

**Ferro-Alloy Resources Limited**

Unaudited Consolidated Interim Condensed  
Financial Statements  
for the nine-month period ended  
30 September 2017

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### Statements

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*Ferro-Alloy Resources Limited*  
*Unaudited Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income*  
*for the nine-month period ended 30 September 2017*

| USD  | Note | Unaudited<br>nine-month<br>period ended<br>30 September 2017 | Unaudited<br>nine-month<br>period ended<br>30 September 2016 |
|--|------|--|--|
| Revenue  | 4    | 782,571  | 209,334  |
| Cost of sales  | 5    | (897,855)  | (683,870)  |
| <b>Gross profit</b>  | 6    | <b>(115,284)</b>   | <b>(474,536)</b>   |
| Other income   |      | 1  | 432  |
| Administrative expenses  |      | (803,114)  | (663,435)  |
| Other expenses   |      | (62)   | (90)   |
| <b>Results from operating activities</b>                                     |      | <b>(918,460)</b>   | <b>(1,137,630)</b>   |
| Net finance income   |      | 21,518   | (14,913)   |
| <b>Loss before income tax</b>  |      | <b>(896,942)</b>   | <b>(1,152,542)</b>   |
| Income tax   |      | -  | -  |
| Loss for the period  |      | <b>(896,942)</b>   | <b>(1,152,542)</b>   |
| <b>Other comprehensive income (loss)</b>                                     |      |  |  |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> |      |  |  |
| Foreign currency translation differences                                     |      | (456,596)  | (6,439)  |
| <b>Total comprehensive loss for the period</b>                               |      | <b>(1,353,538)</b>   | <b>(1,146,103)</b>   |

These unaudited consolidated interim condensed financial statements were approved by management on 27 November 2017 and were signed on its behalf by:




N.J. Bridgen  
*Chairman*

The unaudited consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the unaudited consolidated interim condensed financial statements set out on pages 7 to 12.

**Ferro-Alloy Resources Limited**  
*Unaudited Consolidated Interim Condensed Statement of Financial Position as at 30 September 2017*

| USD                                  | Note | <b>Unaudited</b><br><b>30 September 2017</b> | <b>31 December 2016</b> |
|--------------------------------------|------|--|-------------------------|
| <b>ASSETS</b>                        |      |  |                         |
| <b>Non-current assets</b>            |      |  |                         |
| Property, plant and equipment        |      | 2,292,123                                    | 2,687,325               |
| Exploration and evaluation assets    | 7    | 182,967                                      | 187,304                 |
| Intangible assets                    |      | 28,110                                       | 29,813                  |
| Prepayments                          |      | -  | 36,005                  |
| <b>Total non-current assets</b>      |      | <b>2,503,200</b>                             | <b>2,940,447</b>        |
| <b>Current assets</b>                |      |  |                         |
| Inventories                          | 8    | 472,759                                      | 736,891                 |
| Trade and other receivables          | 9    | 630,210                                      | 101,919                 |
| Prepayments                          | 10   | 61,560                                       | 9,500                   |
| Cash and cash equivalents            | 11   | 724,458                                      | 71,855                  |
| <b>Total current assets</b>          |      | <b>1,888,987</b>                             | <b>920,165</b>          |
| <b>Total assets</b>                  |      | <b>4,392,187</b>                             | <b>3,860,612</b>        |
| <b>EQUITY AND LIABILITIES</b>        |      |  |                         |
| <b>Equity</b>                        | 12   |  |                         |
| Share capital                        |      | 15,202                                       | 15,038                  |
| Share premium                        |      | 26,792,157                                   | 25,030,076              |
| Foreign currency translation reserve |      | (3,076,048)                                  | (2,619,451)             |
| Accumulated losses                   |      | (21,118,345)                                 | (20,221,403)            |
| <b>Total equity</b>                  |      | <b>2,612,967</b>                             | <b>2,204,260</b>        |
| <b>Non-current liabilities</b>       |      |  |                         |
| Provisions                           |      | 120,952                                      | 134,744                 |
| <b>Total non-current liabilities</b> |      | <b>120,952</b>                               | <b>134,744</b>          |
| <b>Current liabilities</b>           |      |  |                         |
| Loans and borrowings                 | 13   | 410,258                                      | 392,235                 |
| Trade and other payables             | 14   | 1,248,010                                    | 1,129,373               |
| <b>Total current liabilities</b>     |      | <b>1,658,268</b>                             | <b>1,521,608</b>        |
| <b>Total liabilities</b>             |      | <b>1,779,220</b>                             | <b>1,656,352</b>        |
| <b>Total equity and liabilities</b>  |      | <b>4,392,187</b>                             | <b>3,860,612</b>        |
| Book value of ordinary share         |      | 1.70   | 1.45                    |

The unaudited consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the unaudited consolidated interim condensed financial statements set out on pages 7 to 12.

| <b>USD</b>   | <b>Share<br/>capital</b> | <b>Share<br/>premium</b> | <b>Foreign currency<br/>translation reserve</b> | <b>Accumulated<br/>losses</b> | <b>Total</b>       |
|--|--------------------------|--------------------------|---|-------------------------------|--------------------|
| Balance at 1 January 2016                                    | 14,962                   | 24,230,019               | (2,664,263)                                     | (18,697,807)                  | 2,882,911          |
| Loss for the period  | -                        | -                        | -   | (1,152,542)                   | (1,152,542)        |
| <b>Other comprehensive income</b>                            |                          |                          |   |                               |                    |
| Foreign currency translation differences                     | -                        | -                        | (6,439)   | -                             | (6,439)            |
| <b>Total comprehensive loss for the period</b>               | <b>-</b>                 | <b>-</b>                 | <b>(6,439)</b>                                  | <b>(1,152,542)</b>            | <b>(1,146,103)</b> |
| <b>Transactions with owners, recorded directly in equity</b> |                          |                          |   |                               |                    |
| Shares issued  | 65                       | 688,907                  | -   | -                             | 688,972            |
| <b>Balance at 30 September 2016 (unaudited)</b>              | <b>15,027</b>            | <b>24,918,926</b>        | <b>(2,657,824)</b>                              | <b>(19,850,349)</b>           | <b>2,425,779</b>   |
| Balance at 1 January 2017                                    | 15,038                   | 25,030,076               | (2,619,451)                                     | (20,221,403)                  | 2,204,260          |
| Loss for the period  | -                        | -                        | -   | (896,942)                     | (896,942)          |
| <b>Other comprehensive income</b>                            |                          |                          |   |                               |                    |
| Foreign currency translation differences                     | -                        | -                        | (456,596)                                       | -                             | (456,596)          |
| <b>Total comprehensive loss for the period</b>               | <b>-</b>                 | <b>-</b>                 | <b>(456,596)</b>                                | <b>(896,942)</b>              | <b>(1,353,538)</b> |
| <b>Transactions with owners, recorded directly in equity</b> |                          |                          |   |                               |                    |
| Shares issued  | 164                      | 1,762,081                | -   | -                             | 1,762,245          |
| <b>Balance at 30 September 2017 (unaudited)</b>              | <b>15,202</b>            | <b>26,792,157</b>        | <b>(3,076,047)</b>                              | <b>(21,118,345)</b>           | <b>2,612,967</b>   |

The unaudited consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the unaudited consolidated interim condensed financial statements set out on pages 7 to 12.

| <b>USD</b>   | <b>Unaudited<br/>nine-month<br/>period ended<br/>30 September 2017</b> | <b>Unaudited<br/>nine-month<br/>period ended<br/>30 September 2016</b> |
|--|--|--|
| <b>Cash flows from operating activities</b>                                |  |  |
| <b>Loss for the period</b>   | <b>(918,460)</b>   | <b>(1,137,630)</b>   |
| <i>Adjustments for:</i>  |  |  |
| Depreciation and amortisation  | 192,764  | 185,758  |
| Net finance costs (income)   | (21,518)   | 14,913   |
| <b>Cash used in operating activities before changes in working capital</b> | <b>(747,214)</b>   | <b>(936,959)</b>   |
| Change in inventories  | (105,021)  | 39,992   |
| Change in trade and other receivables                                      | (122,588)  | (147,191)  |
| Change in prepayments  | (7,092)  | 8,599  |
| Change in trade and other payables   | 166,991  | 13,627   |
| <b>Net cash used in operating activities</b>                               | <b>(814,925)</b>   | <b>(1,021,932)</b>   |
| <b>Cash flows from investing activities</b>                                |  |  |
| Acquisition of property, plant and equipment and intangible assets         | (44,369)   | (39,748)   |
| <b>Net cash used in investing activities</b>                               | <b>(44,369)</b>  | <b>(39,748)</b>  |
| <b>Cash flows from financing activities</b>                                |  |  |
| Proceeds from issue of share capital                                       | 1,497,625  | 688,907  |
| Proceeds from borrowings   | 20,000   | 266,711  |
| <b>Net cash from financing activities</b>                                  | <b>1,517,625</b>   | <b>955,618</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                | <b>658,331</b>   | <b>(106,062)</b>   |
| Cash and cash equivalents at 1 January                                     | 71,855   | 266,931  |
| Effect of movements in exchange rates on cash and cash equivalents         | (270,348)  | (70,023)   |
| <b>Cash and cash equivalents at 30 September</b>                           | <b>724,458</b>   | <b>90,846</b>  |

The unaudited consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the unaudited consolidated interim condensed financial statements set out on pages 7 to 12.

## 1 Background

### (a) Organisation and operations

Ferro-Alloy Resources Limited (the “Company”) was incorporated on 18 April 2000 in the British Virgin Islands. In April 2017 the Company moved its registered office from the British Virgin Islands to Guernsey and its new legal address is Noble House, Les Baissieres, St. Peter Port, Guernsey, GY1 2UE. The consolidated interim condensed financial statements for the nine-month period ended 30 September 2017 comprise the Company and the following subsidiaries (together referred to as the “Group”):

| <u>Company</u>                  | <u>Location</u> | <u>Company’s share<br/>in charter capital</u> | <u>Primary activities</u>  |
|---------------------------------|-----------------|---|--|
| Ferro-Alloy<br>Products Limited | Guernsey        | 100%  | Carries out the treasury and<br>finance activities for the Group |
| Vanadium<br>Processing LLC      | Kazakhstan      | 100%  | Performs services for the Group                                  |
| Firma Balausa LLC               | Kazakhstan      | 100%  | Production and sale of vanadium<br>and associated by-products    |

The Group’s principal activities are mining, processing and the sale of vanadium-containing and associated products which are sold in Kazakhstan and abroad.

### (b) Kazakhstan business environment

The Group’s operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. The financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

## **2 Basis of preparation**

### **(a) Statement of compliance**

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2016. These consolidated interim condensed financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

### **(b) Basis of measurement**

The consolidated interim condensed financial statements are prepared on the historical cost basis.

### **(c) Functional and presentation currency**

The national currency of Kazakhstan is the Kazakhstan tenge (“KZT”) which is also the Company’s functional currency and the functional currency of its subsidiaries. These consolidated interim condensed financial statements are presented in United States Dollars (“USD”) as this is the currency familiar to the majority of the Company’s shareholders. All financial information presented in USD has been rounded to the nearest USD.

### **(d) Use of estimates and judgments**

Preparing the interim 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.

In preparing these consolidated interim condensed financial statements significant judgements were made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016.

## **3 Significant accounting policies**

The accounting policies applied by the Group were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2016.



## 4 Revenue

| USD  | <b>For nine-month<br/>period ended<br/>30 September 2017</b> | <b>For nine-month<br/>period ended<br/>30 September 2016</b> |
|--|--|--|
| Revenue from sales of vanadium products            | 763,237  | 174,319  |
| Sales of gravel, waste rock and transport services | 19,334   | 35,015   |
|  | <b>782,571</b>   | <b>209,334</b>   |

## 5 Cost of sales

| USD                               | <b>For nine-month<br/>period ended<br/>30 September 2017</b> | <b>For nine-month<br/>period ended<br/>30 September 2016</b> |
|-----------------------------------|--|--|
| Materials                         | 483,034  | 312,108  |
| Depreciation                      | 172,286  | 157,286  |
| Wages, salaries and related taxes | 176,823  | 153,977  |
| Electricity                       | 59,254   | 35,030   |
| Other                             | 6,458  | 25,470   |
|                                   | <b>897,855</b>   | <b>683,870</b>   |

## 6 Administrative expenses

| USD                               | <b>For nine-month<br/>period ended<br/>30 September 2017</b> | <b>For nine-month<br/>period ended<br/>30 September 2016</b> |
|-----------------------------------|--|--|
| Wages, salaries and related taxes | 490,623  | 533,534  |
| Materials                         | 19,213   | 17,637   |
| Professional services             | 176,338  | 4,872  |
| Impairment of VAT receivable      | -  | -  |
| Security                          | 13,642   | 12,772   |
| Depreciation and amortisation     | 11,810   | 11,954   |
| Audit                             | 27,397   | 30,354   |
| Other                             | 64,090   | 57,939   |
|                                   | <b>803,113</b>   | <b>663,435</b>   |

## 7 Exploration and evaluation assets

During the nine-month period ended 30 September 2017 the Group did not capitalise any exploration and evaluation assets (in 2016: 0 USD).

## 8 Inventories

| USD                           | 30 September<br>2017 | 31 December<br>2016 |
|-------------------------------|----------------------|---------------------|
| Goods in-transit              | -                    | 428,110             |
| Raw materials and consumables | 388,638              | 265,714             |
| Finished goods                | 84,121               | 39,371              |
| Work in progress              | -                    | -                   |
| Other                         | -                    | 3,696               |
|                               | <b>472,759</b>       | <b>736,891</b>      |

## 9 Trade and other receivables

| <i>Current</i><br>USD                | 30 September<br>2017 | 31 December<br>2016 |
|--------------------------------------|----------------------|---------------------|
| Due from employees                   | 115,767              | 80,371              |
| Trade receivables from third parties | 349,279              | 36,013              |
| Other receivables                    | 188,758              | 9,688               |
|                                      | <b>653,804</b>       | <b>126,072</b>      |
| Bad debt allowance                   | (23,594)             | (24,153)            |
|                                      | <b>630,210</b>       | <b>101,919</b>      |

## 10 Prepayments

| USD                                | 30 September<br>2017 | 31 December<br>2016 |
|------------------------------------|----------------------|---------------------|
| <i>Non-current</i>                 |                      |                     |
| Prepayments for equipment          | -                    | 36,005              |
|                                    | -                    | <b>36,005</b>       |
| <i>Current</i>                     |                      |                     |
| Prepayments for goods and services | 61,560               | 9,500               |
|                                    | <b>61,560</b>        | <b>9,500</b>        |

## 11 Cash and cash equivalents

| USD                                   | 30 September<br>2017 | 31 December<br>2016 |
|---------------------------------------|----------------------|---------------------|
| Bank balances and other cash deposits | 723,901              | 71,419              |
| Petty cash                            | 557                  | 436                 |
| <b>Cash and cash equivalents</b>      | <b>724,458</b>       | <b>71,855</b>       |

## 12 Equity

### (a) Share capital and share premium

| <i>Number of shares unless otherwise stated</i> | <b>Ordinary shares</b>   |                         |
|---|--------------------------|-------------------------|
|   | <b>30 September 2017</b> | <b>31 December 2016</b> |
| Authorised shares                               | 5,000,000                | 5,000,000               |
| Par value                                       | 0.01 USD                 | 0.01 USD                |
| Outstanding at beginning of period/year         | 1,503,796                | 1,496,235               |
| Shares issued for cash                          | 16,453                   | 7,561                   |
| <b>Outstanding at end of period/year</b>        | <b>1,520,249</b>         | <b>1,503,796</b>        |

#### Ordinary shares

All shares rank equally with regard to the Group's residual assets. 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.

### (b) Book value of ordinary share calculation

Meeting the requirements of Kazakh Stock Exchange the Group calculated a book value of ordinary share at the end of the period/year:

|   | <b>30 September<br/>2017</b> | <b>31 December<br/>2016</b> |
|---|------------------------------|-----------------------------|
| Total assets, USD                                 | 4,392,187                    | 3,860,612                   |
| Intangible assets, USD                            | 28,110                       | 29,813                      |
| Total liabilities, USD                            | 1,779,220                    | 1,656,352                   |
| Net assets, USD                                   | 2,584,857                    | 2,174,447                   |
| Outstanding ordinary shares at end of period/year | 1,520,249                    | 1,503,796                   |
| <b>Book value of ordinary share</b>               | <b>1,70</b>                  | <b>1,45</b>                 |

### (c) Dividends

No dividends were declared for the nine-month period ended 30 September 2017.

## 13 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost.

| <b>USD</b>                 | <b>30 September<br/>2017</b> | <b>31 December<br/>2016</b> |
|----------------------------|------------------------------|-----------------------------|
| <i>Current liabilities</i> |                              |                             |
| Loans from shareholders    | 410,258                      | 392,235                     |
|                            | <b>410,258</b>               | <b>392,235</b>              |

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

| USD                     | Currency | Nominal interest rate | Year of maturity | 30 September 2017 |                 | 31 December 2016 |                 |
|-------------------------|----------|-----------------------|------------------|-------------------|-----------------|------------------|-----------------|
|                         |          |                       |                  | Face value        | Carrying amount | Face value       | Carrying amount |
| Loans from shareholders | USD      | 15%                   | upon demand      | 278,087           | 278,087         | 267,622          | 267,622         |
| Loans from shareholders | USD      | 10%                   | upon demand      | 132,070           | 132,070         | 122,973          | 122,973         |
| Loans from shareholders | KZT      | 0%                    | upon demand      | 1,602             | 1,602           | 1,640            | 1,640           |
|                         |          |                       |                  | <b>411,759</b>    | <b>411,759</b>  | <b>392,235</b>   | <b>392,235</b>  |

During the nine-month period of 2017 the Group received an additional loan tranche from shareholders in the total amount of USD 20,000 (2016: USD 246,000).

**14 Trade and other payables**

| USD               | 30 September 2017 | 31 December 2016 |
|-------------------|-------------------|------------------|
| Due to employees  | 1,059,234         | 653,432          |
| Other taxes       | 165,943           | 194,453          |
| Trade payables    | 17,568            | 179,718          |
| Advances received | 5,265             | 101,770          |
|                   | <b>1,248,010</b>  | <b>1,129,373</b> |

**15 Contingencies****(a) Insurance**

The insurance industry in the Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally or economically available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. There is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

**(b) Taxation contingencies**

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretations by different tax authorities. Taxes are subject to review and investigation by various levels of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years but under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.