatility of mineral prices
- Political risk
- Protection of assets and personnel
- Government regulation
- Title to properties
- Energy cost and supply
- Rehabilitation
- Dependence on key personnel, contractors, experts and other advisers

Going Concern

As at 30 June 2012, after all capital expenditures, the non-controlling interest purchase and associated PAYE prepayments, Sierra Rutile had US$23.3 million of cash and US$30.2 million of debt outstanding, due to the GoSL, representing a gearing level of just 4.4%.

The Board has considered the Group's cash flow forecasts for the period to the end of December 2014.The Board is satisfied that the Group's forecasts and projections, taking into account of reasonably possible changes in trading performance show that the Group will be able to operate within the level of its current facilities for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Forward Looking Information

This financial report contains certain forward looking statements with respect to the financial condition, results, operations and business of the Group. These statements and forecasts involve risk and uncertainty because they relate to events that depend on circumstances in the future. There are a number of factors that could cause actual results or developments to differ from those expressed or implied by these forward looking statements.

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DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;

b) the half yearly financial report includes a fair review of the information:

- being an indication of important events that have occurred during the first six months of the financial year, and their impact on the half yearly financial report and a description of the principal risks and uncertainties for the remaining six months of the financial year
- being disclosure of related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or the performance of the Group during that period and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

By order of the Board

John Sisay	Charles Entrekin
29 August 2012	29 August 2012

INDEPENDENT REVIEW REPORT TO SIERRA RUTILE LIMITED

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and related Notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Group in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Group those matters we are required to state to them in an independent review 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 Group, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM rules of the London Stock Exchange.

As disclosed in Note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules of the London Stock Exchange.

Deloitte LLP

Chartered Accountants and Statutory Auditor

London, UK

29 August 2012

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statement of comprehensive income
Interim period ended 30 June 2012

	Notes	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Revenue	3	98,722	20,045	54,962
Cost of sales		(32,300)	(26,320)	(55,216)
Gross profit/(loss)		66,422	(6,275)	(254)
Other income		106	189	244
Administrative and marketing expenses		(8,829)	(4,633)	(12,767)
Exceptional items	4	-	-	(13,079)
		57,699	(10,719)	(25,856)
Net finance costs	5	(1,044)	(3,641)	(1,793)
Profit/(loss) before taxation		56,655	(14,360)	(27,649)
Income tax expense	6	(497)	(215)	(336)
Total comprehensive income/(loss) for the period/year		56,158	(14,575)	(27,985)
Profit/(loss) attributable to:				
Owners of the parent		56,158	(13,980)	(26,986)
Non-controlling interests		-	(595)	(999)
		56,158	(14,575)	(27,985)
Earnings/(loss) per share (US$)				
- basic	7(a)	0.110	(0.029)	(0.056)
- diluted	7(b)	0.106	(0.029)	(0.056)

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statement of financial position
Interim period ended 30 June 2012

ASSETS	Notes	30 June 2012 US$'000	30 June 2011 US$'000	31 December 2011 US$'000
Non-current assets				
Intangible assets		10,852	13,158	9,063
Property, plant and equipment	8	116,258	110,080	99,972
Non-current receivables		-	727	727
		127,110	123,965	109,762
Current assets				
Inventories		27,031	15,251	20,493
Trade and other receivables		28,748	17,864	23,091
Cash and cash equivalents	12	23,525	15,842	10,658
		79,304	48,957	54,242
Total assets		206,414	172,922	164,004
LIABILITIES				
Current liabilities				
Trade and other payables		16,364	18,658	22,998
Current tax liabilities		39	66	112
Short term borrowings	9	424	114	-
		16,827	18,838	23,110
Non-current liabilities				
Medium and long term borrowings	9	29,759	34,056	30,712
Retirement benefit obligations		1,497	765	996
Provision for liabilities and charges		2,473	3,261	2,478
		33,729	38,082	34,186
Total liabilities		50,556	56,920	57,296
Net assets		155,858	116,002	106,708
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	10	272,687	269,810	272,609
Share option reserve		5,199	2,174	1,984
Retained loss		(122,028)	(137,323)	(148,822)
Owners' of the parent		155,858	134,661	125,771
Non-controlling interests		-	(18,659)	(19,063)
Total equity		155,858	116,002	106,708

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statement of cash flows
Interim period ended 30 June 2012

	Notes	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Operating activities				
Cash inflow/(outflow) from operations	12	51,647	(4,957)	(3,040)
Interest received		-	11	20
Interest paid		(1,198)	(2,287)	(1,695)
Tax paid		(570)	(424)	(499)
Net cash inflow/(outflow)from operating activities		49,879	(7,657)	(5,214)
Investing activities				
Purchase of property, plant and equipment		(22,981)	(5,079)	(15,256)
Purchase of intangible assets		(1,813)	-	-
Net cash used in investing activities		(24,794)	(5,079)	(15,256)
Financing activities				
Repayment of borrowings		-	(17,033)	(17,033)
Net proceeds from issue of shares		-	17,847	17,847
Net proceeds from exercise of share options		-	-	2,799
Acquisition of non- controlling interests	11	(12,396)	-	-
Net cash (used in)/from financing activities		(12,396)	814	3,613
Net increase/(decrease) in cash and cash equivalents		12,689	(11,922)	(16,857)
Cash and cash equivalents at beginning of the period		10,658	28,268	28,268
Net increase/(decrease) to cash and cash equivalents		12,689	(11,922)	(16,857)
Effect of foreign exchange rate changes		(10)	(618)	(753)
Cash and cash equivalents at end of period	12	23,337	15,728	10,658

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statements of changes in equity
Interim period ended 30 June 2012

	Note	Equity attributable to owners of the Group					
		Share capital US$'000	Share option reserve US$'000	Retained loss US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2011		251,963	-	(123,343)	128,620	(18,064)	110,556
Issue of ordinary shares		17,847		-	17,847	-	17,847
Recognition of share-based payments		-	2,174	-	2,174	-	2,174
Total comprehensive loss for the period		-	-	(13,980)	(13,980)	(595)	(14,575)
Balance at 30 June 2011		269,810	2,174	(137,323)	134,661	(18,659)	116,002
Issue of ordinary shares		2,799	-	-	2,799	-	2,799
Recognition of share-based payments		-	(190)	1,507	1,317	-	1,317
Total comprehensive loss for the period		-	-	(13,006)	(13,006)	(404)	(13,410)
Balance at 31 December 2011		272,609	1,984	(148,822)	125,771	(19,063)	106,708
Balance at 1 January 2012		272,609	1,984	(148,822)	125,771	(19,063)	106,708
Total comprehensive income for the period		-	-	56,158	56,158	-	56,158
Acquisition of non-controlling interests	11	-	-	(29,408)	(29,408)	19,063	(10,345)
Exercise of share options		78	(44)	44	78	-	78
Recognition of share-based payments		-	3,259	-	3,259	-	3,259
At 30 June 2012		272,687	5,199	(122,028)	155,858	-	155,858

Notes to unaudited interim condensed consolidated financial statements
Interim period ended 30 June 2012

1. General information

Sierra Rutile Limited ("Sierra Rutile") is a public limited company incorporated and domiciled in the British Virgin Islands. The address of its registered office is at P.O. Box 4301, Trinity Chambers, Road Town, Tortola, British Virgin Islands.

2. Accounting policies

Basis of preparation

The condensed financial statements for the six month period ended 30 June 2012 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

These financial statements are condensed financial statements and accordingly do not include all of the information required for a full annual financial report and are to be read in conjunction with the Group's financial statements for the year-ended 31 December 2011, which were prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union. The financial information for the year-ended 31 December 2011 does not therefore constitute statutory accounts. This information was derived from the statutory accounts for the year-ended 31 December 2011. The auditor's report on these accounts was unqualified and did not include a reference to any matters to which the auditor drew attention by way of an emphasis of matter.

The condensed financial statements have been prepared under the historical cost convention. The accounting policies applied are consistent with those adopted and disclosed in the Group's financial statements for the year-ended 31 December 2011, with the exception of certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board, which were applicable from 1 January 2012. These have not had a material impact on the accounting policies, methods of computation or presentation applied by the Group.

Going concern

The Board has considered the Group's cash flow forecasts for the period to the end of August 2013. The Board is satisfied that the Group's forecasts and projections taking account of reasonably possible changes in trading performance show that the Group will be able to operate within the level of its current facilities for the foreseeable future. Accordingly the Board continues to adopt the going concern basis in preparing the condensed financial statements (see page 3 of this report).

3. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker of the Group to allocate resources to the segments to assess their performance.

The strategy of the Group is to produce, refine and sell rutile. Information reported to the Board is on an integrated basis, which is how decisions over resource allocation are made. The Group itself has only one product being rutile, with ilmenite, zircon and other revenue streams being by-products of the integrated rutile production process.

As such, the Group considers there to be one operating segment being the production, refining and sale of rutile.

(a) Segment revenue

Revenue represents the invoiced amount in respect of sales of rutile, ilmenite and zircon extracted during the period excluding sales discount and consists of the following:

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Rutile	96,622	14,827	40,066
Ilmenite	2,100	1,541	3,979
Zircon	-	3,677	10,917
	98,722	20,045	54,962

(b) Geographical information

Segment revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Asia	51,475	4,617	22,767
Europe	29,030	13,067	20,738
North America	14,390	-	6,642
South America	3,827	2,002	4,456
MENA (Middle East and North Africa)	-	292	292
Russia	-	67	67
	98,722	20,045	54,962

No customers are currently located in Sierra Leone.

For the period ended 30 June 2012 revenues of US$49,204,000 and US$30,863,000 were generated from two customers (30 June 2011: Revenues of US$10,741,000 and US$3,339,000 were derived from two customers) both of whom accounted for more than 10% of our total sales in each period.

For the year ended 31 December 2011 revenues of US$12,344,000, US$11,800,000, US$7,026,000 and US$10,900,000 were generated from four customers all of whom accounted for more than 10% of our total annual sales.

(c) Segment assets

All of the Group's assets are in Sierra Leone

4. Exceptional items

In 2011, the Group recorded an exceptional loss of US$13.1 million. Following a strategic review and incorporating the findings of a number of consultants including Snowden Group, CPG Resources and Titan Salvage, management wrote down fully the US$10,126,000 carrying value of a capsized dredge and the US$2,235,000 carrying value of a partially constructed dredge. A provision of US$707,000 was also raised for a potential tax exposure arising on the sale of Sierra Minerals in 2008.

5. Net finance costs

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Interest expense:			
- Government of Sierra Leone loan	(1,370)	(1,616)	(3,013)
- Bank overdrafts	-	(12)	(33)
Total borrowing costs	(1,370)	(1,628)	(3,046)
Interest income	-	-	20
Net foreign exchange transaction gains/(losses)	326	(2,013)	1,233
	(1,044)	(3,641)	(1,793)

6. Income taxes

(a) Income tax expense

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Minimum turnover tax	497	215	275
Prior year adjustment	-	-	61
Income tax expense	497	215	336

Under the provisions of an agreement reached with GoSL in June 2003, the Group's operations in Sierra Leone are not subject to standard Sierra Leone corporate income tax until 1 January 2015. Instead, up to that time, the operations are subject to a minimum tax charged at 0.5% of the turnover of the business. From 1 January 2015, the taxation of the Group's operations in Sierra Leone will revert to the provisions of the Sierra Rutile Agreement (Ratification) Act 2002, under which tax will be charged at an amount not less than 3.5% of turnover and not more than the standard Sierra Leone corporate income tax rate (up to a maximum rate of 37.5%) on taxable profits.

6. Income taxes (continued)

Based on the above, the income tax expense can be reconciled to the Group's profit/ (loss) before tax as follows:

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Profit/(loss) before tax	56,655	(14,360)	(27,649)
Tax at Sierra Leone corporate income tax rate applicable to the Group-0%	-	-	-
Minimum turnover tax	497	215	275
Prior year adjustment	-	-	61
Income tax expense	497	215	336

(b) Current tax liabilities

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Beginning balance	112	275	275
Charges to statement of comprehensive income	497	215	336
Paid during the year	(570)	(424)	(499)
At end of period	39	66	112

7. Earnings/(loss) per share

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
(a) Basic earnings/(loss) per share			
Profit/(loss) attributable to owners of the parent	56,158	(13,980)	(26,986)
Weighted average number of ordinary shares in issue	509,256,370	483,020,811	483,177,479
Basic earnings/(loss) per share	0.110	(0.029)	(0.056)

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
(b) Diluted earnings/(loss) per share			
Profit/(loss) attributable to owners of the parent	56,158	(13,980)	(26,986)
Weighted average number of ordinary shares in issue	531,189,499	483,020,811	483,177,479
Diluted earnings/(loss) per share	0.106	(0.029)	(0.056)

Share options granted to Directors and selected employees will potentially affect the earnings per share ("EPS"). For the six months ended 30 June 2011 and year-ended 31 December 2011, because there is a reduction in loss per share resulting from the assumption that the share options are exercised, the options are considered anti-dilutive and are ignored in the computation of diluted EPS.

8. Property, plant and equipment

	Infrastructure US$'000	Plant machinery and equipment US$'000	Mineral sand prospect and mine development US$'000	Construction work in progress US$'000	Dredge 2 US$'000	Explorations US$'000	Total equity US$'000
Cost							
Balance at 1 January 2011	29,729	156,443	67,520	17,208	10,126	2,790	283,816
Additions	-	1,255	976	266	-	2,582	5,079
At 30 June 2011	29,729	157,698	68,496	17,474	10,126	5,372	288,895
Depreciation							
Balance at 1 January 2011	15,053	121,287	37,326	-	-	210	173,876
Charge for the period	247	2,666	2,026	-	-	-	4,939
At 30 June 2011	15,300	123,953	39,352	-	-	210	178,815
Net Book Value -30 June 2011	14,429	33,745	29,144	17,474	10,126	5,162	110,080
Cost							
Balance at 1 July 2011	29,729	157,698	68,496	17,474	10,126	5,372	288,895
Additions	16	3,718	823	881	-	1,012	6,450
Impairment charge	-	-	-	(2,235)	(10,126)	-	(12,361)
Disposals	-	(554)	-	-	-	-	(554)
At 31December 2011	29,745	160,862	69,319	16,120	-	6,384	282,430
Depreciation							
Balance at 1July 2011	15,300	123,953	39,352	-	-	210	178,815
Charge for the period	240	1,823	2,123	-	-	-	4,186
Disposals	-	(543)	-	-	-	-	(543)
At 31 December 2011	15,540	125,233	41,475	-	-	210	182,458
Net Book Value-31December 2011	14,205	35,629	27,844	16,120	-	6,174	99,972
Cost							
Balance at 1 January 2012	29,745	160,862	69,319	16,120	-	6,384	282,430
Additions	-	7,424	741	12,773	-	821	21,759
Transfers	-	950	-	-	-	(950)	-
Impairment charge	-	(250)	-	-	-	-	(250)
Balance at 30 June 2012	29,745	168,986	70,060	28,893	-	6,255	303,939
Depreciation							
Balance at 1January 2012	15,540	125,233	41,475	-	-	210	182,458
Charge for the period	239	2,856	2,128	-	-	-	5,223
At 30 June 2012	15,779	128,089	43,603	-	-	210	187,681
Net Book Value-30 June 2012	13,966	40,897	26,457	28,893	-	6,045	116,258

As at 30 June 2012 an impairment provision of $250,000 was made against a barge damaged during the period.

In 2011, following technical and economic evaluation, capital expenditure spent on Dredge D2 (US$10,126,000) and Dredge D3 (US$2,235,000) was fully impaired, creating an exceptional loss of US$12,361,000 at 31 December 2011.

9. Borrowings

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Medium and short term borrowings			
Government of Sierra Leone	29,759	34,056	30,712
Short term borrowings			
Bank overdraft	188	114	-
Government of Sierra Leone	236	-	-
	30,183	34,170	30,712

The GOSL borrowing is subject to interest of 8% per annum and is repayable semi-annually commencing in December 2013. The Group does not have any undertaking, nor is it contractually bound to create, any lien on or with respect to any of its rights or revenues.

The carrying amounts of non-current borrowings are not materially different from their fair value.

10. Share capital

Issued ordinary shares

	Number of shares	Share Capital US$'000
Balance at 1 January 2011	385,864,075	251,963
Shares issued during period at GBP 10 p each	113,660,925	17,847
At 30 June 2011	499,525,000	269,810
Options exercised	9,730,000	2,799
At 31 December 2011	509,255,000	272,609
Options exercised	250,000	78
At 30 June 2012	**509,505,000**	**272,687**

11. Non-controlling interest

On 30 April 2012, the Group entered into an agreement with the GoSL to pay, in cash, PAYE taxes that have historically been satisfied through the issuance of shares in Sierra Leone's operating subsidiary in Sierra Leone. As part of the agreement the shares held by the GoSL were transferred back to Sierra Rutile. The cost of this agreement was US$13,000,000 (and legal fees of US$123,000) which included the settlement of PAYE liabilities previously held by Sierra Rutile of US$2,778,000 in relation to liabilities in 2010 and 2011 which had not been settled by share issuances. As part of the agreement, the GoSL also agreed to settle its payable to Sierra Rutile of US$727,000 previously

12. Non-controlling interest (continued)

recorded as a non-current receivable. The net cash out flow for Sierra Rutile was therefore US$12,396,000.

The non-controlling interest balance previously recognised of US$19,063,000 was therefore also eliminated with the balance being recorded within retained loss in accordance with IAS27 "Consolidated Financial Statement".

12. Notes to the condensed cash flow statement

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
(a) Cash inflow/(outflow) from operations			
Profit/(loss) for the period/year before tax	56,655	(14,360)	(27,649)
Adjustments for:			
Depreciation on property, plant and equipment	5,223	4,939	9,125
Amortisation of intangible assets	23	22	262
Interest income	-	(11)	(20)
Interest expense	1,370	2,241	3,046
Exchange(gain)/loss	(800)	3,372	(1,233)
Share option expense	3,259	2,175	3,491
Tax claim liability	-	-	707
Impairment of property, plant and equipment	250	-	12,361
Property, plant and equipment written off	-	-	11
	65,980	(1,622)	101
Changes in working capital			
- inventories	(6,538)	(1,660)	(6,902)
- trade and other receivables	(4,436)	(4,204)	(6,203)
- trade and other payables	(3,855)	2,493	10,480
- Increase in rehabilitation provision	(5)	-	(783)
- Increase in provision for retirement benefit obligations	501	36	267
Cash inflow/(outflow) from operations	51,647	(4,957)	(3,040)

(b) Cash and cash equivalents

	6 months to 30 June 2012 US$'000	6 months to 30 June 2011 US$'000	Year ended 31 December 2011 US$'000
Cash in hand and at bank	18,405	4,374	6,193
Short term bank deposits	5,120	11,468	4,465
Cash and cash equivalents	**23,525**	**15,842**	**10,658**
Bank overdraft (included within short-term borrowings)	(188)	(114)	-
	23,337	**15,728**	**10,658**

13. Capital Commitments

	6 months to 30 June, 2012 US$'000	6 months to 30 June, 2011 US$'000	Year ended 31 December 2011 US$'000
Property, plant and equipment acquisition contracted for at the end of the reporting period but not yet incurred:	12,704	2,816	14,968

Sierra Rutile Limited (SRL), a subsidiary operating in Sierra Leone, entered into the above capital commitments.

14. Related party transactions

(a) Transactions and balances	Amounts receivable US$'000	Amounts payable US$'000	Purchases/ project fees US$'000	Total US$'000
Shareholder:				
Group related to significant shareholder*	-	-	(171)	(171)
Director:				
Enterprise in which Mr Alex Kamara is also a director-Cemmats Group**	-	-	(224)	(224)
Shareholder:				
Group related to significant shareholder*	-	-	(171)	(171)
Director:				
Enterprise in which Mr Alex Kamara is also a director-Cemmats Group**	-	(6)	(466)	(472)
Director:				
Enterprise in which Mr Alex Kamara is also a director-Cemmats Group**	-	(4)	(355)	(359)
Amounts receivable on exercise of options	78	-	-	78

* During the year 2011, the Group entered into an agreement to purchase mining equipment for US$170,770 from Swanmet (Singapore) Pte Ltd (Swanmet). Swanmet is an entity which, at the time of the purchase, was controlled by Pala Investments Holdings Ltd which at this time held 38.2% of Sierra Rutile's issued share capital.

** Mr. Alex B. Kamara is a Director of the Group. Mr. Kamara is also a non-executive director of Cemmats Group, a Sierra Leonean Group which has a number of contracts with Sierra Rutile to supply mining services and equipment.

14. Related party transactions (continued)

(b) Agreements with senior officers, directors and advisors

During the period the Group granted share options of 1,150,000 (30 June 2011: 19,295,000) to Directors, Senior Officers and advisors of the Group with exercise prices varying between £0. 6125 and £0.65 (30 June 2011: £0.125 and £0.20)

15. Contingent liabilities

The Group is subject to various claims which arise in the normal course of business.

During 2011, in light of new analysis and after reviewing the work of third party legal counsel, the Group reversed a contingent consideration liability of US$3,855,000 previously recognised in relation to the original acquisition of the Sierra Rutile assets in 2001. The Group strongly believes that no amount is payable to the original vendor, noting that the maximum liability would be US$10,000,000.

16. Events after reporting period

Events after the reporting period are disclosed only to the extent that they relate directly to the interim financial statements and are material in effect. As at the date of issuing this set of interim financial statements, there was no material event after the reporting period which needs to be disclosed.