



Sierra Rutile Limited

Interim Results

5 September 2011: Sierra Rutile Limited (“SRL”) announces its unaudited interim results for the six months ended June 30, 2011 (“the Period”).

Highlights

- 8% increase in sales to US\$20.0 million in H1 2011 (H1 2010: US\$18.6 million)
- H1 2011 rutile production 11.4% lower to 27,149 tonnes (H1 2010: 30,659 tonnes) due to lower grades being mined as planned
- H1 2011 zircon concentrate production up 71.5% to 4,778 tonnes (H1 2010: 2,786 tonnes)
- Early repayment of US\$17.8 million of the loan from the Government of Sierra Leone (“GOSL Loan”)
- Capital expenditure (“capex”) budget of US\$14.1 million approved for FY 2011. Focused on improving current operational performance (FY 2010 capex budget: US\$4.0 million)
- Revised JORC-compliant resource statement released of over 600 million tonnes of rutile
- Maiden JORC compliant resource of 33,000 tonnes of tailings confirmed, containing 1.4% total rare earths (“TREO”). TREO of 2.2% also confirmed in ongoing production of high tension tailings
- FY 2011 rutile production will be broadly in line with 2010, as per previous guidance
- FY 2011 zircon concentrate production targets increased to over 7,500 tonnes
- Strategic review into expansion of production progressing well, with conclusions from external consultants expected to be received by the Company in the fourth quarter of 2011
- Market fundamentals for rutile, zircon and ilmenite remain strong

CEO's Review

As expected, rutile production was 13% lower at 27,149 tonnes in the first half of 2011 than in the corresponding period of 2010 due to the position of Dredge D1 ("D1") in a lower grade area on the west side of the pond. The production problems associated with mining a lower grade area of the deposit were exacerbated by low dredge availability resulting from historical under-investment on essential dredge maintenance.

Due to the lower throughput of rutile, the mineral separation plant had the availability to re-process additional historic tailings for additional zircon concentrate production. As a result, 4,788 tonnes of zircon concentrate were produced compared with 2,786 tonnes in H1 2010.

Sales in H1 2011 increased 8% to US\$20.0 million compared to US\$18.6 million in H1 2010, driven primarily by higher realized prices on rutile sales during the Period (US\$571/tonne in H1 2011 vs US\$530/tonne in H1 2010).

Revenues from rutile sales in the Period were negatively impacted as a result of H1 2011 production being used to fulfil legacy contracts that, as announced in December 2010, had rolled over from 2010 and were subject to lower pricing.

As previously announced, in May 2011 the Board approved a FY 2011 capex budget of US\$14.1 million (FY 2010 capex US\$4.0 million) to be spent on essential maintenance and refurbishments to improve production and maximise efficiency at SRL's current operations. Of this US\$14.1million budget, US\$5.1million was spent in H1 2011 on a number of upgrades including 12 new banks of spirals on the D1 Wet Plant which have been commissioned and are delivering increased recovery rates. Additionally, in July 2011, major works to move D1 to a new mining area on the east side of the pond ("East Area") were successfully completed.

The maintenance and refurbishment works, which are set to continue through H2 2011, will allow SRL to reduce downtime and maximise dredge availability in the future.

SRL expects production levels to increase during the mining of the East Area due to higher grades and as a result of the increased investment made in operations during the Period. Accordingly, SRL is confident that FY 2011 rutile production will be broadly in line with 2010, as per previous guidance.

SRL will continue the increased zircon concentrate production in the second half of the year, and now expects FY 2011 zircon concentrate production to be over the 7,092 tonnes produced in 2010.

SRL anticipates 2012 production levels will be significantly above 2011 as the benefits and associated efficiency improvements of maintenance and refurbishment works are fully realised.

Financial

Net loss for the Period was US\$14.6 million compared to a loss of US\$1.5 million (pre-exceptional items) in H1 2010. The increased loss in H1 2011 was primarily a result of:

- Increased costs of sales in H1 2011 over H1 2010, driven by a need to increase maintenance and outsourcing due to under investment in prior years (US\$5.9 million in H1 2011 vs US\$4.1 million in H1 2010) and the rise in fuel prices, which led to an increase in fuel costs from US\$5.1 million in H1 2010 to US\$6.9 million in H1 2011
- Increased administrative expenses from US\$2.1 million in H1 2010 to US\$4.6 million in H1 2011, due primarily to the increase in the non-cash expenses related to share based payments (H1 2011 US\$2.2 million, H1 2010 nil)
- A US\$2.0 million unrealized loss on the exchange of its Euro denominated loan into US\$ in H1 2011 compared to a US\$5.1 million gain in H1 2010

During the Period net cash absorbed in operating activities was US\$7.5 million, of which, US\$2.7 million was spent on interest and tax (both paid to the Government of Sierra Leone) and US\$4.8 million was deployed as working capital in operations, predominantly in increasing inventory and placing prepayments on long lead time equipment which will be delivered in the second half of 2011.

In addition, SRL spent US\$5.1 million on property plant and equipment in the first half of the year, US\$ 1.1 million more than was spent in the entire preceding year. Accordingly, SRL's cash balance fell from US\$28.3 million at 31 December 2010 to US\$15.8 million as at 30 June 2011. However, SRL continues to have sufficient cash on hand and enjoys a strong balance sheet with net assets of over US\$116.0 million.

In February 2011, SRL's financial position was strengthened, with a successful US\$17.8 million capital raising, the proceeds of which were used to make an early repayment of part of the GOSL Loan. As a result, SRL has no payments of principal to make on the GOSL Loan until 2013, allowing it to maximise funds available for operations during this crucial time in SRL's development.

SRL expects operating costs in the second half 2011 to be broadly in line with those in H1 2011 but on higher production volumes and prices.

Strategic Review

The strategic review is progressing well. The reports of the consultants engaged to study the various expansion and optimization options (announced in May 2011) are scheduled to be delivered to SRL in Q4 2011 and SRL expects to be in a position to announce the findings of these studies as well as next steps in SRL's expansion and optimization plan once it has considered and evaluated the studies.

Markets & Outlook

SRL remains encouraged by the market fundamentals for all its products, with short-to-medium term TiO₂ feedstock supplies constrained and barriers to entry remaining high. As a result, SRL expects that rutile prices will continue to increase as demand continues to outstrip supply in 2012.

SRL currently has 33,000 tonnes of production of standard grade rutile contracted for delivery in H2 2011 at an average price of US\$745 per tonne. All of SRL's 2012 production is currently uncontracted, allowing SRL to maximise revenues in what is expected to be an unprecedented pricing environment.

Sierra Rutile Limited

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SIERRA RUTILE LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - JUNE 30, 2011

	Note	June 30, 2011	Dec 31, 2010	June 30, 2010
		USD'000	USD'000	USD'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	110,080	109,940	120,941
Intangible assets		13,158	13,180	13,209
Non-current receivables		727	727	753
		<u>123,965</u>	<u>123,847</u>	<u>134,903</u>
Current assets				
Inventories		15,251	13,591	16,876
Trade and other receivables		17,864	13,661	15,817
Cash in hand and bank balance		15,842	28,373	27,446
		<u>48,957</u>	<u>55,625</u>	<u>60,139</u>
Total assets		<u><u>172,922</u></u>	<u><u>179,472</u></u>	<u><u>195,042</u></u>
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	8	269,809	251,963	251,963
Reserves		(135,148)	(123,343)	(127,117)
Owners' interest		134,661	128,620	124,846
Non-controlling interests		(18,659)	(18,064)	-
Total equity		<u>116,002</u>	<u>110,556</u>	<u>124,846</u>
LIABILITIES				
Non-current liabilities				
Borrowings	9	34,056	43,398	45,141
Retirement benefit obligations		765	729	450
Provision for liabilities and charges		3,261	3,261	3,261
		<u>38,082</u>	<u>47,388</u>	<u>48,852</u>
Current liabilities				
Trade and other payables		18,658	16,165	21,041
Current tax liabilities		66	275	122
Borrowings	9	114	5,088	181
		<u>18,838</u>	<u>21,528</u>	<u>21,344</u>
Total liabilities		<u>56,920</u>	<u>68,916</u>	<u>70,196</u>
Total equity and liabilities		<u><u>172,922</u></u>	<u><u>179,472</u></u>	<u><u>195,042</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED JUNE 30, 2011

	Note	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
		USD'000	USD'000	USD'000
Sales		20,045	43,914	18,633
Cost of sales		<u>(26,320)</u>	<u>(48,642)</u>	<u>(21,639)</u>
Gross loss		(6,275)	(4,728)	(3,006)
Other income		189	171	402
Administrative and marketing expenses		(4,633)	(6,395)	(2,091)
		<u>(10,719)</u>	<u>(10,952)</u>	<u>(4,695)</u>
Exceptional item	4	-	(3,075)	5,336
Finance (costs)/income	5	<u>(3,641)</u>	<u>256</u>	<u>3,199</u>
(Loss)/profit before taxation		(14,360)	(13,771)	3,840
Taxation		(215)	(159)	38
(Loss)/profit for the period/year		<u>(14,575)</u>	<u>(13,930)</u>	<u>3,878</u>
Other Comprehensive Income:		-	-	-
Total comprehensive (loss)/income for the period/year		<u>(14,575)</u>	<u>(13,930)</u>	<u>3,878</u>
(Loss)/profit attributable to:				
Owners of the parent		(13,980)	(12,357)	3,878
Non-controlling interests		(595)	(1,573)	-
		<u>(14,575)</u>	<u>(13,930)</u>	<u>3,878</u>
Total comprehensive (loss)/profit attributable to:				
Owners of the parent		(13,980)	(12,357)	3,878
Non-controlling interests		(595)	(1,573)	-
		<u>(14,575)</u>	<u>(13,930)</u>	<u>3,878</u>
(Loss)/earnings per share (USD)				
- basic	3(a)	<u>(0.029)</u>	<u>(0.032)</u>	<u>0.010</u>
- diluted	3(b)	<u>(0.029)</u>	<u>(0.032)</u>	<u>0.010</u>

SIERRA RUTILE LIMITED AND ITS SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN
 EQUITY
 FOR THE PERIOD ENDED JUNE 30, 2011

	<i>Attributable to owners of the parent</i>			Non controlling interest	Total equity	
	Share capital	Share option reserve	Revenue deficit			Total
	USD'000	USD'000	USD'000	USD'000	USD'000	
Balance at January 1, 2011	251,963	-	(123,343)	128,620	(18,064)	110,556
Issue of share capital	17,846	-	-	17,846	-	17,846
Share options	-	2,175	-	2,175	-	2,175
Total comprehensive loss for the period	-	-	(13,980)	(13,980)	(595)	(14,575)
At June 30, 2011	269,809	2,175	(137,323)	134,661	(18,659)	116,002
Balance at January 1, 2010	251,963	-	(130,995)	120,968	-	120,968
Total comprehensive loss for the year	-	-	(12,357)	(12,357)	(1,573)	(13,930)
Movements	-	-	18,837	18,837	(16,491)	2,346
Gain on disposal of shares in subsidiary	-	-	1,172	1,172	-	1,172
At December 31, 2010	251,963	-	(123,343)	128,620	(18,064)	110,556
Balance at January 1, 2010	251,963	-	(130,995)	120,968	-	120,968
Total comprehensive income for the period	-	-	3,878	3,878	-	3,878
At June 30, 2010	251,963	-	(127,117)	124,846	-	124,846

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2011

	Note	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
		USD'000	USD'000	USD'000
Operating activities				
Cash (absorbed in)/generated from operations	10	(4,843)	9,264	4,842
Interest received		11	71	32
Interest paid		(2,287)	(2,455)	(9)
Tax paid		(424)	(59)	(15)
Net cash (used in)/generated from operating activities		<u>(7,543)</u>	<u>6,821</u>	<u>4,850</u>
Investing activities				
Purchase of property, plant and equipment		(5,079)	(3,986)	(2,081)
Net cash used in investing activities		<u>(5,079)</u>	<u>(3,986)</u>	<u>(2,081)</u>
Financing activities				
Repayment of borrowings		(17,033)	-	-
Net Proceeds from issue of shares		17,846	-	-
Net cash from financing activities		<u>813</u>	<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		<u>(11,809)</u>	<u>2,835</u>	<u>2,769</u>
Movement in cash and cash equivalents				
At January 1,		28,268	25,892	25,892
(Decrease)/increase		(11,809)	2,835	2,769
Effect of foreign exchange rate changes		(617)	(459)	(1,396)
At June 30 /December 31,	10	<u>15,842</u>	<u>28,268</u>	<u>27,265</u>

SIERRA RUTILE LIMITED AND ITS SUBSIDIARIES
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD ENDED JUNE 30, 2011

1. GENERAL INFORMATION

Sierra Rutile Limited (SRX) is a limited liability 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. BASIS OF PREPARATION

The financial information presented herein does not represent statutory accounts. The Group's statutory financial statements for the year ended December 31, 2010 were prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention. The auditors, BDO & Co, reported on those accounts and their report was unqualified.

A copy of the 2010 Annual Report, including the auditors' report referred to above, is available on the Company's website: www.sierra-rutile.com.

These condensed 6 months financial statements have not been audited or reviewed by the independent auditors pursuant to the Auditing Practices Board guidance on the "Review of Interim Financial Information". The accounting policies used in the preparation of the unaudited financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2010, except for the adoption of relevant amendments to published Standards, Standards and Interpretations issued now effective. The interim financial statements comply with IAS 34.

3. (LOSS)/EARNINGS PER SHARE

	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
	USD	USD	USD
(a) Basic (loss)/earnings per share			
(Loss)/profit attributable to equity holders of the group (thousand)	<u>(13,980)</u>	<u>(12,357)</u>	<u>3,878</u>
Weighted average number of ordinary shares in issue	<u>483,020,811</u>	<u>385,864,075</u>	<u>385,864,075</u>
Basic (loss)/earnings per share	<u>(0.029)</u>	<u>(0.032)</u>	<u>0.010</u>
(b) Diluted (loss)/earnings per share			
(Loss)/profit attributable to equity holders of the group used to determine diluted (loss)/earnings per share (thousand)	<u>(13,980)</u>	<u>(12,357)</u>	<u>3,878</u>
Number of shares			
Weighted average number of ordinary shares in issue	<u>483,020,811</u>	<u>385,864,075</u>	<u>385,864,075</u>
Adjustments for (i) New placement	-	-	-
(ii) share options	-	-	-
Weighted average number of ordinary shares for diluted (loss)/profit per share	<u>483,020,811</u>	<u>385,864,075</u>	<u>385,864,075</u>
Diluted (loss)/earnings per share	<u>(0.029)</u>	<u>(0.032)</u>	<u>0.010</u>

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD ENDED JUNE 30, 2011**

4. EXCEPTIONAL ITEMS

At June 30, 2010, profit before tax included a net amount of USD 5.336 m representing compensation received from re-insurers of Sierra Rutile Limited ("SRL") and payment of associated costs. This followed the final settlement agreement reached with all insurers in SRL's legal action relating to the capsized of Dredge D2 in July 2008. Under the terms of the final settlement agreement, SRL received a total of USD 7.500 m from the remaining insurers. Out of this amount, professional fees associated with the claim amounting USD 2.164 m were paid and provided for.

5. FINANCE (COSTS)/INCOME

	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
	USD'000	USD'000	USD'000
Net finance costs			
Interest expense:			
- Government of Sierra Leone loan	(1,616)	(4,040)	(1,862)
- Bank overdrafts	(12)	(150)	(9)
- Others	-	(88)	-
Total borrowing costs	(1,628)	(4,278)	(1,871)
Net foreign exchange transaction(losses)/gains	(2,013)	4,534	5,070
	<u>(3,641)</u>	<u>256</u>	<u>3,199</u>

6. PROPERTY, PLANT & EQUIPMENT

	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
	USD'000	USD'000	USD'000
Balance at the beginning of the period/year	109,940	123,933	123,933
Additions	5,079	3,986	2,081
Impairments	-	(7,844)	-
Depreciation charge	(4,939)	(10,135)	(5,073)
Balance at the end of the period/year	<u>110,080</u>	<u>109,940</u>	<u>120,941</u>

7. CAPITAL COMMITMENTS

	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
	USD'000	USD'000	USD'000
Property, plant and equipment acquisition contracted for at the end of the reporting period but not yet incurred:	<u>2,816</u>	<u>2,146</u>	<u>259</u>

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

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD ENDED JUNE 30, 2011

8. SHARE CAPITAL

	Number of shares	6 months to June 30, 2011 USD'000	Year ended December 31, 2010 USD'000	6 months to June 30, 2010 USD'000
(a) Issued Ordinary Shares				
Balance at the beginning of the period	385,864,075	251,963	251,963	251,963
Shares Issued during the period at GBp 10 each	113,660,925	17,846	-	-
Balance at the end of the period	499,525,000	269,809	251,963	251,963

The company completed a placing of 113,660,925 at 10 pence per share on 23rd February 2011.

	Exercise Price	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
(b) Share options				
Total Outstanding Options as at reporting date	GBp 12.50-75.50	19,445,000	475,000	475,000
Number of Options issued during the period	GBp 12.50-20.00	19,295,000	-	-
Number of Options exercised during the period		-	-	-
Number of Options vested during the period	GBp 12.50-20.00	8,748,750	483,333	483,333
Number of Options to vest during the financial year	GBp 12.50-20.00	9,647,500		
Number of Options to vest within one year	GBP 12.50	898,750		
Number of Options to vest after one year		-	-	-

9. BORROWINGS

	6 months to June 30, 2011 USD'000	Year ended December 31, 2010 USD'000	6 months to June 30, 2010 USD'000
a. Analysis of Borrowings by Creditor			
Government of Sierra Leone	34,170	48,381	45,141
Others	-	105	181
	34,170	48,486	45,322
b. Government of Sierra Leone (GoSL)			
Balance at the end of the period	34,170	48,381	45,141
Repayment of principal amount	17,033	-	-
c. Analysis of GoSL's borrowing repayment due dates			

	Up to the end of Financial Year USD'000	within 1 year after Fin. Year USD'000	Between 1-2 years after Fin. Year USD'000	Between 2 -5 years after Fin. Year USD'000
Government of Sierra Leone	114	-	8,169	25,887

The GoSL Loan is denominated in EURO. The company paid EUR 13.0 million of the outstanding balance of the loan on the 11th March 2011, made up of EUR 12.3 million principal amount and EUR 0.7 million interests.

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD ENDED JUNE 30, 2011**

10. NOTES TO THE STATEMENT OF CASH FLOWS	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
	USD'000	USD'000	USD'000
(a) Cash (absorbed in)/generated from operations			
(Loss)/profit for the period/year before tax	(14,360)	(13,771)	3,840
Adjustments for:			
Depreciation on property, plant and equipment	4,939	10,135	5,074
Amortisation of intangible assets	22	63	34
Interest income	(11)	(71)	(32)
Interest expense	2,241	4,278	1,871
Exchange loss/(gain) on borrowings	2,869	(4,993)	(6,153)
Foreign currency translation difference	617	459	1,396
Share option expensed	2,175	-	-
Profit on disposal of shares in subsidiary	-	-	(331)
Impairment of Dredge D3	-	7,844	-
Prepayments written off	-	26	-
Increase/(decrease) in provision for retirement benefit obligations	36	70	(209)
	(1,472)	4,040	5,490
Changes in working capital			
-inventories	(1,660)	2,497	(788)
-trade and other receivables	(4,204)	3,145	989
-trade and other payables	2,493	(418)	(849)
Cash (absorbed in)/generated from operations	(4,843)	9,264	4,842
(b) Cash and cash equivalents	6 months to June 30, 2011	Year ended December 31, 2010	6 months to June 30, 2010
	USD'000	USD'000	USD'000
Cash in hand and at bank	4,374	6,836	7,482
Bank overdraft	-	(105)	(181)
Short term bank deposits	11,468	21,537	19,964
Cash and cash equivalents	15,842	28,268	27,265

11. EVENTS AFTER THE 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 need to be disclosed.

12. RELATED PARTY TRANSACTIONS

The following related party transactions took place during the reporting period:

- a. Grant of 15,295,000 share options to Directors, Senior Officers and Advisors of the company with exercise prices varying between GBP 12.50 and GBP 20.00.
- b. The reporting entity made cash advances amounting to USD 25.7 million to the operating subsidiary, Sierra Rutile Limited, out of which USD 18.7 million was used to repay GoSL loan and interests.
- c. The operating subsidiary, Sierra Rutile Limited, entered into an agreement to purchase mining equipment for USD 170,770 from Swanmet (Singapore) Pte Ltd (Swanmet). Swanmet is an entity which was controlled by PALA AG at the time of the purchase. PALA AG held and continues to hold 38.2% of Sierra Rutile Limited's issued share capital.