Ferro-Alloy Resources Limited / Index: LSE / Epic: FAR / Sector: Natural Resources

30 April 2019

Ferro-Alloy Resources Limited
("Ferro-Alloy" or the "Company" or the "Group")

Final Results for the year ended 31 December 2018

Ferro-Alloy Resources Limited, the vanadium mining and mineral production and processing company with operations based in Southern Kazakhstan is pleased to announce its final results for the period ended 31 December 2018.

Overview

- Established vanadium producer focused on expanding and developing the Balasausqandiq Vanadium Project ("Balasausqandiq" or the "Balasausqandiq Deposit")
- Operations located at the Balasausqandiq site with two main business activities:
  - the Balasausqandiq Vanadium Project (the "Project"), with a Net Present Value ("NPV") of US$2 billion (10% discount at a long-term vanadium pentoxide price of $7.50/lb) and a reserve of over 70 million tonnes estimated on the locally required basis, of which ore-body number one (of five) has estimated reserves on a JORC basis of 23 million tonnes; and
  - an existing profitable vanadium concentrate processing operation adapted from the former pilot plant (the "Existing Operation")
- A comprehensive staged development plan has been devised benefiting both the Project and Existing Operation. The staged development plan enables the latter phases to be substantially paid for from earnings, with only very small shareholder dilution
- Unusual sedimentary deposit allows for 60% lower capital and processing costs than typical primary vanadium producers and projects
- Surge in global demand for vanadium driven by:
  - Raised standards for construction and health and safety effectively requiring steel producers to utilise vanadium as a strengthening alloy;
  - the emerging use of vanadium in clean energy storage in the form of vanadium redox flow batteries ("VFB")
- Production of vanadium pentoxide in 2018 increased 279% to 125 tonnes (2017: 33 tonnes), with production from Q2 2018 onwards averaging 12 tonnes per month
- Increase in revenue to US$ 4.2 million (2017: US$ 1.1 million with vanadium pentoxide prices fluctuating in the period but averaging just over US$18/lb
- Net profit before tax increased to US$ 2.96 million (2017: loss US$ 1.1 million)

- Production in January and February of 2019 continued at a rate of around 12 tonnes per month, similar to that of production in the previous three quarters of 2018. A shutdown in March to install new equipment reduced production slightly and production for the quarter was 31 tonnes
- Post period end, successfully commenced trading on the London Stock Exchange Main Market having raised £5.2 million (before expenses) from institutional shareholders

Nick Bridgen, CEO, commented "These financial results demonstrate the significant progress achieved at Balasausqandiq in the period. We successfully increased production and subsequently significantly increased our revenue and profit. This strong financial performance, paired with our recent successful fundraise of £5.2 million, means that we are well funded to implement our ambitious development plan intended to increase production from the existing operation whilst advancing the Project towards production.

"The Balasausqandiq Project is a truly extraordinary project with unparalleled potential. Due to its unique geology, the Project could be one of the world's largest and lowest cost producing vanadium mines with industry leading profit margins, meaning that it is extremely profitable even when using a significant discount to the current vanadium price. With our existing operation combined with a defined development plan for the Project, Ferro Alloy offers a fantastic opportunity to gain exposure to the vanadium market where demand continues to grow, particularly with the increasing usage of vanadium batteries in clean energy storage."

For further information visit www.ferro-alloy.com or contact:

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About Ferro-Alloy Resources Limited

The Company's operations are all located at the Balasausqandiq Deposit in Kyzylordinskaya Oblast in the South of Kazakhstan. Currently the Company has two main business activities:

(a) the high grade Balasausqandiq Vanadium Project; and

(b) an existing vanadium concentrate processing operation

Balasausqandiq is a very large deposit, situated in Kyzylordinskaya Oblast in Southern Kazakhstan. The ore contains vanadium as the principal product, together with by-products of carbon, molybdenum, uranium, rare earth metals, potassium, and aluminium.

A reserve on the JORC 2012 basis has been estimated only for the first ore-body which amounts to 23 million tonnes, not including the small amounts of near-surface oxidised material which is in the Inferred resource category. The Reserves of all five of the currently explored ore-bodies are estimated to be over 70m tonnes on the locally required basis of reserve estimation but this does not include the full depth of ore-bodies 2-5. A resource of over 100m tonnes is expected once exploration of these further ore bodies is complete.

The Company has completed a local feasibility study to develop the mine and build processing facilities in two Phases. Phase 1 is planned to treat 1 million tonnes per year of ore to produce 5,600 tonnes per year of vanadium pentoxide, and Phase 2 will increase the ore treated to 4 million tonnes per year, producing 22,400 tonnes per year of vanadium pentoxide.

In addition, there is an existing concentrate processing operation at the site of the Balasausqandiq Deposit. The production facilities were originally created from a 15,000 tonnes per year pilot plant which was then adapted to treat low-grade concentrates and is now in the process of being expanded and further adapted to treat a wider variety of raw-materials.

The Company has already completed the first steps of a development plan which is expected to result in annualised production capacity of the existing plant increasing gradually to around 1,500 tonnes of contained vanadium pentoxide. The development plan includes upgrades to infrastructure, an extension to the existing factory and the installation of equipment to increase the throughput and to add the facilities to convert AMV into vanadium pentoxide.

The strategy of the Company is to develop both the Existing Operation and the Project in parallel. Although they are located on the same site and use some of the same infrastructure, they are separate operations.

CEO's report on operations for the year to 31 December 2018 and 2019 to date

Introduction

In the past year, Ferro-Alloy has made significant progress in expanding its Existing Operations and developing the Project. I am pleased to report our maiden final results following the commencement of trading on the Main Market of the London Stock Exchange on 28 March 2019, alongside the Kazakhstan Stock Exchange listing. As part of the London listing, we raised £5.2 million which will be used to further develop and expand production from the existing operation to around 1,500 tonnes per annum, as well as preliminary work on the main project to produce 22,500 tonnes per year from the Balasausqandiq mine.

Production

By the beginning of 2018 the basic adaptation of the former pilot plant to treat low-grade purchased concentrates had been completed and the required operating regimes had been worked out. I am pleased to report that operations largely carried on without major interruption throughout 2018 and production increased over the period, amounting to 125 tonnes of vanadium pentoxide for the year (2017: 33 tonnes) contained in ammonium metavanadate ("AMV"), resulting in a significant increase in revenue to US$ 4.22m (2017: US$1.13m) and profitability of US$2.96m (2017: loss US$1.08m).

Production increased to around 12 tonnes per month by the end of the second quarter and shipments to customers in 2018 totalled 130 tonnes compared with 52 tonnes in 2017.

The plant operated for 80% of available time during the year but averaged around 85% for the second half. Down-time was used to make improvements to the plant and install new equipment. As indicated at the time of the listing in London, operations have been historically interrupted by short term power outages and power instability. Permission has been granted to connect to an existing high-power line and the expansion plans discussed below include the cost of connection to the existing adjacent high voltage line which are expected to resolve any issues and result in a much lower cost of power.

Vanadium prices

The price of vanadium pentoxide started the year at around US$9.75/lb and by 31 December 2018 was US$15.50/lb, having reached a high of over US$28/lb in November and averaging just over US$18/lb in the year. The Company's only product during the year was AMV, a precursor product from which vanadium pentoxide is made by heating in a dissociation oven. AMV is sold on the basis of the content of vanadium pentoxide, less a discount to standard vanadium pentoxide.

Within the vanadium market there are favourable supply/demand dynamics that are anticipated to impact upon pricing in the long term. Heightened standards of construction in emerging

economies, particularly in China, have resulted in greater quantities of vanadium being used in the production of steel due to its strengthening and fire resistant qualities. A key potential future market for vanadium is clean energy storage in the form of vanadium redox flow batteries, essential technology for the long-term storage of renewable power.

Since the start of 2019, the price of vanadium pentoxide has been declining, trading at around US$9/lb as at 30 April 2019, although this remains above the long term average.

As is the norm in the industry, revenue, and the corresponding trade receivable, are recognised at the time of transfer of control to the customer, but the final pricing determination is based on assay and prices around the time of arrival of the goods at the port of destination. Therefore, shipments from the fourth quarter of 2018, for which revenue has been recognised at the year end price, may be subject to a downward price adjustment on delivery.

Earnings and cash flow

The Group generated revenues of US$4.2m for the period compared to US$1.1m in 2017, reflecting the increased production and sales volumes and average pricing detailed above. Cost of sales increased to US$1.7m from US$1.1m in 2017 primarily reflecting the increased volumes with gross margins increased to 60% from 4%.

Administrative expenses of US$1.3m (2017: US$0.9m) principally comprised employee costs, listing costs, audit and professional services and increased due to a general raising of such activities in preparation for listing on the London Stock Exchange.

The Group's intangible assets, exploration and evaluation assets and property, plant and equipment relating to the Balasausqandiq vanadium deposit and processing operations were impaired in prior periods due to the vanadium pricing environment at that time and uncertainties regarding future plans for the assets. The Group reassessed the recoverable value of these assets at 31 December 2018 in the light of the performance of the processing operation, the improved pricing environment and outlook and the plans for the assets as set out in the Prospectus issued on Admission to the London Stock Exchange, together with the underlying independent Competent Person's Report. As a result of the reassessment, the Board concluded that it was appropriate to reverse the previous impairments, net of depreciation and amortisation that would have arisen since the date of impairment, resulting in a net reversal of US$1.775m.

Net finance costs decreased to US$0.036m (2017: US$0.084m) as a result of the elimination of interest costs after the repayment of loans in 2017.

The Group made a net profit before tax of US$2.96m (2017: loss of US$1.1m).

The Group made a net profit of US$2.96m in the year after providing for costs associated with the Company's reorganisation and preparations for listing on the London Stock Exchange (LSE) of US$0.164m and the reversals of impairments of US$1.775m.

Net cash from operating activities totalled US$1.1m (2017: US$1.0m outflow) principally reflecting the increase in production volumes and selling prices, net of increased working capital associated with increased inventories and receivables at the year end.

Net cash outflows from investing activities included US$0.9m (2017:US$0.183m) of capital expenditure associated with expanding the processing operation.

Net cash inflows from financing activities comprised subscriptions for shares amounting to US$416,738 (before costs), yielding US$410,488 net of costs.

The Group had cash of US$892,000 at 31 December 2018 (2017: US$267,000). On 28 March 2019 the Company received gross proceeds from its public offers of US$6.8m, US$6.3m net of issue costs.

Key performance indicators

The Group is in a period of development and its current operations, the processing of bought-in secondary vanadium-containing materials for extraction of vanadium, are relatively small in comparison with the main objectives of the Group – to develop the Balasausqandiq mine and processing facility. Moreover, the current operations are themselves undergoing a significant expansion which means that operations are not in a steady state capable of inter-period comparisons. The directors are therefore of the opinion that Key performance Indicators may be misleading if not considered in the context of the development of the operation as a whole for which the information for shareholders is better given in a descriptive manner than in tabular form. Furthermore, the existing processing business of the company is complex and the business model has been developed to allow maximum flexibility in the type of raw-materials treated so that market variations in raw material prices can be moderated by the ability to select raw materials which may be more profitable to treat notwithstanding they may involve a lower level of production. Nevertheless, the directors consider that the main indicator of performance, although subject to interpretation as described above, is the level of production. This has been dealt with in the section "Production" above.

Environmental matters are of paramount importance to the Group. Up to this date most of the residues from the main raw-material treated have been used for the construction of evaporation ponds and there are opportunities for the sale of future residues. No significant mining operations have yet been carried on. The Group aims to ensure that all residues are sold or safely and responsibly contained and that plans are developed in good time to ensure the highest standards for site rehabilitation at the sites of future mining.

Balance sheet review

Total non-current assets increased to US$2.773m from US$0.224m principally due to the reversal of impairment and the capital expenditure noted above, together with an increase in VAT receivable and prepayments.

Current assets increased by US$1.025m to US$1.95m principally reflecting additional inventories due to higher levels of raw materials and finished goods on site at the year end and increased cash. Current liabilities increased to US$1.193m from US$0.608m primarily reflecting increased salaries payable.

The reduction in long term provisions of US$92,000 in the year reflected changes in estimates of site restoration costs and foreign translation effects on such estimates.

As a result of the devaluation in the Kazakh tenge by 14% during 2018 an unrealised foreign currency exchange retranslation movement was recorded in respect of the retranslation of the equity of the Group's Kazakh subsidiary and long term intercompany loans, into US dollars.

Development plan

Throughout 2018 the Company has been working towards a major expansion of the existing processing operation and the addition of equipment to convert AMV to vanadium pentoxide. Production of around 1,500 tonnes per year of production of vanadium pentoxide is targeted. Whilst all the essential technology is now already in operation, expansion to this level will require all aspects of the plant and infrastructure to be upgraded at an anticipated total cost of some US$10.3m. A re-estimation of the remaining amount to be spent after certain items have been completed, some carried out in-house and some more recent quotations and estimations amounts to US$7m. Production is expected to continue during the upgrade with only minor stoppages, with production increasing incrementally over 2019 and early 2020. Part of the cost will therefore be covered by earnings during the construction period in addition to the US$6.3m (net) raised during the recent LSE listing.

In April 2018 a new roaster was commissioned, together with a separate leaching and precipitation circuit for the treatment of higher grade purchased secondary materials. Although further testing of a wide variety of materials will continue in parallel with operations, production from this separate line was started at a small scale in July 2018. Additional equipment is being installed to build up this production to a significant scale.

Permission to connect to the adjacent high voltage power-line has been obtained, the engineering design work for the connection is complete, and contracts are being finalised.

Production during the first quarter of 2019 has continued at the rate of around 12 tonnes per month, similar to the production in the three previous quarters of 2018, although a shutdown in

March to install new equipment reduced production slightly and production for the quarter was 31 tonnes.

Work on the expansion plan gained momentum in 2019, financed by operating earnings and the raising of additional finance at the LSE listing.

Temporary accommodation for 24 construction workers has been installed, a 25 tonne mobile crane and vehicles to transport site workers have been procured to enable construction to progress. In recent months the detailed design of the 990 square metre extension of the plant building and electrometallurgical and recrystallisation equipment have been completed. The contracts for construction, supply of steelwork, sandwich panels and manufacture of equipment have all been signed and construction work has started.

Various items of equipment have already started arriving on site, including a rotating pre-roasting oven, six new 16 cubic metre leach tanks for the acid leaching of the low-grade wastes, and a further receiving tank for roasted material from the main roaster has been installed. A larger capacity generator has been acquired to ensure more stable production pending connection to the high voltage line and continuing as back-up thereafter.

Balasausqandiq

In parallel with existing operations discussed above, and using the resulting cash flows, the Company plans to continue development of the Balasausqandiq vanadium deposit. The feasibility study indicates that capital costs of some US$ 100 million will be required as a first stage of development to mine and treat one million tonnes per year of ore, producing some 5,600 tonnes per year, measured on the basis of the vanadium pentoxide content, plus by-products which are likely to amount to around a third of revenue. A subsequent expansion is planned which will increase vanadium pentoxide production to 22,400 tonnes per year plus by-products.

Although the Balasausqandiq mine and processing plant will be separate and independent from the Existing Operation, they will operate from the same site and much of the work on the current development plan, in particular, the improved power, railway sidings, accommodation and offices, will benefit both operations.

During the first half of 2018 the plan to mine and process one million tonnes per year of ore up to the year 2043 was approved by the Central Commission for the Exploration and Development of Mineral Deposits of the Ministry of Natural Resources of the Republic of Kazakhstan and in December 2018 the changes were reflected in an addendum to the Company's subsoil-use agreement, giving a revised exploitation period to 2043. It is expected that once the first phase of operations have begun, the Company will apply to increase the mining rate to four million tonnes per year. The next steps are to complete testing of certain improvements which were not trialled in the pilot plant study and then to progress to detailed engineering.

Corporate

In July 2018 the Company's shareholders voted by ordinary resolution to subdivide each share into 200 new shares of no par value so that the listed shares would be of a value within the normal range for companies listing on the London Stock Exchange. On 28 March 2019 the Company was admitted to listing on the London Stock Exchange, raising £5.2m gross, equivalent to US$6.8m, or US$6.3m net of issue costs.

Description of principal risks, uncertainties and how they are managed

(a) Current processing operations:

Current processing operations make up a small part of the Group's expected future value but provide useful cash flows in the near term. The principal risk of this operation is the price of its product, vanadium. The price of vanadium pentoxide is volatile and has risen from historic lows at the beginning of 2016 to a near-record high of some US$28/lb near the end of 2018. Currently, the price of vanadium pentoxide is at c. US$9/lb which is still higher than the ten-year average to date. Most forecasters anticipate that vanadium will remain in deficit in the short to medium term but uncertainty, particularly over the world economy and Chinese enforcement of its new construction-steel standards, makes forecasting difficult. The Company acquires raw-materials at a cost that is related to the price of vanadium so there is a natural hedge, but there is a risk of changes in vanadium prices between acquisition of the raw materials and sale of the product which cannot be avoided.

The processing operation is also dependent on the continuing availability of raw materials which are subject to competition from other processors. The Company is mitigating this risk by positioning itself to treat a wide variety of potential raw-materials and maintaining low treatment costs.

The level of profitability of the current processing operation is also dependent on production levels. The currently achieved level is some 12 tonnes per month (vanadium pentoxide content). This level of production could be impacted by unanticipated production difficulties, power outages and raw-material delivery limitations. The Company aims to keep a stockpile of raw-materials and has recently installed a larger capacity generator to maintain production during outages. The Company is currently carrying out an expansion project which will lower the average cost of production and as part of this project, will be connecting to a larger capacity and more reliable power supply as described above.

(b) Balasausquandiq project:

The Balasausqandiq project is a much larger contributor to the Group's value and is primarily dependent on long term vanadium prices. The Company's long-term assumption is US$7.50/lb of vanadium pentoxide, but the forecast very low cost of production means that the Group would remain profitable at very much lower price levels. The project is also dependent on raising finance

to meet capital costs anticipated to amount to some US$100m but this cost is a fraction of costs typical of other vanadium projects and the production costs are similarly lower, so the financial returns on such investment are extremely high.

Acknowledgements

I wish to take this opportunity to thank the Board and management team, in addition to our advisors in the period, for the work in preparation of the listing on the London Stock Exchange. Thanks also to our staff on site that have overseen operations resulting in record production, as well as highly innovative process design work for the existing operation. Finally, I would like to thank our shareholders for their support and I look forward to updating them with our progress as we continue to capitalise on Balasausqandiq's outstanding potential.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

	2018 $000	2017 $000
Revenue	4,220	1,132
Cost of sales	(1,688)	(1,084)
Gross profit	**2,532**	**48**
Impairment reversal/(charge)	1,775	(124)
Other income	10	52
Administrative expenses	(1,271)	(908)
Distribution expenses	(11)	(64)
Other expenses	(35)	-
Profit (loss) from operating activities	**3,000**	**(996)**
Net finance income/(costs)	(36)	(84)
Profit (loss) before income tax	**2,964**	**(1,080)**
Income tax	(1)	-
Profit (loss) for the period	**2,963**	**(1,080)**
Other comprehensive income (loss)		
Items that will never be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	(293)	2
Total comprehensive income (loss) for the period	**2,670**	**(1,078)**
Earnings/(loss) per share (basic and diluted), US$	0.009	(0.004)

Consolidated Statement of Financial Position as at 31 December 2018

	31 December 2018	31 December 2017
	$000	$000
ASSETS		
Non-current assets		
Property, plant and equipment	2,203	79
Exploration and evaluation assets	59	-
Intangible assets	25	2
Long-term VAT receivable	237	91
Prepayments	249	52
Total non-current assets	**2,773**	**224**
Current assets		
Inventories	929	596
Trade and other receivables	38	47
Prepayments	91	15
Cash and cash equivalents	892	267
Total current assets	**1,950**	**925**
Total assets	**4,723**	**1,149**
EQUITY AND LIABILITIES		
Equity		
Share capital	27,330	15
Share premium	-	26,904
Additional paid-in capital	380	380
Foreign currency translation reserve	(2,965)	(2,672)
Accumulated losses	(21,275)	(24,238)
Total equity	**3,470**	**389**
Non-current liabilities		
Provisions	60	152
Total non-current liabilities	**60**	**152**
Current liabilities		
Trade and other payables	929	608
Contract liability	264	-
Total current liabilities	**1,193**	**608**
Total liabilities	**1,253**	**760**
Total equity and liabilities	**4,723**	**1,149**

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Share capital $000	Share premium $000	Additional paid in capital $000	Foreign currency translation reserve $000	Accumulated losses $000	Total $000
Balance at 1 January 2017	15	25,030	-	(2,674)	(23,158)	(787)
Loss for the year	-	-	-	-	(1,080)	(1,080)
Other comprehensive income						
Exchange differences arising on translation of foreign operations	-	-	-	2	-	2
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**2**	**(1,080)**	**(1,078)**
Transactions with owners, recorded directly in equity						
Shares issued (net of costs U$142,000)	-	1,874	-	-	-	1,874
Other transactions recognized directly in equity	-	-	380	-	-	380
Balance at 31 December 2017	**15**	**26,904**	**380**	**(2,672)**	**(24,238)**	**389**
Balance at 1 January 2018	15	26,904	380	(2,672)	(24,238)	389
Profit for the year	-	-	-	-	2,963	2,963
Other comprehensive expense						
Exchange differences arising on translation of foreign operations	-	-	-	(293)	-	(293)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**(293)**	**2,963**	**2,670**
Transactions with owners, recorded directly in equity						
Shares issued (net of costs U$6,000)	245	166	-	-	-	411
Reorganisation of share capital to nil par value	27,070	(27,070)	-	-	-	-
Balance at 31 December 2018	**27,330**	**-**	**380**	**(2,965)**	**(21,275)**	**3,470**

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	2018 $000	2017 $000
Cash flows from operating activities		
Income (loss) for the year	**2,963**	**(1,080)**
Adjustments for:		
Depreciation and amortisation	46	27
(Reversal of impairment) / impairment of	(1,613)	119
(Reversal of impairment) / impairment of exploration and evaluation assets	(162)	5
Impairment of VAT receivables	-	4
Write-down of inventories to net realisable value and obsolescence	11	39
Expenses on credit loss provisions and impairment of prepayments	21	45
Income tax	1	-
Net finance costs / (income)	36	84
Cash from operating activities before changes in working capital	**1,303**	**(757)**
Change in inventories	(451)	(44)
Change in trade and other receivables	(241)	(43)
Change in prepayments	(87)	(47)
Change in trade and other payables	320	(144)
Change in contract liability	264	-
Net cash from operating activities	**1,108**	**(1,035)**
Cash flows from investing activities		
Acquisition of property, plant and	(886)	(182)
Acquisition of intangible assets	(2)	(1)
Net cash used in investing activities	**(888)**	**(183)**
Cash flows from financing activities		
Proceeds from issue of share capital	417	1,889
Transaction costs on shares subscription	(6)	(142)
Proceeds from borrowings	-	20
Repayment of loans and borrowings	-	(368)
Net cash from financing activities	**411**	**1,399**
Net increase in cash and cash	**631**	**181**
Cash and cash equivalents at the	267	72
Effect of movements in exchange rates on cash and cash equivalents	(6)	14

Cash and cash equivalents at the end of	**892**	**267**

Notes to the consolidated financial statements for the year ended 31 December 2018

The financial information for the year ended 31 December 2018 and 31 December 2017 set out in this announcement does not constitute the Company's statutory financial statements for the year ended 31 December 2018 but is extracted from the audited financial statements for those years. The 31 December 2017 accounts have been delivered to the Registrar of Companies. The statutory financial statements for 2018 will be delivered to the Registrar of Companies in due course. The auditors have reported on the financial statements for the year ended 31 December 2018 and their report was unqualified.

1 Basis of preparation

Ferro-Alloy Resources Limited (the "Company") is incorporated in Guernsey and has its registered address at Noble House, Les Baissieres, St. Peter Port, Guernsey, GY1 2UE. The consolidated financial statements for the year ended 31 December 2018 comprise the Company and the following subsidiaries (together referred to as the "Group"):

Company	Location	Company's share in charter capital	Primary activities
Ferro-Alloy Products Limited	British Virgin Islands	100%	Carries out the treasury and finance activities for the Group
Energy Metals Limited	UK	100%	Manages processing activity and performs management service
Vanadium Products LLC	Kazakhstan	100%	Performs services for the Group
Firma Balausa LLC	Kazakhstan	100%	Production and sale of vanadium and associated by-products
Balausa Processing Company LLC	Kazakhstan	100%	Development of processing facilities

(a) Statement of compliance

While the financial information included in this announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board and as

endorsed for use in the European Union this announcement does not itself contain sufficient information to comply with IFRSs. The principal accounting policies adopted in the preparation of the financial information in this announcement are set out in the Company's full financial statements for the year ended 31 December 2018.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for contract liabilities held at fair value through profit and loss noted below.

(c) Functional and presentation currency

The national currency of Kazakhstan is the Kazakhstan tenge ("KZT) which is also the functional currency of the Group's operating subsidiaries. Prior to 1 January 2018 the functional currency of the Company was also KZT. The functional currency of the Company was reassessed at 1 January 2018 and it was concluded that US$ represented a more appropriate functional currency given the changes in circumstances and conditions within the business with the cost base increasingly US$ based, intercompany balances redenominated in US$ and future dividend income to be denominated in US$ following the re domiciliation to Guernsey and listing on the Kazakh Stock Exchange.

The revised functional currency has been applied prospectively from 1 January 2018. All financial information presented in US$ has been rounded to the nearest thousand US$.

(d) Going concern

The consolidated financial statements are prepared in accordance with IFRS on a going concern basis.

The Directors have reviewed the Group's cash flow forecasts for at least 12 months following the reporting date, sensitivities and mitigating actions. After taking into account available cash following the IPO and forecast cash flow from operations, the Directors consider that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2 Use of estimates and judgements

Preparing the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Key sources of judgment and estimation uncertainty are as follows:

Reversal of impairment of exploration and evaluation assets

The Group historically impaired its exploration and evaluation assets as a result of a lack of clear plans for future exploration and development and the vanadium price environment at the time. As at 31 December 2018, management identified triggers for potential reversal of impairment given the advanced stage of the proposed listing on the London Stock Exchange and associated plans for exploration and development of its vanadium deposit, the results of an independent Competent

Person's Report which estimates ore resources of 24m tonnes and a net present value of US$2 billion for the project, and the improved pricing environment. This assessment required judgment. The recoverable value of the project is considered to exceed the carrying value post impairment reversal based on the Competent Person's Report. In determining the fair value less cost to develop of the vanadium deposit significant estimates include resources and future production, vanadium prices of US$7.50/lb long term, operating costs, capital development and discount rates. Given the implied net present value there are no reasonably possible changes in these estimates that would result in the recoverable amount being less than the carrying value. Accordingly, a reversal of impairment was recorded as detailed in note 4.

Reversal of impairment of PP&E

The Group historically impaired PP&E associated with its processing operations given uncertainty regarding the future plans for the plant and the vanadium pricing environment at the time.

As at 31 December 2018, management identified triggers for potential reversal of impairment given the advanced stage of the proposed listing on the London Stock Exchange and associated expansion of the stand-alone processing operation, the results of an independent Competent Person's Report which estimated a net present value on a fair value less cost to develop basis of US$73m for the separate processing operation together with the improved pricing environment. This assessment required judgment. The recoverable value of the project is considered to exceed the carrying value post impairment reversal based on the Competent Person's Report. In determining the fair value less cost to develop of the processing operation key estimates included:

- Production volumes of 12 tonnes per month of vanadium pentoxide (in AMV) at the beginning of 2019 rising to 125 tonnes per month by mid-2020.
- Prices of US$13/lb in 2019, US$10/lb in 2020 and US$7.50/lb thereafter, reflecting management estimates having consideration of market commentary and risk factors.
- Capital development costs of US$10m.
- Discount rate of 10% post tax in real terms.

Given the implied net present value there are no reasonably possible changes in these estimates that would result in the recoverable amount being less than the carrying value. Accordingly, a reversal of impairment was recorded as detailed in note 4.

Functional currency

Judgment was required in assessing the functional currency of the company as detailed above. The assessment included assessment of factors such as the currency of intercompany funding, expenditure, future dividends and equity.

Fair value of payables classified at fair value less profit and loss

Under the Group's accounting policy, the consideration receivable in respect of AMV sales, for which performance obligations have been satisfied at year end and for which the Group has received prepayment under the terms of the sale agreements, remained subject to pricing adjustments with reference to market prices in the month following arrival at the port of final destination. The fair value of the consideration is determined and the remaining receivable is adjusted to reflect fair value, or, if the final estimated consideration is lower than the amounts

received prior to the year end, a contract liability is recorded. In the absence of forward market prices for the commodity management estimated the forward price based on: a) vanadium spot market prices at 31 December 2018 and applicable deductions for AMV; b) foreign exchange rates; c) risk free rates and d) carry costs when material.

As at 31 December 2018 the Group recognised a contract liability at fair value of US$0.264m and a change in revenue due to fair value movements of US$0.323m.

Inventories

The Group holds material inventories which are assessed for impairment at each reporting date. The assessment of net realisable value requires consideration of future cost to process and sell and spot market prices at year end less applicable discounts. The estimates are based on market data and historical trends.

3. Revenue

	2018	**2017**
	$000	**$000**
Revenue from sales of vanadium products	4,540	1,110
Sales of gravel and waste rock	3	15
Other sundry	-	7
Total revenue from customers	**4,543**	**1,132**
Other revenues – change in fair value of customer contract	(323)	-
	4,220	**1,132**

Vanadium products

Under certain sales contracts the single performance obligation is the delivery of AMV to the designated delivery point at which point possession, title and risk on the product transfers to the buyer. The buyer makes an initial provisional payment based on volumes and quantities assessed by the Company and market spot prices at the date of shipment. The final payment is received once the product has reached its final destination with adjustments for quality / quantity and pricing. The final pricing is based on the historical average market prices during a quotation period based on the date the product reaches the port of destination and an adjusting payment or receipt will be made to the initially received revenue. Where the final payment for a shipment made prior to the end of an accounting period has not been determined before the end of that period, the revenue is recognised based on the spot price that prevails at the end of the accounting period.

Other revenue related to the change in the fair value of amounts receivable under the sales contracts between the date of initial recognition and year end resulting from market prices are recorded as other revenue.

4. Other income and reversal of impairment

	2018 $000	2017 $000
Reversal of impairment	1,775	-
		5
Other	10	2
	1,785	**52**

Refer to note 2 for details of the reversal of impairment which relates to the Group's processing operation of US$1.59m, patents of US$0.023m and exploration and evaluation assets of US$0.162m. The reversal of impairment on PP&E is stated net of depreciation of US$0.84m that would have occurred had the historic impairment provision not been recorded.

5. Property, plant and equipment

	Land and buildings $000	Plant and equipment $000	Vehicles $000	Computers $000	Other $000	Construction in progress $000	Total $000
Cost							
Balance at 1 January 2017	1,844	1,996	351	12	32	107	4,342
Additions	3	18	37	-	11	97	166
Disposals	-	(4)	(26)	-	-	-	(30)
Foreign currency translation difference	6	5	2	1	(1)	(2)	11
Balance at 31 December 2017	**1,853**	**2,015**	**364**	**13**	**42**	**202**	**4,489**
Balance at 1 January 2018	1,853	2,015	364	13	42	202	4,489
Additions	9	131	123	13	47	350	673
Disposals	-	(27)	-	-	(4)	(17)	(48)
Foreign currency translation difference	(251)	(283)	(61)	(3)	(10)	(61)	(669)
Balance at 31 December 2018	**1,611**	**1,836**	**426**	**23**	**75**	**474**	**4,445**
Depreciation							
Balance at 1 January 2017	1,844	1,996	295	12	30	107	4,284
Depreciation for the period	-	-	25	-	2	-	27
Disposals	-	(4)	(26)	-	-	-	(30)
Impairment	3	18	-	-	-	97	118
Foreign currency translation difference	6	5	1	1	-	(2)	11
Balance at 31 December 2017	**1,853**	**2,015**	**295**	**13**	**32**	**202**	**4,410**
Balance at 1 January 2018	1,853	2,015	295	13	32	202	4,410
Depreciation for the period	-	10	29	1	5	-	45
Disposals	-	(27)	-	-	-	-	(27)
Reversal of impairment	(1,022)	(393)	-	-	-	(175)	(1,590)

	Land and buildings $000	Plant and equipment $000	Vehicles $000	Computers $000	Other $000	Construction in progress $000	Total $000
Foreign currency translation difference	(250)	(270)	(42)	(2)	(5)	(27)	(596)
Balance at 31 December 2018	**581**	**1,335**	**282**	**12**	**32**	-	**2,242**
Carrying amounts							
At 1 January 2017	**-**	**-**	**56**	**-**	**2**	**-**	**58**
At 31 December 2017	**-**	**-**	**69**	**-**	**10**	**-**	**79**
At 31 December 2018	**1,030**	**501**	**144**	**11**	**43**	**474**	**2,203**

During 2018 depreciation expense of US$ 24 thousand (2017: US$ 15 thousand) has been charged to cost of sales, US$ 15 thousand (2017: US$ 6 thousand) – to administrative expenses, and US$ 6 thousand has been charged to cost of finished goods that were not sold at the year-end (2017: US$ 6 thousand). Construction in progress relates to upgrades to the processing plant associated with the expansion of the facility. Additions include change in estimates in decommissioning cost.

6. Exploration and evaluation assets

The Group's exploration and evaluation assets relate to Balasausqandiq deposit. During the year ended 31 December 2018 the Group did not capitalise any exploration and evaluation assets (in 2017: US$Nil). As at 31 December 2018 the carrying value of exploration and evaluation assets was US$0.059m (2017: US$Nil) with the movement representing the reversal of impairment of US$0.162m detailed in note 2 less a reduction in the asset due to a change in estimate of decommissioning costs.

7. Equity

(a) Share capital and share premium

Number of shares unless otherwise stated		**Ordinary shares**
	31 December 2018	**31 December 2017**
Par value	-	0.01 US$
Outstanding at beginning of year	1,523,732	1,503,796
Shares issued prior to share split	1,493	19,936
Share reorganisation (split)	305,045,000	-
Shares issued post share split	426,087	-
Outstanding at end of year	**305,471,087**	**1,523,732**

Shares issued per the Consolidated Statement of Changes in Equity in 2017 exceeds the proceeds from issue of share capital in the Consolidated Statement of Cash Flows due to shares issued to settle liabilities.

Ordinary shares

All shares rank equally. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In July the Company's shareholders voted by ordinary resolution to subdivide each share into 200 new shares of no par value so that the listed shares will be of a value within the normal range for listing companies. As a result the share premium was transferred to share capital in 2018.

(b) Dividends

No dividends were declared for the year ended 31 December 2018.

(c) Earnings (loss) per share (basic and diluted)

The calculation of basic and diluted earnings / (loss) per share has been based on the following profit (loss) attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

(i) Profit (loss) attributable to ordinary shareholders (basic and diluted)

	2018	**2017**
	$000	**$000**
Profit (loss) for the year, attributable to owners of the Company	2,963	(1,080)
Profit (loss) attributable to ordinary shareholders	**2,963**	**(1,080)**

(ii) Weighted-average number of ordinary shares (basic and diluted)

Shares	2018	2017 Restated
Issued ordinary shares at 1 January (after subdivision)	304,746,400	300,759,200
Effect of shares issued (weighted)	366,750	1,397,800
Weighted-average number of ordinary shares at 31 December	**305,113,150**	**302,157,000**
Earnings (loss) per share of common stock attributable to the Company (basic and diluted)	0.009	(0.004)

The 2017 comparative has been revised to reflect the share split as if it had occurred on 1 January 2017 for comparability purposes. There are no dilutive or potentially dilutive instruments.

8. Share-based payments

At 31 December 2018, the Group had an arrangement whereby the Company's non-executive directors ("NEDs") and a part-time employee were remunerated for their services by the issue of the number of the Company's ordinary shares equal in value, taking the value to be the latest price at which shares were subscribed for by third parties, to the agreed remuneration. In 2018, 393 shares were issued prior to the subdivision of the company's shares, equivalent to 78,600 shares post subdivision, and 52,174 shares were issued after the subdivision. The cost of services received from NEDs and the part-time employee was measured as a product of the number of shares issued and the fair value of those shares. The fair value of shares was determined by reference to the consideration received for share subscriptions from third-party subscribers during the year being US$75,195 in 2018 and US$35,668 in 2017.

As a result, during 2018 the Group recognised an increase in share capital / premium of US$ 75 thousand (2017: US$ 36 thousand) as administrative expenses in the statement of profit or loss and other comprehensive income.

9. Subsequent events

From 1 January 2019 until 1 April 2019, the Company issued 7,507,761 shares for a consideration of US$ 6.3m after expenses.

On 28 March 2019 the Company's shares were admitted to listing on the London Stock Exchange.