

Ferro-Alloy Resources Limited

Unaudited Consolidated Interim Condensed
Financial Statements
for the six-month period ended
30 June 2017

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

USD	Note	Unaudited 30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment		2,548,456	2,687,325
Exploration and evaluation assets	4	194,197	187,304
Intangible assets		30,255	29,813
Prepayments		-	36,005
Total non-current assets		2,772,908	2,940,447
Current assets			
Inventories		502,811	736,891
Trade and other receivables		173,093	101,919
Prepayments		60,700	9,500
Cash and cash equivalents		10,414	71,855
Total current assets		747,018	920,165
Total assets		3,519,926	3,860,612
EQUITY AND LIABILITIES			
Equity			
	5		
Share capital		15,050	15,038
Share premium		25,157,135	25,030,076
Foreign currency translation reserve		(2,664,824)	(2,619,451)
Accumulated losses		(20,878,217)	(20,221,403)
Total equity		1,629,144	2,204,260
Non-current liabilities			
Provisions		109,898	134,744
Total non-current liabilities		109,898	134,744
Current liabilities			
Loans and borrowings		437,225	392,235
Trade and other payables		1,343,659	1,129,373
Total current liabilities		1,780,884	1,521,608
Total liabilities		1,890,782	1,656,352
Total equity and liabilities		3,519,926	3,860,612

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

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

USD	Note	Unaudited six-month period ended 30 June 2017	Unaudited six-month period ended 30 June 2016
Revenue		236,286	59,961
Cost of sales		(419,927)	(248,778)
Gross profit		(183,641)	(188,817)
Other income		1	389
Administrative expenses		(501,600)	(401,783)
Other expenses		(26)	(49)
Results from operating activities		(685,267)	(590,260)
Net finance income		28,453	679
Loss before income tax		(656,814)	(590,939)
Income tax		-	-
Loss for a period		(656,814)	(590,939)
Other comprehensive income (loss)			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		(45,373)	(213,950)
Total comprehensive loss for the period		(702,187)	(804,889)

These unaudited consolidated interim condensed financial statements were approved by management on 26 September 2017 and were signed on its behalf by:

N.J. Bridgen
Chairman

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

Ferro-Alloy Resources Limited
Unaudited Consolidated Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2017

USD	Share capital	Share premium	Foreign currency translation reserve	Accumulated losses	Total
Balance at 1 January 2016	14,962	24,230,019	(2,664,263)	(18,697,807)	2,882,911
Loss for the period	-	-	-	(590,939)	(590,939)
Other comprehensive income					
Foreign currency translation differences	-	-	(213,950)	-	(213,950)
Total comprehensive loss for the period	-	-	(213,950)	(590,939)	(804,889)
Transactions with owners, recorded directly in equity					
Shares issued	37	395,926	-	-	395,963
Balance at 30 June 2016 (unaudited)	14,999	24,625,945	(2,878,213)	(19,288,746)	2,473,985
Balance at 1 January 2017	15,038	25,030,076	(2,619,451)	(20,221,403)	2,204,260
Loss for the period	-	-	-	(656,814)	(656,814)
Other comprehensive income					
Foreign currency translation differences	-	-	(45,373)	-	(45,373)
Total comprehensive loss for the period	-	-	(45,373)	(656,814)	(702,187)
Transactions with owners, recorded directly in equity					
Shares issued	12	127,059	-	-	127,071
Balance at 30 June 2017 (unaudited)	15,050	25,157,135	(2,664,824)	(20,878,217)	1,629,144

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

USD	Unaudited six-month period ended 30 June 2017	Unaudited six-month period ended 30 June 2016
Cash flows from operating activities		
Loss for the period	(656,814)	(590,939)
<i>Adjustments for:</i>		
Depreciation and amortisation	130,649	112,624
Net finance costs (income)	(28,453)	679
Cash used in operating activities before changes in working capital	(554,618)	(477,636)
Change in inventories	234,080	(179,476)
Change in trade and other receivables	(71,174)	(68,849)
Change in prepayments	(15,195)	9,756
Change in trade and other payables	214,286	(96,686)
Net cash used in operating activities	(192,621)	(802,904)
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(3,890)	(29,137)
Net cash used in investing activities	(3,890)	(29,137)
Cash flows from financing activities		
Proceeds from issue of share capital	127,071	395,963
Proceeds from borrowings	20,000	235,179
Net cash from financing activities	147,071	631,142
Net increase/(decrease) in cash and cash equivalents	(49,440)	(200,899)
Cash and cash equivalents at 1 January	71,855	266,931
Effect of movements in exchange rates on cash and cash equivalents	(12,001)	(39,030)
Cash and cash equivalents at 30 June	10,414	27,002

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

1 Background

(a) Organisation and operations

Ferro-Alloy Resources Limited (the “Company”) was incorporated on 18 April 2000 in the British Virgin Islands. In April 2017 the Company moved its registered office from the British Virgin Islands to Guernsey and its new legal address is Noble House, Les Baissieres, St. Peter Port, Guernsey, GY1 2UE. The consolidated interim condensed financial statements for the six-month period ended 30 June 2017 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	The British Virgin Islands	100%	Carries out the treasury and finance activities for the Group
Vanadium Processing LLC	Kazakhstan	100%	Did not trade in 2016-Jul 2017
Firma Balausa LLC	Kazakhstan	100%	Production and sale of vanadium and associated by-products

The Group’s principal activity is mining, processing and sale of vanadium-containing ores and associated by-products extracted from the Balasausqandyq mine located in Kazakhstan, Shieli under license MG1278D dated 8 December 1997. The Group’s products are sold in Kazakhstan and abroad.

The Group’s operations were initially of small scale intended as a pilot plant to demonstrate the technical and financial feasibility of treating ore from the Balasausqandyq deposit. Following the conclusion of testing the Group adapted its former pilot plant to the leaching of purchased iron-containing concentrate and carried out the reconstruction of the corresponding plant equipment. Commissioning commenced in October 2015 and during 2016, the Group produced vanadium products in the form of red cake and ammonium metavanadate. The intention of the operation was to prove feasibility on a small scale with a view to carrying out an expansion of these processing operations once the operating performance and equipment requirements were known. As a result of the small scale of operations and early experimentation with the process the Group did not generate positive cash flows during 2016 and the first half of 2017. Nevertheless, the management expects a positive cash flow from operations during the second half of 2017 due to higher US dollar product prices, lower Kazakhstan tenge based costs, and a higher volume of processed concentrate. A significant expansion of the current factory is taking place in stages which will further increase earnings from this operation in 2018 and beyond.

Following the listing on the Kazakhstan stock exchange in June 2017 and the planned listing on the London Stock Exchange the Group is planning to start the development of the Balasausqandyq mine and associated processing facilities. The initial target production from Balasausqandyq will be 5,600 tonnes additional to production from the current processing facilities.

As at 30 June 2017 the Group had 140 employees (31 December 2016: 140).

(b) Kazakhstan business environment

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

operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

3 Significant accounting policies

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

4 Exploration and evaluation assets

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

5 Equity

(a) Share capital and share premium

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	30 June 2017	31 December 2016
Authorised shares	5,000,000	5,000,000
Par value	0.01 USD	0.01 USD
Outstanding at beginning of period/year	1,503,796	1,496,235
Shares issued for cash	1,194	7,561
Outstanding at end of period/year	1,504,990	1,503,796

Ordinary shares

All shares rank equally with regard to the Group's residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Dividends

No dividends were declared for the six-month period ended 30 June 2017.

6 Loans and borrowings

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

USD	30 June 2017	31 December 2016
<i>Current liabilities</i>		
Loans from shareholders	437,225	392,235
	437,225	392,235

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

USD	Currency	Nominal interest rate	Year of maturity	30 June 2017		31 December 2016	
				Face value	Carrying amount	Face value	Carrying amount
Loans from shareholders	USD	15%	upon demand	306,455	306,455	267,622	267,622
Loans from shareholders	USD	10%	upon demand	129,070	129,070	122,973	122,973
Loans from shareholders	KZT	0%	upon demand	1,700	1,700	1,640	1,640
				437,225	437,225	392,235	392,235

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

7 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's property or relating to Group's 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 interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years but under certain circumstances a tax year may remain open longer.

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