

**Joint Venture South Mining Chemical Company LLP**

Financial Statements  
for the year ended  
31 December 2016

## **Contents**

Independent Auditors' Report	
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10-37



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## **Independent Auditors' Report**

*To Management of Joint Venture South Mining Chemical Company LLP*

### **Opinion**

We have audited the financial statements of Joint Venture South Mining Chemical Company LLP (the "Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management 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, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

«КПМГ Аудит» ЖШС, Қазақстан Республикасының заңнамасы бойынша тіркелген компания және Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



***Auditors' 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 auditors' 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.





***Auditors' Responsibilities for the Audit of the Financial Statements,  
continued***

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

  
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Sergey Dementyev  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
No. МФ-0009066 of 27 August 2012

**KPMG Audit LLC**

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

  
\_\_\_\_\_  
Assel Khairova  
General Director of KPMG Audit LLC  
acting on the basis of the Charter



31 January 2017

*Joint Venture South Mining Chemical Company LLP*  
*Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016*

		2016	2015
	Note	‘000 KZT	‘000 KZT
Revenue	5	69,802,439	66,367,344
Cost of sales	6	(28,286,413)	(26,470,564)
<b>Gross profit</b>		<b>41,516,026</b>	<b>39,896,780</b>
Distribution expenses		(1,711,151)	(836,744)
Administrative expenses		(996,000)	(421,906)
Other expenses, net		(408,304)	(40,162)
<b>Results from operating activities</b>		<b>38,400,571</b>	<b>38,597,968</b>
Finance income	7	25,816	5,761,423
Finance costs	7	(393,893)	(163,835)
<b>Net finance (costs)/income</b>		<b>(368,077)</b>	<b>5,597,588</b>
<b>Profit before income tax</b>		<b>38,032,494</b>	<b>44,195,556</b>
Income tax expense	8	(7,955,606)	(8,750,957)
<b>Profit and total comprehensive income for the year</b>		<b>30,076,888</b>	<b>35,444,599</b>

These financial statements were approved by management on 31 January 2017 and were signed on its behalf by:

  Uvarov A.D. General Director	 Chebotareva L.A. Deputy General Director for Economics and Finance	 Churina Y.S. Acting Chief Accountant
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*Joint Venture South Mining Chemical Company LLP*  
Statement of Financial Position as at 31 December 2016

		<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>Note</b>	<b>'000 KZT</b>	<b>'000 KZT</b>
<b>ASSETS</b>			
Mine development assets	10	19,655,251	18,961,432
Property, plant and equipment	11	14,070,839	14,454,921
Intangible assets		131,669	31,703
VAT receivable		3,050,253	577,754
Restricted cash	12	425,035	175,000
Deferred tax asset	8	59,400	-
Other non-current assets		757,779	452,434
<b>Non-current assets</b>		<b>38,150,226</b>	<b>34,653,244</b>
Inventories	13	3,325,038	7,263,378
Trade and other receivables	14	16,168,942	19,182,519
Corporate income tax prepaid		720,581	-
Cash and cash equivalents	15	1,160,434	8,394,486
<b>Current assets</b>		<b>21,374,995</b>	<b>34,840,383</b>
<b>Total assets</b>		<b>59,525,221</b>	<b>69,493,627</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Charter capital	16	64,000	64,000
Retained earnings		30,076,888	34,720,202
<b>Total equity</b>		<b>30,140,888</b>	<b>34,784,202</b>
<b>Liabilities</b>			
Deferred tax liability	8	-	194,334
Site restoration provision	17	2,131,880	2,157,591
Historical costs liability	18	51,018	150,405
<b>Non-current liabilities</b>		<b>2,182,898</b>	<b>2,502,330</b>
<b>Current liabilities</b>			
Trade and other payables	19	2,755,915	4,253,140
Dividends payable	16	19,720,202	-
Other financial liabilities	20	4,725,318	27,331,723
Income tax payable		-	622,232
<b>Current liabilities</b>		<b>27,201,435</b>	<b>32,207,095</b>
<b>Total liabilities</b>		<b>29,384,333</b>	<b>34,709,425</b>
<b>Total equity and liabilities</b>		<b>59,525,221</b>	<b>69,493,627</b>

These financial statements were approved by management on 31 January 2017 and were signed on its behalf by:

 Uvarov A.D. General Director	 Chebotareva L.A. Deputy General Director for Economics and Finance	 Churina Y.S. Acting Chief Accountant
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*Joint Venture South Mining Chemical Company LLP*  
Statement of Changes in Equity for the year ended 31 December 2016

<b>‘000 KZT</b>	<b>Charter capital</b>	<b>Retained earnings</b>	<b>Total</b>
At 1 January 2015	64,000	(724,397)	(660,397)
<b>Total comprehensive income for the year</b>			
Profit and total comprehensive income for the year	-	35,444,599	35,444,599
<b>At 31 December 2015</b>	<b>64,000</b>	<b>34,720,202</b>	<b>34,784,202</b>
<b>Total comprehensive income for the year</b>			
Profit and total comprehensive income for the year	-	30,076,888	30,076,888
Dividends declared	-	(34,720,202)	(34,720,202)
<b>At 31 December 2016</b>	<b>64,000</b>	<b>30,076,888</b>	<b>30,140,888</b>

These financial statements were approved by management on 31 January 2017 and were signed on its behalf by:

Uvarov A.D.  
General Director



Chebotareva L.A.  
Deputy General Director for  
Economics and Finance

Churina Y.S.  
Acting Chief Accountant



*Joint Venture South Mining Chemical Company LLP*  
*Statement of Cash Flows for the year ended 31 December 2016*

<b>‘000 KZT</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	73,242,699	58,017,329
Other receipts	40,317	243,583
Payments to employees	(2,880,628)	(1,407,343)
Other payments	(1,710,977)	(1,234,739)
Advances paid to suppliers of goods and services	(6,445)	(16,818)
Cash paid to suppliers for goods and services	(11,446,601)	(20,958,888)
Payments under insurance contracts	(74,064)	(42,206)
Payments to the budget	(7,350,751)	(5,360,031)
<b>Cash flows from operating activities before income tax and interest paid</b>	<b>49,813,550</b>	<b>29,240,887</b>
Income tax paid	(9,556,305)	(8,605,020)
<b>Net cash from operating activities</b>	<b>40,257,245</b>	<b>20,635,867</b>
<b>Cash flows from investing activities</b>		
Acquisition of intangible assets	(13,855)	(9,898)
Acquisition of property, plant and equipment	(437,049)	(789,661)
Acquisition of mine development assets	(6,726,378)	(7,209,363)
Deposits with banks	(250,035)	(175,000)
Other payments	-	(452,434)
<b>Net cash used in investing activities</b>	<b>(7,427,317)</b>	<b>(8,636,356)</b>
<b>Cash flows from financing activities</b>		
Payment of dividends (net of income tax withheld in the amount of KZT 525,000 thousand)	(14,475,000)	-
Proceeds from borrowings	-	2,250,000
Repayment of borrowings	-	(2,250,000)
Repayment of notes	(24,471,805)	(5,321,421)
<b>Net cash used in financing activities</b>	<b>(38,946,805)</b>	<b>(5,321,421)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(6,116,877)</b>	<b>6,678,090</b>
Cash and cash equivalents as at 1 January	8,394,486	95,235
Effect of exchange rate fluctuations on cash and cash equivalents	(1,117,175)	1,621,161
<b>Cash and cash equivalents as at 31 December (Note 15)</b>	<b>1,160,434</b>	<b>8,394,486</b>

These financial statements were approved by management on 31 January 2017 and were signed on its behalf by:

 <b>Uvarov A.D.</b> <i>General Director</i>	 <b>Chibotareva L.A.</b> <i>Deputy General Director for Economics and Finance</i>	 <b>Churina Y.S.</b> <i>Acting Chief Accountant</i>
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## **1 Background**

### **(a) Organisation and operations**

Joint Venture South Mining Chemical Company LLP (the “Company”) was incorporated on 1 August 2014 under the laws of the Republic of Kazakhstan. On 17 October 2014 National Atomic Company “Kazatomprom” JSC (hereinafter, “NAC KAP”) transferred to the Company the subsoil use rights in accordance with the Addendum No.4 to the Exploration and Production Contract No.1800 on the block of South Inkai deposit, and Addendum No.7 to the Exploration and Production Contract No.647 on the block of Akdala deposit (hereinafter, the “Contracts”). The subsoil use contract for Akdala deposit is valid for 25 years, starting from 28 March 2001. The subsoil use contract for South Inkai deposit is valid for 24 years, starting from 8 July 2005.

Previously the Contracts as well as all mine development assets and property, plant and equipment for uranium extraction and primary processing were owned by JV Betpak Dala LLP, a related party. During 2014, according to the court decision, JV Betpak Dala LLP’s contractual subsoil use rights were revoked and returned to the original owner – NAC KAP; all respective contractual mine development assets were acquired from JV Betpak Dala LLP at their carrying amounts. In accordance with the agreement between the shareholders of JV Betpak Dala LLP and NAC KAP, a new Company – Joint Venture South Mining Chemical Company LLP was incorporated, and NAC KAP transferred the Contracts and sold the mine development assets at their carrying amounts. During 2014 JV Betpak Dala LLP retained its ownership of property, plant and equipment for extraction and primary processing of uranium ore, and provided the Company uranium extraction and primary processing services under the service contracts. On 15 September 2015, based on the decision of the Company’s participants, the production assets were acquired from JV Betpak Dala LLP according to the sale-purchase agreement dated 1 October 2015.

As at reporting date, the Company’s principal activity is extraction and primary processing of uranium ore. Uranium ore is produced using the in-situ leaching method at the Company’s South Inkai and Akdala deposits located in Southern Kazakhstan Oblast. Commercial production on South Inkai and Akdala deposits started in 2004 and 2009, respectively. The Company produces the final product (U3O8) at the processing facilities (located at South Inkai mine and having capacity about 3,000 tons per year).

The Company’s participants are NAC KAP and Uranium One Rotterdam B.V. that own 30% and 70% interests in the Company, respectively.

The Company’s registered office is: apart. 36, h. 23, Kyzemshek Village, Suzaksky District, South-Kazakhstan Oblast, 161006, Republic of Kazakhstan.

Export of uranium from Kazakhstan is regulated by a respective export license. The Government of the Republic of Kazakhstan represented by the Committee for Atomic and Energetic Supervision and Control under the Ministry of Energy (hereinafter, the “MoE”) and Ministry of Environment Protection and Water Resources and other authorised bodies exercise control over the operations, export and import of uranium products in Kazakhstan.

As at 31 December 2016 the Company’s average annual number of employees was 928 (31 December 2015: 509 employees).

### **(b) Kazakhstan business environment**

The Company’s operations are primarily located in Kazakhstan. Consequently, the Company 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. In addition, recent depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

## **1 Background, continued**

### **(b) Kazakhstan business environment, continued**

The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

## **2 Basis of accounting**

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

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The financial statements have been prepared on the historical cost basis.

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

The national currency of the Republic of Kazakhstan is the Kazakh tenge ("KZT"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in KZT has been rounded to the nearest thousand.

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

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is disclosed to the following notes:

- Note 17 – Site restoration provision
- Note 10 – Mine development assets.

### **(i) Useful lives of items of property, plant and equipment and mine development assets**

The Company assesses the remaining useful life of these assets at each reporting date. In determining the useful life of the mine, the assumptions, valid at the time of assessment may change when new information is available. If changes occurred, they are accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

These factors affecting the estimated useful life including the following:

- changes in the proved and probable ore reserves;
- differences in the grade and quality of mineral reserves;
- changes in the actual commodity prices and commodity price assumptions used to assess the ore reserves;
- unforeseen mine operating issues directly at the deposits, and
- changes in capital, production, processing and reclamation costs, discount rates and currency exchange rates may negatively affect the economic viability of ore reserves.

## **2 Basis of accounting, continued**

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

#### **(i) Useful lives of items of property, plant and equipment and mine development assets, continued**

Any of these changes may impact the future depreciation and the carrying amount of the capitalised costs. Management regularly reviews the appropriateness of the useful lives of the assets. The analysis is based on the current state of the assets and the estimated period during which they will continue to generate economic benefits for the Company.

#### **(ii) Uranium reserves**

Uranium reserves are a significant factor in the Company's activity. All reserves estimates involve some degree of uncertainty, depending on the geological and engineering information available at the evaluation date and interpretation thereof. Estimates may be reviewed as a result of changes in production capacity or changes in mine development strategy.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 8 – Deferred tax assets and liabilities.

## **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Company's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

### **(b) Financial instruments**

#### **(i) Non-derivative financial instruments**

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.

Non-derivative financial instruments comprise restricted cash, trade and other receivables, cash and cash equivalents, other financial liabilities, historical costs liabilities, and trade and other payables.

The Company classifies non-derivative financial assets into the following category: loans and receivables.

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.



### 3 Significant accounting policies, continued

#### (b) Financial instruments, continued

##### (i) *Non-derivative financial instruments, continued*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### *Loans and receivables*

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Loans and receivables category comprises the following classes of financial assets: restricted cash as presented in Note 12, trade and other receivables as presented in Note 14 and cash and cash equivalents as presented in Note 15.

Cash and cash equivalents comprise bank balances.

##### (ii) *Non-derivative financial liabilities*

The Company initially recognises financial liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. 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 fair value using the effective interest method.

Other financial liabilities comprise other financial liabilities, historical costs liabilities, trade and other payables.

##### (iii) *Charter capital*

Charter capital is classified as equity. Incremental costs directly attributable to increase of charter capital are recognised as a deduction from equity, net of any tax effects.

#### (c) Mine development costs

##### (i) *Acquisition cost*

Mine development costs are measured at cost less accumulated amortisation and impairment losses.

The Company incurs costs related to discovery of mineral resources on unexplored blocks of the Deposits. These costs are capitalised as exploration and evaluation assets until the reserve evaluation is completed. Once the technical feasibility and commercial viability of the project is demonstrable, costs associated with the exploration and evaluation activities including exploratory drilling, topographical, geological and geophysical studies and a pilot plant operation to develop uranium processing technology and confirm the economic feasibility of the project, are tested for impairment and reclassified to mine development costs.

### **3 Significant accounting policies, continued**

#### **(c) Mine development costs, continued**

##### **(i) Acquisition cost, continued**

The Company incurs costs to prepare the mining area for commercial extraction of uranium on producing blocks. These costs include costs directly attributable to construction of injection, production and monitoring wells, surface infrastructure such as piping, solutions distribution units, infield roads, reagents piping racks etc. and costs of reagents used in the well field acidification process. These well field costs are recognised as tangible mine development costs.

##### **(ii) Amortisation**

Amortisation commences on the start of commercial extraction of uranium. Intangible development costs are amortised using the unit-of-production method based on the recoverable reserves on the block to which the assets relate. Tangible mine development costs related to certain well field are amortised using the unit-of-production method based on the current production and well field available reserves, determined during the initial exploration and further exploration carried out during the process of well field construction. Tangible mine development costs related to the entire block are amortised using the units-of-production method based on the reserves of the block, which are planned to be extracted during the Contracts' terms. The unit-of-production method is calculated as a proportion to the amount of reserves extracted.

#### **(d) Property, plant and equipment**

##### **(i) Recognition and measurement**

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

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, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant 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.

Any 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 expenditure**

The cost of replacing a significant component 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 component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component 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**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

### **3 Significant accounting policies, continued**

#### **(d) Property, plant and equipment, continued**

##### **(iii) Depreciation, continued**

Buildings and constructions related to the facilities of the mining and industrial complex are depreciated using the unit-of production method based on proved reserves. Equipment that is inseparable from the buildings and constructions is also depreciated using the unit-of production method. However, the straight-line method of depreciation is applied to those machinery and equipment, which are available at the mine but which are used individually, are transportable and may be relocated to other places for operations.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives for other machinery and equipment, transport vehicles and other items of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Buildings and constructions	unit-of-production method;
Residential buildings	20 years;
Machinery and equipment	3-10 years;
Vehicles	5-10 years;
Other	3-7 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### **(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, 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.

#### **(f) Impairment**

##### **(i) Non-derivative financial assets**

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 (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, disappearing of an active market for any security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

### **3 Significant accounting policies, continued**

#### **(f) Impairment, continued**

##### **(i) *Non-derivative financial assets, continued***

###### *Available-for-sale financial assets*

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. 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 Company'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. 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.

Company's corporate assets do not generate separate cash inflows and are utilised by more than one unit, generating cash flow. Corporate assets are allocated to cash generating units on a reasonable and consistent basis and tested for impairment as part of impairment testing unit generating cash flows, which is distributed corporate asset.

Impairment losses are recognised in profit or loss for the period. Impairment losses recognised in respect of the cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

In respect of other assets, 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.



### 3 Significant accounting policies, continued

#### (g) Employee benefits

##### (i) *Defined contribution plans*

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

#### (h) Provisions

A provision is recognised if, as a result of a past event, the Company 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 finance cost.

##### *Site restoration*

Mining operations of the Company are subject to various environmental laws and regulations. The Company estimates the provision for site restoration obligation based on management's understanding of the current legal requirements and terms of the Contract. Provision is determined based on net present value of site restoration costs when such liability arises. The actual costs incurred in future may substantially differ from the provision amount. Future amendment of environmental laws and regulations, field valuation terms and discount rates may also affect the carrying amount of the provision.

#### (i) Revenue

##### *Goods sold*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of uranium, the transfer of risks and rewards usually occurs when uranium is delivered to a conversion facility, specific processing plant or warehouse specified in the agreement.

### 3 Significant accounting policies, continued

#### (j) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

#### (i) Current tax

Current tax comprises 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. Current tax payable also includes any tax liability arising from dividends.

#### (ii) Deferred tax

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 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.

#### (k) New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

### 3 Significant accounting policies, continued

#### (k) New standards and interpretations not yet adopted, continued

- IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
- IFRS 16 *Leases* introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

### 4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Trade and other receivables and loans issued

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Fair value of trade and other receivables with short terms maturities does not differ considerably from their carrying amounts, as the time value of money is not significant.

#### (b) Non-derivative financial liabilities

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Management believes that fair value of the financial asset and liabilities of the Company approximates their carrying amount.

## 5 Revenue

‘000 KZT	2016	2015
Sale of uranium oxide	69,286,479	66,185,334
Other revenue	515,960	182,010
	<b>69,802,439</b>	<b>66,367,344</b>

During 2016, the Company sold 64% and 36% of uranium produced to “Uranium One Inc.” and Kazatomprom, respectively (2015: 66%, 27% and 7% - “Uranium One Inc.”, Kazatomprom and “Uranium One Holding”, respectively).

Uranium sales price is determined in accordance with the terms and conditions of the agreements concluded with the buyers and is based on the arithmetic mean value of spot prices adjusted for discounts agreed by the parties.

## 6 Cost of sales

‘000 KZT	2016	2015
Raw materials and consumables	9,305,969	4,729,539
Taxes (including mineral extraction tax)	5,175,513	3,808,700
Amortisation of mine development assets	4,538,862	3,986,593
Wages and salaries	2,870,522	944,830
Depreciation	2,378,763	310,581
Third parties services	1,802,850	11,756,531
Other	509,456	113,517
Amortisation of exploration costs	486,890	332,658
Social tax	379,513	114,253
Vacation and bonus provisions	356,338	44,250
Amortisation of mine liquidation and historical costs assets	283,945	287,150
Ion-exchange resin	104,096	10,262
Repair and technical maintenance	93,696	31,700
	<b>28,286,413</b>	<b>26,470,564</b>

## 7 Finance income and costs

‘000 KZT	2016	2015
Net foreign exchange gain	-	5,761,423
Interest income on other financial assets	25,816	-
<b>Finance income</b>	<b>25,816</b>	<b>5,761,423</b>
Unwinding of discount on site restoration provision (Note 17)	(144,558)	(138,841)
Unwinding of discount on historical costs liability (Note 18)	(7,321)	(6,735)
Interest expense on other financial liabilities	(16,188)	(18,259)
Net foreign exchange loss	(225,826)	-
<b>Finance costs</b>	<b>(393,893)</b>	<b>(163,835)</b>
<b>Net finance (costs)/income recognised in profit or loss</b>	<b>(368,077)</b>	<b>5,597,588</b>



## 8 Income tax expense

In 2016, the Company's applicable tax rate is the income tax rate of 20% for Kazakhstan companies.

'000 KZT	2016	2015
<b>Current tax expense</b>		
Current income tax	8,209,340	8,485,775
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	(253,734)	265,182
	<u>7,955,606</u>	<u>8,750,957</u>

### Reconciliation of effective tax rate:

	2016		2015	
	'000 KZT	%	'000 KZT	%
Profit before income tax	38,032,494	100	44,195,556	100
Income tax at applicable tax rate	7,606,500	20	8,839,111	20
Non-deductible expenses	349,106	0.9	(88,154)	(0.2)
	7,955,606	20.9	8,750,957	19.8

### (a) Recognised deferred tax assets and liabilities

Under the current tax legislation of the Republic of Kazakhstan, the Company is obligated to maintain separate tax accounting records of the contractual and non-contractual activities. The taxable income for the contractual operations is determined based on the amount of extracted uranium and taxable income from non-contractual activity is determined as a positive difference between the income in the financial statements and income from contractual operations.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 KZT	2016	2015	2016	2015	2016	2015
Intangible assets	-	-	(9,725)	(2,176)	(9,725)	(2,176)
Property, plant and equipment	-	-	(232,002)	(307,820)	(232,002)	(307,820)
Site restoration asset	-	-	(257,853)	(337,926)	(257,853)	(337,926)
Historical costs asset	-	-	(30,013)	(34,684)	(30,013)	(34,684)
Vacation and bonus provisions	38,136	36,618	-	-	38,136	36,618
Historical cost liabilities	30,960	51,428	-	-	30,960	51,428
Taxes	142,863	943	-	-	142,863	943
Site restoration provision	341,369	396,518	-	-	341,369	396,518
Inventory write-off provision	35,665	-	-	-	35,665	-
Trade and other payables	-	2,765	-	-	-	2,765
	<u>588,993</u>	<u>488,272</u>	<u>(529,593)</u>	<u>(682,606)</u>	<u>59,400</u>	<u>(194,334)</u>

## 8 Income tax expense, continued

### (b) Movement in temporary differences during the year

‘000 KZT	1 January 2016	Recognised in profit or loss	31 December 2016
Intangible assets	(2,176)	(7,549)	(9,725)
Property, plant and equipment	307,820	75,818	(232,002)
Site restoration asset	(337,926)	80,073	(257,853)
Historical costs asset	(34,684)	4,671	(30,013)
Vacation and bonus provisions	36,618	1,518	38,136
Historical cost liabilities	51,428	(20,468)	30,960
Taxes	943	141,920	142,863
Site restoration provision	396,518	(55,149)	341,369
Inventory write-off provision	-	35,665	35,665
Trade and other payables	2,765	(2,765)	-
	<b>(194,334)</b>	<b>253,734</b>	<b>59,400</b>

‘000 KZT	1 January 2015	Recognised in profit or loss	31 December 2015
Intangible assets	(2)	(2,174)	(2,176)
Property, plant and equipment	-	(307,820)	(307,820)
Mine development costs	(108,222)	108,222	-
Site restoration asset	(426,491)	88,565	(337,926)
Historical costs asset	(39,414)	4,730	(34,684)
Vacation and bonus provisions	506	36,112	36,618
Historical cost liabilities	37,966	13,462	51,428
Taxes	165,739	(164,796)	943
Site restoration provision	440,766	(44,248)	396,518
Trade and other payables	-	2,765	2,765
	<b>70,848</b>	<b>(265,182)</b>	<b>(194,334)</b>

## 9 Personnel costs

‘000 KZT	2016	2015
Wages and salaries	3,541,048	1,733,315
Social tax and contributions	328,958	162,470
Contributions to pension funds	334,616	167,731
	<b>4,204,622</b>	<b>2,063,516</b>

## 10 Mine development assets

Costs of development of South Inkai and Akdala mines are classified as assets related to the mining of mineral resources.

	Site restoration KZT'000	Historical costs '000 KZT	Development costs '000 KZT	Exploration costs '000 KZT	Ion exchange resin '000 KZT	Total '000 KZT
<b>At 1 January 2015</b>	<b>2,132,453</b>	<b>197,071</b>	<b>9,083,342</b>	<b>3,528,796</b>	<b>-</b>	<b>14,941,662</b>
Addition	-	-	3,998,874	3,210,489	1,769,797	8,979,160
Disposal	-	-	-	(12,952)	-	(12,952)
Depreciation	(257,745)	(23,649)	(4,079,184)	(378,348)	(22,433)	(4,761,359)
Change in estimates (Note 17)	(185,079)	-	-	-	-	(185,079)
<b>At 31 December 2015</b>	<b>1,689,629</b>	<b>173,422</b>	<b>9,003,032</b>	<b>6,347,985</b>	<b>1,747,364</b>	<b>18,961,432</b>
<b>At 1 January 2016</b>	<b>1,689,629</b>	<b>173,422</b>	<b>9,003,032</b>	<b>6,347,985</b>	<b>1,747,364</b>	<b>18,961,432</b>
Addition	-	-	3,967,064	1,649,857	177,612	5,794,533
Depreciation	230,097	(23,359)	(4,136,730)	(438,462)	(101,797)	(4,930,445)
Change in estimates (Note 17)	(170,269)	-	-	-	-	(170,269)
<b>At 31 December 2016</b>	<b>1,289,263</b>	<b>150,063</b>	<b>8,833,366</b>	<b>7,559,380</b>	<b>1,823,179</b>	<b>19,655,251</b>

Depreciation was recognised in cost of sales and has been charged to the finished goods and work-in-progress.

In December 2014, the Company acquired the costs of mining and geological exploration works estimated based on proved and probable reserves from NAC KAP in the amount of KZT 14,321,421 thousand, including VAT in the amount KZT 1,718,586 thousand, and recognised trade payables for the same amount. In December 2014, the Company issued the promissory notes for the amount of KZT 14,321,421 thousand for repayment of trade payables. In 2015, these notes payable were transferred to JV Belpak-Dala LLP. The notes are payable on demand. As at 31 December 2016, most of the notes were repaid and the outstanding balance amounted to KZT 3,000,000 thousand (Note 20).

## 11 Property, plant and equipment

‘000 KZT	Buildings and constructions	Plant and equipment	Vehicles and other	Under construction	Total
<i>Cost</i>					
Balance at 1 January 2015	-	-	1,785	-	1,785
Additions	9,402,088	4,398,441	467,752	755,525	15,023,806
Balance at 31 December 2015	9,402,088	4,398,441	469,537	755,525	15,025,591
Balance at 1 January 2016	9,402,088	4,398,441	469,537	755,525	15,025,591
Additions	66,578	390,144	506,234	982,316	1,945,272
Disposals	-	(2,292)	(262)	-	(2,554)
Balance at 31 December 2016	9,468,666	4,786,293	975,509	1,737,841	16,968,309
<i>Depreciation</i>					
Balance at 1 January 2015	-	-	-	-	-
Depreciation for the year	(313,034)	(231,523)	(26,113)	-	(570,670)
Balance at 31 December 2015	(313,034)	(231,523)	(26,113)	-	(570,670)
Balance at 1 January 2016	(313,034)	(231,523)	(26,113)	-	(570,670)
Depreciation for the year	(1,227,488)	(950,440)	(150,253)	-	(2,328,181)
Disposals	-	1,299	82	-	1,381
Balance at 31 December 2016	(1,540,522)	(1,180,664)	(176,284)	-	(2,897,470)
<i>Carrying amount</i>					
At 31 December 2015	9,089,054	4,166,918	443,424	755,525	14,454,921
At 31 December 2016	7,928,144	3,605,629	799,224	1,737,841	14,070,839

Depreciation was recognised in cost of sales, administrative expenses, finished goods and work-in-progress.

In October 2015, the Company acquired the processing plant production assets from JV Betpak-Dala LLP in the amount of KZT 18,311,932 thousand, including VAT of KZT 2,197,432 thousand by issuing notes payable on demand in favour of JV Betpak-Dala LLP for the same amount. As at 31 December 2016, most of the notes were repaid and the outstanding balance amounted to KZT 1,724,434 thousand (Note 20).



## 21 Financial instruments, continued

### (b) Credit risk, continued

#### (ii) *Exposure to credit risk, continued*

##### *Cash*

At the end of the reporting period the credit ratings were as follows:

'000 KZT	Rating	31 December 2016	31 December 2015
Kazkommertsbank JSC	CCC	105,791	248,052
Citibank Kazakhstan JSC	BA+	-	8,144,293
SB Alfa Bank JSC	BB	15,756	1,049
Halyk Bank of Kazakhstan JSC	BB	125,586	532
Altyn Bank JSC	BB	913,301	-
		<b>1,160,434</b>	<b>8,393,926</b>

### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations – for 90 days; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

## 21 Financial instruments, continued

### (c) Liquidity risk, continued

The following are the contractual maturities of financial liabilities, not including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. Liquidity of financial instrument is disclosed on the basis of the discounted cash flows on financial assets and liabilities in accordance with the expected dates of cash inflows (or outflows), including estimated interest payments.

At 31 December 2016	Carrying amount	Weighted average effective interest rate %	Total	On demand	0-3 months	3 months – 1 year	1-5 years
<b>Financial assets:</b>							
Cash and cash equivalents, current portion	1,160,434	interest free	1,160,434	1,160,434	-	-	-
Trade receivables from Uranium One Inc.	3,748,594	interest free	3,748,594	-	3,748,594	-	-
Trade receivables from NAC Kazatomprom JSC	10,760,186	interest free	10,760,186	-	10,760,186	-	-
Other receivables	115,967	interest free	115,967	-	115,967	-	-
<b>Total</b>	<b>15,785,181</b>		<b>15,785,181</b>	<b>1,160,434</b>	<b>14,624,747</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities:</b>							
Historical costs liability (current portion)	(103,780)	3.30%	(105,920)	-	(26,159)	(79,761)	-
Historical costs liability (non-current portion)	(51,018)	3.30%	(53,754)	-	-	-	(53,754)
Trade and other payables, including dividends payable	(21,619,429)	interest free	(21,619,429)	-	(21,619,429)	-	-
Other financial liabilities	(4,724,434)	0.10%	(4,724,434)	(4,724,434)	-	-	-
Interest payable	(884)	interest free	(884)	(884)	-	-	-
<b>Total</b>	<b>(26,499,545)</b>		<b>(26,504,421)</b>	<b>(4,725,318)</b>	<b>(21,645,588)</b>	<b>(79,761)</b>	<b>(53,754)</b>
<b>Net balance position</b>	<b>(10,714,364)</b>		<b>(10,719,240)</b>	<b>(3,564,884)</b>	<b>(7,020,841)</b>	<b>(79,761)</b>	<b>(53,754)</b>

## 21 Financial instruments, continued

### (c) Liquidity risk, continued

At 31 December 2015	Carrying amount	Weighted average effective interest rate %	Total	On demand	0-3 months	3 months – 1 year	1-5 years
<b>Financial assets:</b>							
Cash and cash equivalents, current portion	8,393,926	interest free	8,393,926	8,393,926	-	-	-
Trade receivables from Uranium One Holding	313,025	interest free	313,025	-	313,025	-	-
Trade receivables from Uranium One Inc.	8,822,086	interest free	8,822,086	-	8,822,086	-	-
Trade receivables from NAC Kazatomprom JSC	5,550,814	interest free	5,550,814	-	5,550,814	-	-
Other receivables	81,340	interest free	81,340	-	81,340	-	-
<b>Total</b>	<b>23,161,191</b>		<b>23,161,191</b>	<b>8,393,926</b>	<b>14,767,265</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities:</b>							
Historical costs liability (current portion)	(106,733)	3.30%	(106,733)	-	(26,683)	(80,050)	-
Historical costs liability (non-current portion)	(150,405)	3.30%	(150,405)	-	-	-	(150,405)
Trade and other payables	(4,141,175)	interest free	(4,141,175)	-	(4,141,175)	-	-
Other financial liabilities	(27,311,932)	0.10%	(27,311,932)	(27,311,932)	-	-	-
Interest payable	(19,791)	interest free	(19,791)	(19,791)	-	-	-
<b>Total</b>	<b>(31,730,036)</b>		<b>(31,730,036)</b>	<b>(27,331,723)</b>	<b>(4,167,858)</b>	<b>(80,050)</b>	<b>(150,405)</b>
<b>Net balance position</b>	<b>(8,568,845)</b>		<b>(8,568,845)</b>	<b>(18,937,797)</b>	<b>10,599,407</b>	<b>(80,050)</b>	<b>(150,405)</b>

## 21 Financial instruments, continued

### (d) Capital and financial risk management

The Company manages capital to ensure the continued operations. The capital structure of the Company comprises the Company's equity (including the issued stock, accumulated deficit). The Company is not subject to externally imposed capital requirements. Management reviews the capital structure on the annual basis. Based on the review results the Company takes measure to balance the entire capital structure through increase of the charter capital.

### (e) 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 Company'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.

The Company neither buys and sells derivatives, nor incurs financial liabilities, in order to manage market risks. The Company does not apply special hedge accounting in order to manage volatility in profit or loss.

#### (i) Market price risk

The Company is exposed to the effect of fluctuations in the price of uranium, which is quoted in US Dollars on the international markets. The Company prepares an annual budget in respect of various levels of uranium prices in the future. Uranium prices historically fluctuate and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of natural uranium production, depleting levels of secondary sources such as recycling and blended down highly enriched stocks available to close the gap of the excess demand over supply, regulations by International Atomic Energy Agency and other factors related specifically to uranium.

At the reporting date there was no significant impact of commodity price risk on financial assets and liabilities recognised by the Company.

The Company does not hedge its exposure to the risk of fluctuations in the price of uranium.

#### (ii) Currency risk

The Company is exposed to currency risk on sales, purchases that are denominated in a currency other than the functional currency. The currency in which these transactions primarily are denominated is USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure 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 Company's exposure to foreign currency risk was as follows based on notional amounts:

The Company has the following financial assets and liabilities denominated in USD:

'000 KZT	31 December 2016	31 December 2015
Cash and cash equivalents	912,730	7,706,031
Accounts receivable	3,748,594	9,135,284
Accounts payable	(2,676)	(5,092)
Historical costs liability	(154,798)	(257,139)
<b>Net exposure</b>	<b>4,503,850</b>	<b>16,579,084</b>

## 21 Financial instruments, continued

### (e) Market risk, continued

#### (ii) Currency risk, continued

##### Exposure to currency risk, continued

The following exchange rates applied during the year:

in KZT	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
	2016	2016	2015	2015
USD 1	342.16	333.29	222.25	339.47

##### Sensitivity analysis

Weakening of the KZT, as indicated below, against the USD at 31 December would have increased profit net of taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

‘000 KZT

At 31 December 2016

KZT/USD (20% movement)

Profit or loss	
Strengthening	Weakening
(720,616)	720,616

‘000 KZT

At 31 December 2015

KZT/USD (20% movement)

Profit or loss	
Strengthening	Weakening
(2,652,653)	2,652,653

#### (iii) Interest rate risk

Changes in interest rates impact primarily other financial liabilities, by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company’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 Company over the expected period until maturity.

##### Profile

At the reporting date the interest rate profile of the Company’s interest-bearing financial instruments was:

Fixed rate instruments	Carrying amount	Carrying amount
‘000 KZT	2016	2015
Other financial liabilities (Note 20)	(4,725,318)	(27,331,723)
	<u>(4,725,318)</u>	<u>(27,331,723)</u>

#### (f) Fair value

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts. Fair values have been determined for measurement and disclosure purposes based on the following methods.

##### Trade and other receivables

The estimated fair value of trade and other receivables is measured on the basis of the present value of future cash flows, discounted at the market rate of interest at the reporting date. Fair value of trade and other receivables is determined for disclosure purpose.

## **21 Financial instruments, continued**

### **(f) Fair value, continued**

#### *Non-derivative financial liabilities*

Fair value, which is determined solely for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### *Fair value hierarchy*

The different levels have been defined as follows:

- 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).

Financial instruments of the Company fall into Level 2 in the fair value hierarchy.

## **22 Commitments and contingencies**

### **(a) Taxation contingencies**

The taxation system in Kazakhstan is relatively new and is characterised by a great number of various taxes, frequent changes in legislation, official pronouncements and court decisions. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and penalties. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

#### *Transfer pricing law*

A new transfer pricing law was enacted as at January 1, 2009. As before, the new law applies to cross-border transactions involving sales of goods and services. In addition, the transfer pricing law applies to in-country sales and purchases of goods and services, if these transactions are determined to be effected not at arm's length.

Also, the law excluded the 10 percent price safe harbour provision that existed under the previous transfer pricing law (except for the sales of agricultural produce). Accordingly, the tax authorities are now entitled to review prices under any transaction, subject to the negotiated price varies from the price of transaction on commercial terms by any percentage. Management of the Company considers these requirements while assessing its income tax liabilities.

### **(b) Environmental issues**

The Company believes that currently it is in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Company is unable to predict the timing or extent to which these environmental laws and regulations may change. Such changes, if made, may require the Company to modernize technology to meet more stringent standards.



## **22 Commitments and contingencies, continued**

### **(c) Compliance with Work Program**

All mineral reserves in Kazakhstan are owned by the State; in this regard the authorised Competent Authority grants the rights for exploration and production to the third parties. Subsoil use rights are granted for a limited period and any extension thereof should be agreed on before expiry date of a respective contract or license. These rights may be terminated by the Competent Authority if the Company fails to meet its contractual obligations.

Contractual obligations are denominated in US Dollars, however, in 2016 the Company applied the exchange rate of USD 1 / KZT 342.16 as at 31 December 2016 while estimating the amounts of these obligations.

### **(i) Social commitments**

#### ***Training of Kazakhstan specialists***

##### ***Akdala subsoil use contract***

In accordance with the subsoil use contract, the Company is committed to provide financing for professional education of local staff not less than 0.5% of production costs.

##### ***South Inkai subsoil use contract***

In accordance with the subsoil use contract, the Company is committed to provide annual financing for professional training for local staff not less than 1% of geological exploration costs during the exploration period and 1% of production costs during the production period.

#### ***Development of the social sphere***

##### ***Akdala subsoil use contract***

In accordance with the subsoil use contract, the Company is committed to pay an annual amount not less than USD 50,000 for the development and social support of local communities residing near the production sites.

##### ***South Inkai subsoil use contract***

In accordance with the subsoil use contract, the Company is required to provide development and social support for local communities residing near its production sites, paying an annual amount not less than USD 100,000 during the production period.

Management believes that as at 31 December 2016 the Company is in compliance with its commitments stated in subsoil use contracts.

### **(ii) Site restoration liabilities**

Within two years after transition to the commercial production under the Contracts the Company is required to provide a reclamation plan for the Deposits to the Competent Authority. To comply with this requirement the Company is planning to approve the site restoration program before the end of the first quarter of 2017. Once the program is approved by the Competent Authorities, the Company it is obligated to comply with it.

### **(iii) Liquidation fund**

Pursuant to the Liquidation Program, the Company is obligated to accumulate cash on a special bank account to meet its site restoration liability related to the obligations to rehabilitate land and make mines safe after termination of their use, and the estimate costs of cleaning up after any chemical leakage.

## 22 Commitments and contingencies, continued

### (c) Compliance with Work Program, continued

#### (iii) Liquidation fund, continued

The Company has accumulated cash on a special account with SB Alfa-Bank JSC. This deposit may be used only for the purpose of site restoration as agreed with the respective authority. As at 31 December 2016 the deposit amounted to KZT 425,035 thousand (31 December 2015: KZT 175,000) (Note 12).

Management believes that as at 31 December 2016 the Company is in compliance with its commitments stated in subsoil use Contracts.

#### (iv) Annual production

In accordance with the Contract, the Company is obligated to produce a certain amount of uranium per year. An annual output on South Inkai and Akdala deposits for 2016 was established at the levels of 2,000 tons and 1,000 tons, respectively. The actual output of the Company in 2016 was 2,056 tons and 1,001 tons, respectively.

#### (v) Investments to the mine development assets

Management believes that as at 31 December 2016 the Company is in compliance with its commitments stated in subsoil use Contracts.

## 23 Related parties

### (a) Control relationship

Uranium One Rotterdam B.V. is a subsidiary of Uranium One Inc. incorporated in Canada, which is a subsidiary of Atomredmetzoloto JSC. The ultimate owner of Atomredmetzoloto is Rosatom State Atomic Energy Corporation ("Rosatom"). Publicly available financial statements are produced by Rosatom and Kazatomprom.

### (b) Related party transactions

During the year, the Company have made a number of transactions with the related parties:

	Sales 2016 '000 KZT	Purchase of services 2016 '000 KZT	Purchase of production and other assets 2016 '000 KZT	Sales 2015 '000 KZT	Purchase of services 2015 '000 KZT	Purchases of production and other assets 2015 '000 KZT
Shareholders	69,286,479	37,613	-	66,185,33	17,570	-
Companies under common or joint control of the shareholders	535,121	742,356	9,370,805	159,697	11,154,999	23,211,775

Balance payable/receivable as at the end of the reporting period:

	Receivables from related parties 2016 '000 KZT	Trade payables to related parties 2016 '000 KZT	Receivables from related parties 2015 '000 KZT	Trade payables to related parties 2015 '000 KZT
Shareholders	14,508,780	-	14,685,926	5,092
Companies under common or joint control of the shareholders	86,989	5,380,245	81,224	30,196,210

## 23 Related parties, continued

### (c) Key management remuneration

	2016 ‘000 KZT	2015 ‘000 KZT
Salaries and bonuses	96,499	56,027
Contributions to pension funds	7,446	2,348
	<b>103,945</b>	<b>58,375</b>

### (d) Transactions with government and government-related companies

In the ordinary course of business the Company conducts transactions with government bodies and companies under control of the Government of the Republic of Kazakhstan. These transactions are conducted on terms comparable to those with other counteragents.