Ferro-Alloy Resources Limited

Annual Report
for the year ended
31 December 2018

Contents

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.

DIRECTORS' REPORT

The Directors present their annual report and the financial statements of the Group for the year ended 31 December 2018.

General

The Company was incorporated as a limited liability company with company registration number 383395 in the British Virgin Islands on 18 April 2000 and re-domiciled to Guernsey as a Guernsey non-cellular limited company with company registration number 63449 on 12 April 2017. The Company's principal place of business is Guernsey. The Company is subject to the City Code. The Existing Ordinary Shares of Ferro-Alloy Resources Limited have been listed on the Kazakhstan Stock Exchange (KASE) since 26 June 2017. On 28 March 2019, its shares were listed on the Standard segment of the Main Market of the London Stock Exchange.

Principal Activity

The Company is the holding company of a mining and mineral processing business with operations located at the Balasausqandiq vanadium/polymetallic mineral deposit in Kyzylordinskaya Oblast in Southern Kazakhstan.

Business Model

The main objective of the Company is to bring into production the Balasausqandiq mine and to build a processing plant to treat one million tonnes of ore per year (Phase 1) and later increase to a total of four million tonnes per year (Phase 2). Phase 1 is expected to take two years to design and build, and Phase 2 will be started as soon as commissioning of Phase 1 has been successfully concluded. Production is expected to be 5,600 tonnes per year and 22,400 tonnes per year of vanadium pentoxide respectively, and further income is expected from by-products which will account for around one third of revenue. Owing to the unique type of ore, the capital and operating costs of this operation are expected to be a fraction of those of other vanadium projects and producers. The project's net present value is estimated to be around US$2 billion at conservative forecast vanadium prices.

As part of the feasibility study into the Balasausqandiq project a pilot plant with a capacity of 15,000 tonnes per year of ore was build and operated successfully. After completing the test programme it was converted to production from bought-in concentrates which, being of higher grade than mined ore, enabled it to produce at a commercial level. Having proven the technology in 2017, it moved into profitability in 2018 and is now being expanded around tenfold to make it a fully commercial plant, potentially making a significant contribution to the capital costs of Phase 1 of the Balasausqandiq project whilst being a separate operation in its own right. The existing operation and Phase 1 together are expected to provide sufficient finance for Phase 2.

Business Review

A review of the business during the year is included in the Report on Operations. The Group's business and operations and the results thereof are reflected in the attached financial statements. In addition, refer to note 25 of the financial statements for financial instrument risks.

Business Risks

A review of the key risks to the Company is set out in the Report on Operations.

Advisers

The Company's advisers are set out below:

Financial advisor and broker - UK	Shard Capital partners LLP 20 Fenchurch Street London EC3M 3BY www.shardcapital.com
- Kazakhstan	Tengri Capital MB JSC 17 Al-Farabi Avenue Almaty 050059 Kazakhstan www.tengricap.com
Lawyers - UK	Smithfield Partners Limited Temple Chambers 3-7 Temple Avenue London EC4Y 0HP
Lawyers – Guernsey	Collas Crill LLP Glategny Court, Glategny Esplanade St Peter Port, Guernsey GY1 4EW
Auditors	BDO LLP 55 Baker Street London W1U 7EU

Bankers	Barclays Bank PLC Le Marchant House St Peter Port Guernsey GY1 3BE
Registrars	Computershare Investor Services (Guernsey) Limited The Pavilions, Bridgwater Road, Bristol BS99 6ZY United Kingdom www.computershare.com
Financial PR & Investor Relations	St Brides Partners Limited Salisbury House London Wall London EC2M 5QQ www.stbridespartners.co.uk Tel: +44 (0) 207 236 1177

Financial Results

During the 12 months ended 31 December 2018, the Company reported a profit of US$2.96m (2017: loss of US$1.1m).

No dividends have been declared in respect of the years ending 2018 or 2017.

Directors

The Board of the company comprises two executive directors and two non-executive directors whose biographical details are as follows:

Nicholas Bridgen, Chief Executive

Nick started his career in 1975 as a Chartered Accountant at Peat Marwick Mitchell & Co (now KPMG). In 1979, he moved to the Rio Tinto Group, becoming senior group accountant in 1981. He then moved to the Business Evaluation Department for the Group in 1985 and was Group Planning Manager for the RTZ Pillar Group which held the engineering, building products and chemical companies. Nick spent 14 years with Rio Tinto. In the mid-1990s, he was finance director at Bakyrchik Gold Plc. and in 1998, Nick founded Hambledon Mining Plc which acquired the Sekisovskoye gold project, listing the company on AIM and taking the project from exploration, through construction and into a producing mine.

Since 2006, Nick has been a director and more recently, CEO of Ferro-Alloy Resources Limited. He holds a Bachelor's degree with honours from Exeter University, is a Chartered Accountant and has also studied corporate finance at London Business School. He is a fluent Russian speaker.

Andrey Kuznetsov, Director of Operations

Andrey started his career in 1981 as an industrial engineer at Kirov Engineering Plant in Almaty. After three years he became Chief of the Scientific Department in Central Committee of Youth (Comsomol). In 1987, Andrey became general director of the Almaty NTTM "Kontakt" centre. In 1995-1996, he was the CEO of the Kazakhstan subsidiary of Alfa-Bank. Andrey has been the general director of TOO Firma Balausa since 2006. He holds a Specialist's degree in electrical engineering from Bauman Moscow State Technical University and a PhD in informal mathematical logic. He has also studied management at Coventry University.

Chris Thomas, Non-executive chairman, chairman of the remuneration committee and member of the audit committee

Chris Thomas has nearly 35 years' experience in the communications industry. He has held various high-level management positions including CEO of Proximity London from 2003 to 2006 - one of the largest direct and digital agencies in London. In 2006, Chris was appointed Chairman & CEO of BBDO and Proximity in Asia, subsequently adding the Middle East and Africa to his responsibilities. He worked with major multinational companies across the growth markets of SE Asia, China, India and Africa. In May 2015, Chris moved to New York to take up the role of CEO of BBDO in the Americas, with responsibility for 21 agencies in the U.S., Canada and Latin America. In February 2019 he stepped down from his Americas role and remains Chairman of I&S BBDO in Japan. He also served as a non-executive director on the board of Hambledon Mining from 2004 to 2011.

James Turian, Non-executive Director, chairman of the audit committee and member of the audit committee

James started his career in 1986 and has a background in accounting, trust and management. James has previously been involved with several mining companies in Perth, Australia, including assisting Cooper Energy in their restructuring in the early 2000s. From 2000 to 2011 James owned and operated a trust company in Guernsey which he sold to concentrate on accountancy and currently is a director of "Accounts For You Limited", a Guernsey accountancy firm. He holds several other directorships. James is a Chartered Fellow of the Securities Institute IAQ and is a Fellow of the Institute of Directors.

Directors' Remuneration

	Salary/ fees (US$'000)		Benefits (US$'000)		Pension (US$'000)		Bonus/other (US$'000)		Total (US$'000)	
	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**
Non-Executive	30	30	nil	nil	nil	nil	nil	nil	30	**30**
Non-Executive director	30	30	nil	nil	nil	nil	nil	nil	30	**30**
Chief executive director	nil	220	nil	30	nil	nil	nil	nil	nil	**250**
Operations director	nil	140	nil	nil	nil	nil	nil	nil	nil	**140**
Total	60	**420**	nil	**30**	nil	**nil**	nil	**nil**	60	**450**

In 2018 the Non-Executive Chairman's fees were wholly settled through the issue of 26,200 shares (2017: 55,200 shares). In 2018, the Non-Executive director's fees were wholly settled through the issue of 26,200 shares (2017: US$5,668 was settled through the issue of 10,400 shares). Refer to note 30 for details.

Principal shareholders

A list of shareholders who beneficially hold more than 5% of the Company's shares at 29 April 2019 is as follows:

Name of shareholder	Number of ordinary shares	Percentage of voting rights
Andrey Kuznetsov	70,184,000	22.4
Nicholas Bridgen	64,738,800	20.7
Citadel Equity Fund Limited	41,913,600	13.4

Interests of directors

The interests (all of which are beneficial and include related parties) of the Directors in the Company's issued share capital at 31 December 2018 and at 29 April 2019 are as follows:

Name of director	Position	31 Dec 2018 Number of Ordinary Shares	31 Dec 2018 % of Share Capital	29 April 2019 Number of Ordinary Shares	29 April 2019 % of Share Capital
Nicholas Bridgen	Chief executive	64,738,800	21.2	64,738,800	20.7
Andrey Kuznetsov	Operations director	70,184,000	23.0	70,184,000	22.4
Christopher Thomas	Non-executive Chairman	162,687	0.1	162,687	0.1
James Turian	Non-executive director	62,687	0.0	62,687	0.0

Website Publication

The Directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website (www.ferro-alloy.com) in accordance with applicable legislation in Guernsey governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going Concern

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.

Auditor

BDO LLP was appointed at auditors to the Company in the period. BDO LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint BDO LLP will be proposed at the forthcoming annual general meeting.

Signed on behalf of the Board of Directors on

30 April 2019

JAMES TURIAN

Responsibility statements

Directors' Responsibility Statement

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Group for that period and of the profit or loss of the Group for that period. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law. In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

So far as each of the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

To the best of the Directors' knowledge:

a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law, give a true and fair view of the assets, liabilities, financial position and profit or loss of Ferro-Alloy Resources Limited and the undertakings included in the consolidation as a whole; and
b) the management report includes a fair review of the development and performance of the business and the position of Ferro-Alloy Resources Limited and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Governance statement

General

As a consequence of the Ordinary Shares being admitted to the standard segment of the Official List, the Comply or explain requirements of the UK Corporate Governance Code, published by the Financial Reporting Council (the "Corporate Governance Code"), do not apply to the Company. The Guernsey Corporate Governance Code does not apply to the Company since the Company is not regulated by the Guernsey Financial Services Commission. However, the Board recognises the importance of good corporate governance and has implemented corporate governance practices having consideration to the recommendations and principles of the UK Corporate Governance Code and DTR 7.2 in accordance with the listing rules as far as is appropriate whilst considering the size and nature of the business.

The Board of Directors of the company is responsible for the overall corporate governance of the consolidated Group, guiding and monitoring the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Composition of the Board

The number of Directors as specified in the Articles of Incorporation of the Company is a minimum of one and up to a maximum of seven. Having regard to the Company's stage of development, the directors believe that the size of the current board comprising four directors, two of whom are executive and two are non-executive, is appropriate. The directors intend that there will always be at least as many non-executive directors as there are executive directors.

Board Committees

The Company has created an audit committee that will be responsible for considering all financial reporting matters and ensuring that they are properly reported and monitored. It is also responsible for the review and assessment of the independence of the external auditors and approval of any non-audit services, review of the external audit strategy and findings, assessment of whether an internal audit function is necessary considering the activities and size of the business and oversight of significant financial reporting matters. The committee it chaired by Mr James Turian and Mr Chris Thomas is a member. Mr Turian has a background in accounting, trust and management and is a director of a firm of accountants in Guernsey which the board considers to be recent and relevant experience to carry out his responsibility as chairman.

The Company has also created a remuneration committee to consider all matters related to salary and benefits of senior staff and executive directors. The remuneration of non-executive directors is a matter for the board as a whole. No director will take part in discussions concerning his own remuneration package. Mr Chris Thomas has been appointed chairman of the committee and Mr James Turian is a member.

The directors are of the opinion that due to the nature and size of the Company and its current board of directors, the functions often carried out by a nomination committee can be more successfully conducted by the full board of directors so no such committee has been created.

Code of conduct

The goal of establishing the Company as a significant mining and processing Company is underpinned by its core values of honesty, integrity, common sense and respect for people.

The Company desires to remain a good corporate citizen in all the jurisdictions within which it operates, and appropriately balance, protect and preserve all stakeholders' interests. In particular, the Company gives paramount concern to the safety of its employees and the maintenance of high environmental standards.

Shareholder communication

The Board aims to ensure that shareholders and investors have equal access to the Company's information.

The company aims to promote effective communication with shareholders and encourage effective participation at general meetings through a policy of open disclosure to shareholders, regulatory authorities and the broader community of all material information with respect to the company's affairs.

Internal control and risk management systems

The Company's accounting and finance team is small and subject to close control by the executive directors. For this reason the Audit Committee and the Board are of the opinion that it is not appropriate for there to be a separate internal control department or internal audit function but has implemented various procedures and internal controls to provide assurance to directors that accounting and financial risks are adequately controlled. These include:

- The preparation and regular updating of cash flow forecasts, changes to which are closely monitored by executive directors who discuss necessary changes on almost a daily basis
- There is a Kazakhstan group finance manager, employed in a Group services company, to oversee and control the quality of financial reporting of operating companies in Kazakhstan and perform group accounting and financial roles
- Significant contracts require approval by members of the Board
- All Group payments must be authorized by a director and Ferro-Alloy Resources Limited has opened new banking facilities which require two directors' signatures on all payments
- The board of directors has formed an audit committee.

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF FERRO-ALLOY RESOURCES LIMITED

Opinion

We have audited the financial statements of Ferro-Alloy Resources Limited (the "Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in our audit
The risk that judgments and estimates associated with assessment of the carrying value of Property, Plant & Equipment and exploration and evaluation assets, including any reversal of previous impairments, are inappropriate The Group had historically impaired its exploration assets (Balasausqandiq Project), and impaired PP&E associated with its processing operations. At 31 December 2018, the Board concluded that indicators existed that the impairment loss had decreased or no longer existed given the performance of the processing operation, improved vanadium pricing environment and clear plans for the assets set out in the IPO Prospectus. Accordingly, the Board assessed the recoverable amount of the relevant assets as detailed in note 2 and 3(i)(ii). The Board concluded that the recoverable amount on a fair value less cost to sell ("FVLCS") basis exceeded the carrying amount of the assets net of depreciation that would have been recognised had no impairment taken place. Accordingly a reversal of impairment has been recorded of $1.775m as detailed in notes 6, 12, 13 and 14. This assessment required judgment in the assessment of indicators that a reversal of impairment was applicable. Subsequently, significant estimates were required in determining inputs to forecast net present value calculations underlying the assessment of FVLCS, including vanadium prices; future production; operating costs; capital expenditure and discount rates. Given the estimates and judgments required this area was considered to represent a significant audit risk and key audit matter.	We reviewed the Board's assessment that indicators existed that the conditions that triggered the impairments in prior periods no longer applied and formed our own assessment of whether such indicators existed. In doing so, we made inquiries of management, reviewed the Group's trading results, IPO Prospectus, the Competent Person's Report and underlying strategic plans of the business. We obtained management's NPV forecasts for the Balasausqandiq Project and processing operation and evaluated the appropriateness of the use of the fair value less cost to sell methodology, which includes future capital expenditures for expansion and development when such expenditure would reasonably be incurred by a market participant. We reviewed the Competent Person's Report and compared inputs in the forecasts to the report including reserves (in the case of the Balasausqandiq Project), production and in particular growth assumptions, operating and capital costs. In placing reliance on the Competent Person, we evaluated their independence and competence. We compared price forecasts to FY 2018/ 2019 actual data, market commentary and the terms of contracts. We recalculated the discount rate and formed our own assessment of specific risk premiums associated with Kazakhstan and the nature of the assets. We performed sensitivity analysis on key inputs such as pricing, production, capital costs and discount rates to confirm that headroom remained under reasonably possible sensitivities. We reviewed the IPO Prospectus and associated strategic plans and considered the consistency of judgments and estimates with the assessments of recoverable value for the exploration and processing operation assets.

Key observations
We found the Board's conclusion that reversal of the impairment of \$1.775m was applicable to be appropriate. We found the disclosures in the notes to be sufficient and in line with accounting standards.

Key Audit Matter	How the matter was addressed in our audit
The risk that the Group's revenue recognition policies are not compliant with IFRS 15 'Revenue from contracts with customers' and the risk that revenue is not recorded in the correct period The Group generated revenues of \$4.22m and this was the first year of application of IFRS 15 as detailed in note 3. The Group recorded and contract liabilities of \$264k (note 24) held at fair value through profit and loss associated with its contracts. In particular, in applying IFRS 15 to the Group's contracts consideration was required regarding: • The identification of the performance obligations within the contracts and the point at which performance obligations are satisfied and revenue is recorded (cut off); • The accounting for variable consideration associated with quality / quantity estimates required for sales close to the year end based on test data which are subject to subsequent final quality / quantity determination post year end; and • The accounting treatment for provisional pricing that applies under the contracts, particularly given the absence of forward market prices for AMV and the subsequent estimates required in determining the fair value of contract receivables and payables. Given the above factors we considered this area to represent a significant audit risk and key audit matter.	We assessed the revenue recognition policy for the key AMV revenue stream against the 5-step model of IFRS 15 to determine whether the policy is compliant with IFRS 15. We obtained and reviewed sales agreements and terms with material customers to assess the appropriateness and application of the revenue recognition policy with specific consideration of the relevant performance obligations and the point at which they are satisfied per the agreements. We evaluated the accounting treatment of quality / quantity estimates and compared the estimates to actual outcomes both in the year for previously completed sales and post year end for the open sales. We evaluated the appropriateness of management's accounting treatment of the provisional pricing clauses for open sales against the relevant accounting standards, which gave rise to and contract liabilities held at fair value. We obtained supporting shipping, delivery and other relevant sales documents to confirm the sales which had been recorded but remained subject to final price determination. In respect of the fair value of contract liabilities we evaluated the valuation methodology, having consulted with our valuations specialists. We recalculated the fair values using market data. We agreed a sample of revenue in the year to supporting documentary evidence. We performed cut off procedures by obtaining evidence such as shipping documents to confirm that revenue was recorded in the correct period. We reviewed disclosures and accounting policies for compliance with IFRS 15.
Key observations We found the revenue recognition policies to be compliant with IFRS and the presentation in the financial statements to be acceptable. We found the estimates used in determining the fair value of contract receivables and payables to be acceptable.	

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Group materiality	**$150,000**
Basis for determining materiality	5% of profit before tax

We have determined a profit based measure to be appropriate given the Group's listing on the London Stock Exchange and the profitable nature of its processing operations during the year. We consider profit before tax to be the most significant determinant of financial performance used by members of the Group.

Whilst materiality for the financial statements as a whole was $150,000, each of the two significant components of the group was audited to a lower materiality of $67,000.

Performance materiality is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit. Performance materiality is applied at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality levels for each component.

We agreed with the Board that we would report to them all individual audit differences identified during the course of our audit in excess of $3,000. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

In setting our Group audit strategy we obtain an understanding of the Group, its environment and assessed the risks of material misstatement in the financial statements at the Group as a whole.

Our Group audit strategy focused on the principal operating subsidiary Firma Balausa LLC and the parent company Ferro-Alloy Resources Limited. Each of the significant components was subject to a full scope audit with the audit work performed by overseas component auditors under our direction and supervision. The Group consolidation was also subject to a full scope audit by the Group audit team. These components represent the principal business units and account for 100% of the Group's revenue, 100% of the Group's profit before tax and 100% of the Group's total assets.

The audits of each of the significant components were principally performed in Kazakhstan by a non-BDO network firm. As part of our audit strategy, as Group auditors:

- Detailed Group reporting instructions were sent to the component auditor, which included the significant areas to be covered by the audit (including areas that were considered to be key audit matters as detailed above), and set out the information required to be reported to the Group audit team.

- A senior member of the Group audit team visited Kazakhstan to meet with the component auditors and review the component audit files.
- We reviewed Group reporting submissions received from the component auditors and held calls and meetings with the component audit team during the completion phases of their audit to discuss significant findings from their audit.
- We held calls and meetings with members of Group and component management to discuss accounting and audit matters arising.
- The Group audit team was actively involved in the direction of the audits performed by the component auditor for Group reporting purposes, along with the consideration of findings and determination of conclusions drawn. We performed our own additional procedures in respect of certain of the significant risk areas that represented Key Audit Matters in addition to the procedures performed by the component auditor.

The remaining four components of the Group were considered non-significant and these components were principally subject to analytical review procedures.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ryan Ferguson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Chartered Accountants
London,
United Kingdom

30 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

	Note	2018 $000	2017 $000
Revenue	4	4,220	1,132
Cost of sales	5	(1,688)	(1,084)
Gross profit		**2,532**	**48**
Impairment reversal/(charge)	6, 8	1,775	(124)
Other income	6	10	52
Administrative expenses	7	(1,271)	(908)
Distribution expenses		(11)	(64)
Other expenses	8	(35)	-
Profit (loss) from operating activities		**3,000**	**(996)**
Net finance income/(costs)	10	(36)	(84)
Profit (loss) before income tax		**2,964**	**(1,080)**
Income tax	11	(1)	-
Profit (loss) for the period		**2,963**	**(1,080)**
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		(293)	2
Total comprehensive income (loss) for the period		**2,670**	**(1,078)**
Earnings/(loss) per share (basic and diluted), US$	20	0.009	(0.004)

These consolidated financial statements were approved by directors on 30 April 2019 and were signed on its behalf by:

James Turian
Director

The notes on pages 24 to 53 form part of these consolidated financial statements.

	Note	31 December 2018 $000	31 December 2017 $000
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,203	79
Exploration and evaluation assets	13	59	-
Intangible assets	14	25	2
Long-term VAT receivable	17	237	91
Prepayments	18	249	52
Total non-current assets		**2,773**	**224**
Current assets			
Inventories	16	929	596
Trade and other receivables	17	38	47
Prepayments	18	91	15
Cash and cash equivalents	19	892	267
Total current assets		**1,950**	**925**
Total assets		**4,723**	**1,149**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	27,330	15
Share premium	20	-	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	22	60	152
Total non-current liabilities		**60**	**152**
Current liabilities			
Trade and other payables	23	929	608
Contract liability	24	264	-
Total current liabilities		**1,193**	**608**
Total liabilities		**1,253**	**760**
Total equity and liabilities		**4,723**	**1,149**

	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 US$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 US$6,000) (note 20)	245	166	-	-	-	411
Reorganisation of share capital to nil par value (note 20)	27,070	(27,070)	-	-	-	-
Balance at 31 December 2018	**27,330**	**-**	**380**	**(2,965)**	**(21,275)**	**3,470**

	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 property, plant and equipment and intangible assets	(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 equipment	(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 equivalents	**631**	**181**
Cash and cash equivalents at the beginning of year	267	72
Effect of movements in exchange rates on cash and cash equivalents	(6)	14
Cash and cash equivalents at the end of year	**892**	**267**

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

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

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except as otherwise 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 (note 6 and 13)

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 6.

Reversal of impairment of PP&E (note 6 and 12)

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 6.

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 (note 24 and 25)

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 (note 16)

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 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities, except for the implementation of new standards and interpretations.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

(ii) Presentation currency

The assets and liabilities of foreign operations are translated to US$ at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to US$ at the average exchange rate for the period, which approximates the exchange rates at the dates of the transactions. Where specific material transactions occur, such as impairments or reversals of impairments, the daily exchange rate is applied when the impact is material.

Foreign currency differences are recognised in other comprehensive income and are presented within the foreign currency translation reserve in equity.

Foreign currency differences arising on intercompany loans, where the loans are not planned to be repaid within the foreseeable future and form part of a net investment, are recorded within other comprehensive income and are presented within the foreign currency translation reserve in equity.

(c) Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVPL") depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

A loss allowance for expected credit losses is determined for all financial assets, other than those at FVPL, at the end of each reporting period. The Group applies a simplified approach to measure the credit loss allowance for trade receivables using the lifetime expected credit loss provision. The lifetime expected credit loss is evaluated for each trade receivable taking into account payment history, payments made subsequent to year end and prior to reporting, past default experience and the impact of any other relevant and current observable data. The Group applies a general approach on all other receivables classified as financial assets. The general approach recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or have expired.

Customer contracts

Under its customer sale arrangements, the Group receives a provisional payment upon satisfaction of its performance obligations based on the spot price at that date, which occurs prior to the final price determination, with the Group then subsequently receiving or paying the difference between the final price and quantity and the provisional payment. As a result of the pricing structure, the instrument is classified at FVPL and measured at fair value with changes in fair value recorded as other revenue.

Other receivables

Other receivables are accounted for at amortised cost. Other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate expected credit loss allowances for estimated recoverable amounts as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances in banks, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value and petty cash.

Financial liabilities

The Group has the following non-derivative financial liabilities: trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is measured at cost.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and prior periods are as follows:

- Buildings 50 years;
- Plant and equipment 4-17 years;
- Vehicles 7 years;
- Computers 3 years;
- Other 5 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively if appropriate.

Assets under construction are not depreciated and begin being depreciated once they are ready and available for use in the manner intended by management.

(e) Exploration and evaluation assets

Exploration and evaluation expenditure for each area of interest once the legal right to explore has been acquired, other than that acquired through a purchase transaction, is carried forward as an asset provided that one of the following conditions is met.

- Such costs are expected to be recouped through successful exploration and development of the area of interest or, alternatively, by its sale;
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration and evaluation costs are capitalised as incurred. Exploration and evaluation assets are classified as tangible or intangible based on their nature. Exploration expenditure which fails to meet at least one of the conditions outlined above is written off. Administrative and general expenses relating to exploration and evaluation activities are expensed as incurred.

The exploration and evaluation assets shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. This includes consideration of a variety of factors such as whether the requisite permits have been awarded, whether funding required for development is sufficiently certain of being secured, whether an appropriate mining method and mine development plan is established and the results of exploration data including internal and external assessments.

Exploration and evaluation assets will be reclassified either as tangible or intangible development assets and amortised on a unit-of-production method based on proved reserves.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggests that the carrying amount of exploration and evaluation assets may exceed its recoverable amount, which is the case when: the period of exploration license has expired and it is not expected to be renewed; substantial expenditures on further exploration are not planned; exploration has not led to the discovery of commercial viable reserves; or indications exist that exploration and evaluation assets will not be recovered in full from successful development or by sale.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(f) Intangible assets

(i) Intangible assets with finite useful lives

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- patents 10-20 years;
- mineral rights 20 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Non-derivative financial assets

For the year ended 31 December 2018

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on other receivables to which the impairment requirements of IFRS 9 apply.

Refer to note 3c for details of the impairment policy for the year ended 31 December 2018 under IFRS 9.

For the year ended 31 December 2017

Under IAS 39 A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell (otherwise referred to as fair value less cost to develop in the industry). Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the cash-generating unit, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value including future capital expenditure and development cost. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the asset/cash-generating unit and are discounted to their present value that reflects the current market indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

(i) Defined contribution plans

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with State pension social insurance regulations, the Group withholds pension contributions from employee salaries and transfers them into state pension funds. Once the contributions have been paid, the Group has no further pension obligations. Upon retirement of employees, all pension payments are administrated by the pension funds directly.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration is recognised when the land is disturbed as a result of pit development and plant decommissioning with a corresponding increase in exploration and evaluation costs or property, plant and equipment. Subsequent changes in the provision due to estimates are recorded as a change in the relevant asset. The provision is discounted at a risk free rate with the costs incorporating risks relevant to the site restoration and an unwinding charge is recognised within finance cost for the unwinding of the discount.

(l) Revenue

(i) Goods sold

Revenue from customers comprises the sale of vanadium products with other revenues from gravel and waste rock etc. being non-significant. Revenue from vanadium products is recognised at a point in time when the customer has a legally binding obligation to settle under the terms of the contract when the performance obligations have been satisfied, which is once control of the goods has transferred to the buyer at a designated delivery point at which point possession, title and risk transfers.

The Group commonly receives a provisional payment at the date control passes with reference to spot prices at that date. The final consideration is subject to quantity / quality adjustments and final pricing based on market prices determined after the product reaches its port of destination. The quantity / quality adjustments represent a form of variable consideration and revenue is constrained to record amounts for which it is highly probable no reversal will be required. However, given the short period to delivery post year end the final quantity / quality adjustments are known and revenue for the period is adjusted to reflect the final quantity / quality occurring subsequent to year end if material.

Transport costs to reach the delivery point are expensed as costs of sale.

Changes in final consideration due to market prices is not determined to qualify as variable consideration within the scope of the IFRS 15 'Revenue from Customers. Refer to note 3c for the Group's accounting policy in this respect. Changes in fair value as a result of market prices are recorded within revenue as other revenue.

(m) Other expenses

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions for historical costs and site restoration, foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements result in a net gain or loss.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(r) New and amended standards adopted

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018.The Group applied the modified retrospective approach to transition for the standards. However, there were no material adjustments to opening retained earnings as a result of adopting the new standards. The Group amended accounting policies applied from 1 January 2018 are disclosed above.

IFRS 15 'Revenue from contracts with customers'

The IASB has issued a new standard for the recognition of revenue. This replaced IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

To assess the impact of IFRS 15 on the Group's revenue recognition, a 5-step model had been applied to analyse sales contracts. There was no impact at the date of transition from the adoption of the new standard on 1 January 2018 owing to the timing of sales in the prior year with final quality, quantity and pricing having been determined in the period. Refer to note (l) above for details of the revised accounting policy. Under the revised policy there has been no change in the point at which revenue from customers is recorded.

IFRS 9 'Financial instruments'

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

Those to be measured at amortised cost

Other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

IFRS 9 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model in IAS 39 and applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Under the IFRS 9 'expected credit loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. It was therefore appropriate that the Group's policy for recognition of trade and other receivables was amended.

Based on the review of the historic occurrence of credit losses, consideration of prospective factors and given the short-term nature of other receivables and the Group's active management of credit risk, the Group did not identify any credit losses requiring provision except for specific items in Note 25. The outlook for the industry is not expected to result in a significant change in the Group's exposure to credit losses.

Those to be measured subsequently at fair value (either through OCI, or through profit or loss)

Previously, embedded derivatives associated with variability in pricing were bifurcated and recorded at fair value with changes in fair value recorded within revenue. There were no material embedded derivatives at 31 December 2017. Under IFRS 9 embedded derivatives are no longer bifurcated and instead the trade receivable as a whole is classified as fair value through profit and loss with changes in fair value recorded within revenue as other revenue.

(s) Financial liabilities

Financial liabilities held by the Group comprise trade and other payables. The Group has reviewed its financial liabilities and there was no impact from the adoption of the new standard on 1 January 2018.

4 Revenue

	2018 $000	2017 $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. Refer to note 24 and 25 for details of contract liabilities recorded at fair value.

5 Cost of sales

	2018 $000	2017 $000
Materials	916	571
Wages, salaries and related taxes	530	341
Electricity	144	101
Depreciation	30	15
Taxes other than income	10	12
Raw materials obsolescence provision	6	36
Other	52	8
	1,688	**1,084**

6 Other income and reversal of impairment

	2018 $000	2017 $000
Reversal of impairment	1,775	-
Other	10	52
	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.

7 Administrative expenses

	2018 $000	2017 $000
Wages, salaries and related taxes	732	471
Listing & reorganisation expenses	164	114
Audit	110	55
Professional services	49	64
Materials	41	39
Business trip expenses	26	11
Depreciation and amortization	16	6
Security	17	18
Communication and information services	12	3
Bank fees	11	10
Other	93	117
	1,271	**908**

8 Other expenses

	2018 $000	2017 $000
Impairment of property, plant and equipment	-	118
Impairment of exploration and evaluation assets	-	5
Impairment of intangible assets	-	1
Impairment of receivables	21	-
Write-off of materials	5	-
Other	9	-
	35	**124**

The impairment of PP&E in 2017 related to buildings, plant & equipment and construction in progress. In 2018, the impairment of receivables relates to provision for write offs and expected credit losses.

9 Personnel costs

	2018 $000	2017 $000
Wages, salaries and related taxes	1,261	892
	1,261	**892**

During 2018 personnel costs of US$ 450 thousand (2017: US$ 341 thousand) have been charged to cost of sales, US$ 732 thousand (2017: US$ 471 thousand) to administrative expenses and US$ 79 thousand (2017: US$ 80 thousand) were charged to cost of inventories which were not yet sold as at the year-end.

10 Finance costs

	2018 $000	2017 $000
Net foreign exchange costs	24	25
Unwinding of discount on site restoration provision	12	12
Interest expense on financial liabilities measured at amortised cost	-	47
Net finance costs/(income)	**36**	**84**

11 Income tax

The Group's applicable tax rates in 2018 are the income tax rate of 20% for Kazakhstan subsidiaries (2017: 20%) and 0% (2017: 0%) for Guernsey and BVI companies. The Kazakh tax rate has been applied below as this is most reflective of the Group's trading operations and tax profile.

During the years ended 31 December 2018 and 2017 the Group incurred tax losses and therefore did not recognise any current income tax expense except in relation the provision of Group services where an income tax charge of US$1,000 was incurred in 2018 (2017: nil). Unrecognised deferred tax assets are described in Note 15.

Reconciliation of effective tax rate:

	2018		2017	
	$000	%	$000	%
Profit before tax	**2,964**	**100**	**(1,080)**	**100**
Income tax at the applicable tax rate	593	20	(216)	20
Effect of unrecognised deferred tax assets	(420)	(14)	126	(12)
Net non-deductible expenses/non-taxable income	(174)	(6)	90	(8)
	(1)	-	-	-

12 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)
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.

13 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.

14 Intangible assets

	Mineral rights $000	Patents $000	Computer software $000	Total $000
Cost				
Balance at 1 January 2017	114	36	3	153
Additions	-	1	-	1
Foreign currency translation difference	1	(1)	1	1
Balance at 31 December 2017	**115**	**36**	**4**	**155**
Balance at 1 January 2018	115	36	4	155
Additions	-	2	-	1
Foreign currency translation difference	(16)	(5)	(1)	(21)
Balance at 31 December 2018	**99**	**33**	**3**	**135**
Amortisation				
Balance at 1 January 2017	114	36	2	152
Amortisation for the year	-	-	-	-
Impairment loss	-	1	-	1
Foreign currency translation difference	1	(1)	-	-
Balance at 31 December 2017	**115**	**36**	**2**	**153**
Balance at 1 January 2018	115	36	2	153
Amortisation for the year	-	-	1	1
Reversal of impairment	-	(23)	-	(23)
Foreign currency translation difference	(16)	(4)	(1)	(21)
Balance at 31 December 2018	**99**	**9**	**2**	**110**
Carrying amounts				
At 1 January 2017	-	-	1	1
At 31 December 2017	**-**	**-**	**2**	**2**
At 31 December 2018	**-**	**25**	**-**	**25**

During 2018 and 2017 amortisation of intangible assets was charged to administrative expenses. The immaterial reversal of impairment on patents refers to patents associated with the processing operation.

15 Deferred tax assets and liabilities

Unrecognised deferred tax assets

	31 December 2018 $000	31 December 2017 $000
Temporary deductible differences	126	537
Tax losses carried forward	1,136	1,145
	1,262	**1,682**

15 Deferred tax assets and liabilities, continued

Unrecognised deferred tax assets, continued

Deferred tax assets have not been recognised in respect of these items because the Kazakhstan processing operations benefit from a tax incentive agreement which reduces the tax payable to nil and it is therefore uncertain that future taxable profit will be available against which the Group can utilise the benefits therefrom. The tax incentive agreement is effective for ten years starting from 2018.

Temporary deductible differences mostly relate to property, plant and equipment. Unutilised tax losses expire after 10 years from the year of origination.

Expiry dates of unrecognised deferred tax assets in respect of tax losses carried forward at 31 December 2018 are presented below:

Expiry year	$000
2019	65
2020	94
2021	86
2022	81
2023	258
2024	132
2025	63
2026	223
2027	134
2028	-
	1,136

Unrecognised deferred tax assets above are calculated based on Kazakh tax rate of 20%.

16 Inventories

	31 December 2018 $000	31 December 2017 $000
Raw materials and consumables	527	312
Finished goods	184	284
Goods in transit	218	-
	929	**596**

17 Trade and other receivables

Non-current	31 December 2018 $000	31 December 2017 $000
VAT receivable	594	506
Provision for VAT receivable	(357)	(415)
	237	**91**

Current	31 December 2018 $000	31 December 2017 $000
Trade receivables from third parties	21	44
Due from employees	24	28
Other receivables	14	2
	59	**74**
Expected credit loss provision	(21)	(27)
	38	**47**

The expected credit loss provision relates to credit impaired receivables which are in default and the Group considers the probability of collection to be remote given the age of the receivable and default status.

18 Prepayments

	31 December 2018 $000	31 December 2017 $000
Non-current		
Prepayments for equipment	249	52
	249	**52**
Current		
Prepayments for goods and services	91	15
	91	**15**

19 Cash and cash equivalents

	31 December 2018 $000	31 December 2017 $000
Bank balances and other cash deposits	885	267
Petty cash	7	-
Cash and cash equivalents	**892**	**267**

20 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.

Reserves

Share capital: Value of shares issued less costs of issuance. Prior to the share restructuring share capital related to the nominal value of shares issued.

Share premium: Amounts subscribed for shares in excess of nominal value less share issue costs, prior to the share restructuring. Subsequent to share restructuring no share premium applies.

Additional paid in capital: Amounts due to shareholders which were waived.

Foreign currency translation reserve: Foreign currency differences on retranslation of results from functional to presentational currency and foreign exchange movements on intercompany balances considered to represent net investments which are permanent as equity.

Accumulated losses: Cumulative net losses.

(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 $000	**2017 $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.

21 Loans and borrowings

There were no outstanding loans at 31 December 2018 (31 December 2017: nil) and no borrowings or loan repayments in 2018 (in 2017: the borrowing was US$20 thousand and the repayment of loans totalled US$368 thousand including amounts settled in shares).

22 Provisions

	2018 $000	2017 $000
Balance at 1 January	152	135
Unwinding of discount	12	12
Change in estimate	(92)	5
Foreign currency translation difference	(12)	-
Balance at 31 December	**60**	**152**
Non-current	60	152
	60	**152**

Site restoration

A provision was recognised in respect of the Group's obligation to rectify environmental damage in the Balasausqandyq mine, Kyzylorda region.

In accordance with Kazakhstan environmental legislation, land contaminated by the Group in the Kyzylorda region must be restored before the end of 2043. The provision was estimated by considering the risks related to the amount and timing of restoration costs based on the known level of damage. Because of the long-term nature of the liability, the main uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the site will be restored using technology and materials that are available currently. The amount for 2018 was updated in the recently signed addendum to the subsoil contract based on independent advice by an environmental consultant. A fund to cover this liability will be collected via annual statutory contributions to the special liquidation fund at the rate of 1% of mining expenses as stipulated in the Subsoil contract. Based on the working program which forms the part of the Subsoil contract the total amount is expected to reach KZT 675m or US$ 1,838,000. The present value of restoration costs was determined by discounting the estimated restoration cost using a Kazakh risk-free rate for the respective period, and inflation of 5.3% (31 December 2017: 8.4%). The estimated period for discounting was 25 years (2017: 6 years). Environmental legislation in Kazakhstan continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. Generally, the standard of restoration is determined based on discussions with the Government officials at the time that restoration commences.

23 Trade and other payables

	31 December 2018 $000	31 December 2017 $000
Due to directors/key management	547	297
Due to employees	44	50
Trade payables	302	164
Other taxes	31	83
Advances received	5	14
	929	**608**

24 Contract liability (trade and other payables at FVPL)

	31 December 2018 $000	31 December 2017 $000
Contract liability (trade and other payables at FVPL)	264	-
	264	**-**

25 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Chief Executive has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2018 $000	31 December 2017 $000
Trade and other receivables, excluding amounts due from employees and VAT receivable	14	19
Cash and cash equivalents	885	267
	899	**286**

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2018 $000	31 December 2017 $000
Kazakhstan	14	19
	14	**19**

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	Carrying amount	
	31 December 2018 $000	31 December 2017 $000
Trade receivables:		
Wholesale customers	-	17
Other receivables		
Other	14	2
	14	**19**

The ageing of trade and other receivables at the reporting date was:

	Gross 2018 $000	Impairment 2018 $000	Net 2018 $000	Gross 2017 $000	Impairment 2017 $000	Net 2017 $000
Not past due	14	-	14	19	-	-
Past due more than 180 days	21	(21)	-	27	(27)	-
	35	**(21)**	**14**	**46**	**(27)**	**-**

The movement in the allowance for expected credit losses in respect of other receivables during the year was as follows:

	2018 $000	2017 $000
Balance at beginning of the year	27	24
Expected credit loss change	(6)	3
Balance at end of the year	**21**	**27**

(ii) Cash and cash equivalents

As at 31 December 2018 the Group held cash of US$ 892 thousand (31 December 2017: US$ 267 thousand), of which bank balances of US$ 885 thousand (31 December 2017: US$ 267 thousand) represent its maximum credit exposure on these assets, which excludes petty cash. 14% (31 December 2017: 84%) is held in banks with credit ratings of A+ to AA-, 86% in banks with credit ratings of B to BB (31 December 2017: 13%). Credit ratings are provided by the rating agency Fitch.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2018

	Carrying amount $000	Contractual cash flows $000	On demand $000	0-6 mths $000
Financial liabilities				
Trade and other payables (excluding due to employees, advances received and salary related taxes) and contract liabilities	566	566	-	566
	566	**566**	**-**	**566**

2017

	Carrying amount $000	Contractual cash flows $000	On demand $000	0-6 mths $000
Financial liabilities				
Trade and other payables (excluding due to employees, advances received and salary related taxes) and contract liabilities	164	164	-	164
	164	**164**	**-**	**164**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of Group entities.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	US$-denominated	GBP-denominated	HKD-denominated	RUB-denominated	KZT-denominated
	2018 $000	2018 $000	2018 $000	2018 $000	2018 $000
Cash and cash equivalents	830	13	1	-	41
Trade and other payables	(645)	(145)	-	(2)	(137)
Net exposure	**185**	**(132)**	**1**	**(2)**	**(96)**

	US$-denominated	GBP-denominated	HKD-denominated	RUB-denominated	KZT-denominated
	2017 $000	2017 $000	2017 $000	2017 $000	2017 $000
Cash and cash equivalents	164	20	21	-	62
Trade and other payables	(74)	(52)	-	(22)	(460)
Net exposure	**90**	**(32)**	**21**	**(22)**	**(398)**

The following significant exchange rates applied during the year:

in US$	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
KZT 1	0.0029	0.0031	0.0026	0.0030
GBP 1	1.3325	1.2888	1.2705	1.2642
RUB 1	0.0160	0.0171	0.0144	0.0168
HKD 1	0.1276	0.1283	0.1277	0.1259

(ii) Interest rate risk

Changes in interest rates do not significantly impact the Group's position as at 31 December 2018. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Changes in interest rates at the reporting date would not significantly affect profit or loss.

(e) Fair values versus carrying amounts

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The basis for determining fair values is disclosed below.

Following the adoption of IFRS 9, trade receivables and contract liabilities are recorded at fair value through profit and loss as they fail the criteria for amortised cost owing to the variability due to final pricing adjustments. Previously trade receivables and contract liabilities were determined at amortised cost with embedded derivatives separated when applicable. No material embedded derivatives existed at 31 December 2017 and therefore trade receivables were recorded at amortised cost.

Financial instruments measured at fair value are presented by level within which the fair value measurement is categorized. The levels of fair value measurement are determined as following:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's contract liabilities at 31 December 2018 are recorded at fair value through profit and loss and fair valued based on the estimated forward prices that will apply under the terms of the sales contracts on the product reaching the port of destination. The trade receivable fair value reflects amounts receivable from the customer adjusted for forward prices expected to be realised. The contract liability arose because the downward movement in the forward price compared to the price applicable at the date of the initial sale recognition and provisional payment is such that the Group will be required to make payment to the customer.

In the absence of observable forward prices the forward price is estimated using a valuation methodology which is based on vanadium spot prices at 31 December 2018 adjusted for the discount for AMV versus vanadium pentoxide, time value of money and carry costs. Given the short period to final pricing the time value of money and carry costs are not significant and the forward price materially approximates the spot price at year end with the adjustment to reflect the difference between vanadium pentoxide prices and AMV.

A 10% change in the forward price would give rise to a US$26.4 thousand movement in fair value.

26 Commitments

Commitments for training of Kazakhstan employees

Under the conditions of the subsoil use contract the Group is obliged to train Kazakh employees. According to the contract, the annual training expense should equal to 1% of the Group's capital expenditures on subsoil activity. Yuzhkaznedra, the government body, responsible for regional inspection of subsoil protection and usage, approves the minimum required size of the expense to be paid annually. Total training expense in 2018 is US$ 4 thousand (2017: US$ 1 thousand).

27 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

There are no tax claims or disputes at present.

28 Segment reporting

The Group's operations are split into three segments based on the nature of operations: processing, subsoil operations (being operations related to exploration and mining) and corporate segment for the purposes of IFRS 8 *Operating Segments*. The Group's assets are primarily concentrated in the Republic of Kazakhstan and the Group's revenues are derived from operations in, and connected with, the Republic of Kazakhstan.

2018

	Processing $000	Subsoil $000	Corporate $000	Total $000
Revenue	4,220	-	-	4,220
Cost of sales	(1,688)	-	-	(1,688)
Other income	10	-	-	10
Impairment reversal	1,775	-	-	1,775
Administrative expenses	(463)	(55)	(753)	(1,271)
Distribution & other expenses	(46)	-	-	(46)
Finance costs	117	(12)	(141)	(36)
Profit before tax	**3,925**	**(67)**	**(894)**	**2,964**

2017

	Processing $000	Subsoil $000	Corporate $000	Total $000
Revenue	1,132	-	-	1,132
Cost of sales	(1,084)	-	-	(1,084)
Other income	52	-	-	52
Impairment charge	(124)	-	-	(124)
Administrative expenses	(400)	(42)	(466)	(908)
Distribution & other expenses	(64)	-	-	(64)
Finance costs	(109)	(12)	37	(84)
Profit before tax	**(597)**	**(54)**	**(429)**	**(1,080)**

Included in revenue arising from Processing are revenues of US$ 4m which arose from sales to the Group's largest customer. No other single customer contributes 10 per cent or more to the Group's revenue.

29 Related party transactions

(c) Transactions with management and close family members

Management remuneration

Key management personnel received the following remuneration during the year, which is included in personnel costs (see Note 9):

	2018 $000	2017 $000
Wages, salaries and related taxes	363	264

Refer to note 23 for details of payables to key management and note 30 and the Directors' Report for shares issued to key management.

(b) Transactions with other related parties

There were no Group's other related party transactions.

30 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.

31 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.