

**Orsu Metals Corporation**  
Consolidated Financial Statements  
**December 31, 2015 and 2014**  
(In thousands of US dollars)



## **Independent Auditor's Report**

### **To the Shareholders of Orsu Metals Corporation**

We have audited the accompanying consolidated financial statements of Orsu Metals Corporation and its subsidiaries, which comprise the Consolidated Balance Sheets as at 31 December 2015 as at and 31 December 2014 and the Consolidated Statements of Net Loss and Comprehensive Loss, Consolidated Statements of Cash Flows and Consolidated Statements of Changes in Equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orsu Metals Corporation and its subsidiaries as at 31 December 2015 as at and 31 December 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*(signed) PricewaterhouseCoopers LLP*

#### **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
London, Embankment Place  
United Kingdom  
March, 30 2016

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# Orsu Metals Corporation

## Consolidated Balance Sheets

(in thousands of US dollars)

	December 31 2015	December 31 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,697	7,606
Prepaid expenses and receivables	238	545
Assets of discontinued operation (note 6)	-	4,583
	<u>4,935</u>	<u>12,734</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 8)	8,287	9,036
Other assets (note 10)	88	832
	<u>8,375</u>	<u>9,868</u>
<b>Total assets</b>	<u>13,310</u>	<u>22,602</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	436	377
Deferred income (note 6)	-	400
Liabilities of discontinued operation (note 6)	475	187
Lease obligations (note 11)	171	-
Share warrant liability (note 12)	5	46
	<u>1,087</u>	<u>1,010</u>
<b>Non-current liabilities</b>		
Other liabilities (note 13)	-	509
	<u>1,087</u>	<u>1,519</u>
<b>Equity</b>		
Share capital (note 15a)	382,576	382,576
Share purchase options (note 15b)	115	5,601
Contributed surplus (note 16)	34,146	28,560
Non-controlling interest	(727)	(569)
Deficit	(403,887)	(395,085)
	<u>12,223</u>	<u>21,083</u>
<b>Total equity and liabilities</b>	<u>13,310</u>	<u>22,602</u>

Commitments (note 18)  
Subsequent events (note 22)

### Approved by the Board of Directors

(signed) Sergey Kurzin Executive Chairman

(signed ) Alexander Yakubchuk Director

The accompanying notes are an integral part of these consolidated financial statements.

# Orsu Metals Corporation

## Consolidated Statement of Net Loss and Comprehensive Loss For the years ended December 31, 2015 and December 31, 2014

(in thousands of US dollars)

	2015	2014
	\$	\$
<b>Operating expenses</b>		
Administration	(2,555)	(3,214)
Legal and professional	(538)	(471)
Exploration (note 7)	(160)	(928)
Stock based compensation (note 15b)	(95)	-
Stock based compensation – non employees (note 15b)	(5)	-
Foreign exchange losses (note 10)	(498)	(238)
Impairment of Karchiga Project (note 8)	(752)	-
Deferred finance costs written off (note 9)	-	(515)
	<u>(4,603)</u>	<u>(5,366)</u>
Unrealized gain on share warrant liability (note 12)	41	114
Net of finance income less finance expense	78	23
	<u>119</u>	<u>137</u>
Net loss for the year before income tax from continuing operations	<u>(4,484)</u>	<u>(5,229)</u>
Tax charge for the year (note 14)	-	-
Net loss and comprehensive loss for the year from continuing operations	<u>(4,484)</u>	<u>(5,229)</u>
Loss from discontinued operation	(84)	(92)
Impairment of discontinued operation	(4,392)	-
Net loss from discontinued operations (note 6)	<u>(4,476)</u>	<u>(92)</u>
<b>Net loss and comprehensive loss for the year</b>	<b><u>(8,960)</u></b>	<b><u>(5,321)</u></b>
<i>Net loss attributable to owners of the parent:</i>		
Loss from continuing operations	(4,326)	(5,061)
Loss from discontinued operations	(4,476)	(92)
Loss and comprehensive loss for the year attributable to the parent	<u>(8,802)</u>	<u>(5,153)</u>
<i>Net loss attributable to non-controlling interests:</i>		
Loss from continuing operations	(158)	(168)
Loss from discontinued operations	-	-
Loss and comprehensive loss for the year attributable to non-controlling interests	<u>(158)</u>	<u>(168)</u>
<u>Loss per share (US dollar per share) from continuing operations:</u>		
Basic	\$(0.02)	\$(0.03)
Diluted	\$(0.02)	\$(0.03)
<u>Loss per share (US dollar per share) from discontinued operation:</u>		
Basic	\$(0.02)	\$(0.00)
Diluted	\$(0.02)	\$(0.00)
Weighted average number of common shares (in thousands)	182,696	182,696

The accompanying notes are an integral part of these consolidated financial statements.

# Orsu Metals Corporation

## Consolidated Statement of Cash Flows

For the years ended December 31, 2015 and December 31, 2014

(in thousands of US dollars)

	2015	2014
	\$	\$
<b>Cash flows used by operating activities</b>		
Net loss and comprehensive loss for the year	(8,960)	(5,321)
Items not affecting cash:		
Depreciation (note 8)	97	82
Impairment of Karchiga Project (note 6)	752	-
Impairment of asset held for sale (note 6)	4,392	-
Unrealized exchange (gains)/ losses on cash and cash equivalent balances	(30)	35
Onerous provision release (note 11)	(337)	-
Unrealized derivative gain on share warrant liability (note 12)	(41)	(114)
Share-based payments (note 15b)	100	-
Foreign exchange losses (note 10)	498	240
Retirement of fixed assets (note 8)	-	13
Deferred finance costs expensed (note 9)	-	515
	<u>(3,529)</u>	<u>(4,550)</u>
Changes in non-cash working capital:		
Accounts receivable and other assets	743	417
Accounts payable and accrued liabilities	(55)	603
Net cash used by operating activities	<u>(2,841)</u>	<u>(3,530)</u>
<b>Cash flows used by investing activities</b>		
Expenditures on property, plant and equipment (note 8)	(99)	(171)
<b>Net decrease in cash and cash equivalents in the year</b>	<u><b>(2,940)</b></u>	<u><b>(3,701)</b></u>
Cash and cash equivalents - Beginning of the year	7,607	11,343
Exchange gains/ (losses) on cash and cash equivalents	30	(35)
Cash and cash equivalents - End of the year	<u>4,697</u>	<u>7,607</u>
<b>Cash and cash equivalents per the consolidated balance sheets</b>	<b>4,697</b>	<b>7,606</b>
Included in the discontinued operation (note 6)	-	1

The accompanying notes are an integral part of these consolidated financial statements.

# Orsu Metals Corporation

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and December 31, 2014

(in thousands of US dollars)

	<b>Share capital</b>						
	Number of shares (000s <sup>1</sup> )	Share capital \$	Share purchase options \$	Contributed surplus \$	Non- controlling interest \$	Deficit \$	Total equity \$
Balance as at January 1, 2014	182,696	382,576	5,687	28,474	(401)	(389,932)	26,404
Share options forfeited or lapsed (notes 15b & 16)	-	-	(86)	86	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(168)	(5,153)	(5,321)
Balance as at December 31, 2014	182,696	382,576	5,601	28,560	(569)	(395,085)	21,083
Share options granted	-	-	100	-	-	-	100
Share options forfeited or lapsed (notes 15b & 16)	-	-	(5,586)	5,586	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(158)	(8,802)	(8,960)
<b>Balance as at December 31, 2015</b>	<b>182,696</b>	<b>382,576</b>	<b>115</b>	<b>34,146</b>	<b>(727)</b>	<b>(403,887)</b>	<b>12,223</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Orsu Metals Corporation

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

### 1. General information

Orsu Metals Corporation (“Orsu” or the “Company”) is a dual listed (TSX: OSU; AIM: OSU) base and precious metals exploration and development company focusing on the acquisition and development of exploration licenses in countries of the Former Soviet Union (the “FSU”). The Company currently holds exploration licenses in the Republic of Kazakhstan (or “Kazakhstan”) and within the Kyrgyz Republic (or “Kyrgyzstan”).

The Company is incorporated in the British Virgin Islands and domiciled in the United Kingdom. Its principal place of business is at Berkeley Square House, Berkeley Square, London, W1J 6BD, United Kingdom (note 22).

#### *Karchiga Project*

The Company’s principal and most advanced project is the property comprising a license area in eastern Kazakhstan containing the copper bearing Karchiga volcanogenic massive sulphide (“VMS”) deposit which is part of the Rudny Altai polymetallic belt (the “Karchiga Project”). Since 2012, the Company has been seeking to secure the finance required for the construction of a mine and processing facilities. However, due to the continuing adverse economic environment during this period, affecting the natural resources sector, the Company has to date been unable to secure the necessary finance required and as a result is also looking at alternative solutions. The alternative solutions, in addition to raising the complete finance for the necessary construction at the project, include potential joint venture agreements, revenue sharing arrangements, off-take arrangements or the sale of part or all of the project (note 8).

#### *Kogodai Project*

In August 2014, the Company completed the transfer of an exploration license to a newly formed subsidiary, Kogodai JV LLP, defined below, an entity registered in Kazakhstan, for a prospect 70 km north west of the Karchiga Project identified as a VMS copper mineralization within the Kurchum-Kalzhir metamorphic terrain, the same tectonic unit that hosts the Karchiga deposit (the “Kogodai Project”, note 7).

#### *Akdjol-Tokhtazan Project*

The Company’s exploration interest in Kyrgyzstan consists of the Akdjol and Tokhtazan exploration licenses (the “Akdjol-Tokhtazan Project”). The exploration license area for the Akdjol-Tokhtazan Project is located in the Jelal-Abad Oblast, western Kyrgyzstan. During 2010, the Company identified the Akdjol license area as a gold-silver epithermal prospect and the Tokhtazan license area as a gold prospect. Since 2011 the Company classified the Akdjol-Tokhtazan Project as available for sale but has been unable to successfully dispose of the project during this period of time. As at December 31, 2015 the Company decided to suspend work at the Akdjol-Tokhtazan Project (detailed in note 6).

These audited consolidated financial statements were authorized by the Board of Directors on March 29, 2016.

### 2. Basis of preparation

The Company prepares its financial statements in accordance with International Financial Reporting Standards, (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared on a going concern basis which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future. The Company has consistently applied the same accounting policies set out in note 3 below throughout all the periods presented.

### 3. Summary of significant IFRS accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

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## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items which are measured at fair value or management assessment of the carrying value:

- a) Derivative liabilities are measured at fair value as at December 31, 2015 and 2014;
- b) As at December 31, 2014 the Company disclosed the assets and liabilities of the Akdjol-Tokhtazan Project as “Asset Held for Sale” measured at the then estimated fair value less costs to disposal, on the balance sheet (see note 6 for further details);
- c) As at December 31, 2015 the Company determined that the Akdjol-Tokhtazan Project to be a discontinued operation and recorded an impairment charge against the carrying value of assets of the project (see note 6 for further details), and
- d) The carrying value of assets in relation to the Karchiga Project as at December 31, 2015.

### Consolidation

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The principal subsidiaries of the Company as at December 31, 2015 which have been consolidated are as follows:

	<b>Effective interest %</b>
European Minerals (UK) Limited (“EMUK”)	100.00
Lero Gold Corporation (“Lero”)	100.00
Tournon Finance Limited (“Tournon”)	100.00
Eildon Enterprises Limited (“Eildon”)	100.00
Oriel In Kyrgyzstan LLC (“OIK”)	100.00
Harssin Management BV (“Harssin”)	63.75
GRK MLD LLC (“GRK MLD”)	94.75
Orsu Metals Kazakhstan LLC (“Orsu Kazakhstan”)	63.75
Kogodai Joint Venture LLP (“Kogodai JV LLP”)	51.00
Almaty Exploration Limited (“Almaty Exploration”)	100.00
Bauer Investments Corporation (“Bauer Investments”)	100.00

All intercompany balances and transactions are eliminated upon consolidation.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company’s chief operating decision-maker. The chief operating decision-maker has been identified as the board of directors being the body responsible for allocating resources, assessing performance of the operating segments and making strategic decisions.

### Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the “Functional Currency”). The Functional Currency of all the entities is the United States Dollar (“\$”, “USD” or “US dollars”). The audited consolidated financial statements are presented in US dollars.



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## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

### (b) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'finance income or expense'. All other foreign exchange gains and losses are presented in the consolidated statement of net loss and comprehensive loss within 'Foreign exchange losses'.

Items in the consolidated statement of net loss and comprehensive loss are translated using an average exchange rate for the period that is a reasonable approximation to the exchange rates at the transaction dates. Monetary assets and liabilities on the balance sheet are translated at the spot exchange rate at the balance sheet date. The exchange differences on translation of the net assets of these operations are recognised in the income statement as foreign exchange gains or losses.

### **Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Repairs and maintenance expenditures are charged to operations. Major improvements and replacements that extend the useful life of an asset are capitalised. Depreciation is charged on a straight line basis as below:

Leasehold improvements	- 10 years
Vehicles	- 4 to 10 years
Other assets	- 3 to 10 years

### *Development costs*

Costs directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised in accordance with IAS 16 *Property Plant and Equipment*. Assets under construction are not depreciated until the asset is available for use. Under IAS 16 costs are capitalised during the development phase, defined as being from the date that an economic study is completed to the date the asset is deemed to be available for use (or the "development costs") and are those that can be directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Company. Under IAS 16, these development costs are capitalised, as they meet the criteria for the capitalisation for a qualifying asset.

### **Mineral property costs**

Mineral property costs represent capitalised expenditures related to the acquisition, exploration and evaluation of mineral properties and related plant and equipment.

### *Mineral properties*

Mineral properties, including exploration assets, acquired are recognised as assets at fair value, less adjustments which arise from subsequent impairment reviews.

### *Exploration and evaluation costs*

Exploration and evaluation costs relating to properties for which there is insufficient evidence of economically recoverable mineralization are expensed in the period incurred. Exploration costs relating to properties for which economically recoverable reserves are believed to exist are capitalised until the project to which they relate is sold, abandoned, placed into production or becomes impaired.

### *Impairment*

The Company reviews and evaluates its mineral property and development assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Under IFRS 6, "Exploration for and evaluation of mineral resources", the Company initially assesses where facts and circumstances indicate that the carrying amount of a mineral property may exceed its fair value. Facts and circumstances which indicate that the Company should test for impairment include expiry of

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## Notes to Consolidated Financial Statements

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

the exploration license where renewal is not expected, substantive expenditure not planned for the foreseeable future, poor resource results or data which adequately shows that it is not economically viable. When facts and circumstance indicate that the carrying amount exceeds the recoverable amount, the Company will then estimate net future cash flows and write down any impairment.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If impairment is identified, assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the cash generating unit "CGU"). The recoverable amount of an asset or CGU is the greater of its fair value less costs to disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. The Company evaluates impairment for potential reversals when events or circumstances warrant such consideration.

### **Financial instruments**

Financial assets and liabilities are recognised when the Company becomes a contractual party to a financial instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risk and rewards of ownership.

#### *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the balance sheet, cash and cash equivalents include cash, and money market funds. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined below.

Cash and cash equivalent balances include cash and short-term cash deposits with banks that have an original maturity date of 90 days or less. Cash and cash equivalents have been designated as loans and receivable and are reported at the balance sheet date initially at fair value and subsequently at cost (the carrying value of cash and cash equivalents approximates to their fair value).

#### *Provision for bad debts*

Where there is an outstanding receivable greater than 12 months a provision for the full amount is made.

#### *Accounts payable and accrued liabilities*

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Accounts payable and accrued liabilities are reported at their carrying value at the balance sheet date which reflects their fair value.

#### *Derivative financial instruments*

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at their fair value. Unrealized gains and losses on derivatives are recorded in the consolidated statement of net loss and comprehensive loss for the year. Fair values for derivative instruments are determined using valuation techniques, using assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognised separately unless they are closely related to the host contract.

The Company's derivative instruments in relation to share subscriptions consist of derivative liabilities of share purchase warrants (note 12).

### **Non-current liabilities**

The Company records a provision for a financial liability as at the reporting date as a result of a past transaction or event where the Company will probably, more likely than not, settle the liability and can reliably estimate the liability. The Company measures the outstanding liability based on the estimated present value of the amount to settle the liability as at the balance sheet date (note 13).

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## Notes to Consolidated Financial Statements

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

### **Borrowing costs**

In prior periods the Company incurred borrowing costs in relation to the raising of debt finance. These borrowings were recognised initially at fair value, net of transaction costs incurred. Borrowings were subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value was recognised in the consolidated statement of net loss and comprehensive loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities were capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it related to where it was probable that some or all of the facility would be drawn down. To the extent there was no evidence that it was probable that some or all of the facility would be drawn down, the borrowing fee were expensed (note 9).

### **Taxes**

#### *Income tax*

The Company's income tax is comprised of current and deferred tax. The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognised as the estimated income taxes payable for the current period using tax rates enacted, or substantially enacted, at the end of the reporting period. Future income tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income taxes assets are recognised to the extent that the realization of the related tax benefit through future taxable profits is probable.

Deferred tax assets and liabilities are recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are evaluated and where the Company considers that these are unlikely to be realised, the associated deferred tax asset is not recognised.

#### *Capital gains tax*

The Company may potentially incur capital gains tax from the sale of its assets relating to exploration properties or equity investments. Where this is applicable the Company will provide for the capital gains tax liability and recognise this as a tax charge for the year in the consolidated statement of net loss and comprehensive loss in the same year as any disposal.

### **Share based payments**

The Company uses the fair value method for accounting for stock-based awards to employees and non-employees. Under the fair value method, compensation expenses attributed to the direct award of stock to employees are measured at the fair value of the award at the grant date using an option pricing model and are recognised over the vesting period of the award. Share-based payments to non employees are measured based on the fair value of the service received, at the date at which the Company receives the service. If and when the stock options are ultimately exercised, the applicable amounts of share purchase options are credited to share capital.

### **Share capital**

Common shares issued are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognised as a deduction from equity.

Share purchase warrants that are issued for underwriting services are initially accounted for under IFRS 2, "Share-based payment", as equity instruments (their initial fair value would be recognised as a share issuance cost). Subsequent to their issuance, share purchase warrants issued for services that can be tracked (are non-transferable) are considered as equity for their entire life. The fair values of such share purchase warrants are not re-measured. Where these share purchase warrants are ultimately exercised, the applicable amounts of share purchase warrants are credited to share capital. Where share purchase warrants expire or are forfeited then these are credited to contributed surplus.

### **Non-current assets held for sale and discontinued operations**

In prior years' non-current assets (or disposal groups) were classified as assets held for sale when their carrying amount was to be recovered principally through a sale transaction, a sale was considered highly

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## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

probable, the Company was committed to a sale and the disposal group was available for sale in its then current condition. The carrying value of the assets held for sale were stated at the lower of carrying amount and fair value less costs to disposal and the results of the assets held for sale were shown separately from continuing operations.

In the event that an asset that had previously been classified as held for sale, no longer met the conditions stated above or the Company elects to no longer maintain or continue operations, at the asset held for sale, then the Company will de-recognise the assets previously classified as held for sale and present the net loss of the asset as a discontinued operation. In addition, the Company will estimate a provision for any outstanding liabilities in relation to the discontinued operation as at the reporting date.

### **Earnings/ (loss) per share**

Earnings/ (loss) per share are calculated based on the weighted average number of common shares issued and outstanding during the year. Diluted earnings/ (loss) per common share are calculated using the treasury stock method for outstanding stock options and warrants. Under the treasury stock method, incremental common shares issuable upon the exercise of stock options and warrants are excluded from the computation if their effect is anti-dilutive. In periods in which a loss is incurred, the calculation would be anti-dilutive, in which case basic and diluted loss per share are the same.

## **4. Critical accounting estimates and significant judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these audited consolidated financial statements, the Company makes estimates and assumptions that affect the amounts reported. Significant estimates and areas where judgement is applied include mineral reserve quantities, the assumptions used in the measurement of the fair value of derivative liabilities, the present value of future Value Added Tax ("VAT") recoverability, property plant and equipment lives and carrying values, the treatment of discontinued operations, the capitalisation of development expenditure, tax provisions, deferred tax balances and timing of their reversals and equity instruments. Actual results could differ from the Company's estimates. In accordance with the Company's accounting policy the Company reviews and evaluates the carrying value of its assets when events or circumstances indicate that the carrying amounts may not be recoverable. The identification of such events or changes and the performance of the assessment require significant judgement. If any such indication exists an estimate of recoverable amount is performed and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its fair value less costs to disposal and its value in use.

Specifically, the Company applies significant judgement for the following:

### *Discontinued operations and asset held for sale*

In relation to the discontinued operation, the Company followed guidance under IFRS 5, "*Non-current assets held for sale and discontinued operations*" and IAS 36, "*Impairment of assets*", and applied significant judgement to conclude that: the Akdjol-Tokhtazan project be treated as a discontinued operation as at the year end, an impairment against the carrying value of assets is recorded and following the expiry of the exclusivity agreement with the Potential Buyers all unsettled liabilities are provided for as at December 31, 2015. In concluding its judgement, the Company evaluated the duration of time for which the disposal group had been classified as an asset held for sale, the good standing of the exploration licenses held by the Akdjol-Tokhtazan Project, the continued commitment of the Company to actively sell the asset and whether a sale was highly probable based on the continued interest from interested parties to acquire the Akdjol-Tokhtazan Project (see note 6).

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## Notes to Consolidated Financial Statements

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(all tabular amounts are expressed in thousands of US dollars unless otherwise stated)

### *Development expenditure in relation to the Karchiga Project*

In relation to the property, plant and equipment the Company followed guidance under IAS 36, "Impairment of assets", and applied significant judgement to determine whether impairment was required as at December 31, 2015. In concluding its judgement, the Company evaluated the market capitalisation of the Company as at December 31, 2015, current, and expectations of future, copper prices, estimates of the net present value of the project, the potential access to both debt and equity financing to fund the future development of the project, potential realisable value of the Karchiga Project and the Company's ability to continue to fund the project until such financing for developing the project is achieved (see note 8).

### *Other assets including VAT recoverable balances*

Other assets include historical VAT expenditures incurred on the Karchiga Project which, under current Kazakh tax law, will be recoverable against future VAT liabilities arising in the event of the Karchiga Project being constructed and moving into production. In determining the carrying value of the VAT recoverable amounts as at December 31, 2015 the Company assessed the future recoverability of the VAT amounts. This included considering the potential prospect of the Kazakh Government replacing VAT with sales tax, the ability of the Company to secure the financing required for the Karchiga Project, the future impact of any alternative options for the Karchiga Project and the timing of future recoveries of VAT amounts (see note 10).

### *Estimated mineral reserves and resources*

Estimates of mineral reserves and resources are prepared by appropriately qualified persons, but will be affected by the assumptions applied in relation to commodity prices, inflation and exchange rates, capital and production costs and recoveries, among a number of other factors.

### *Related Party receivable*

In assessing the recoverability and carrying value of a long-standing receivable for rent the Company applied significant judgement to determine whether impairment was required as at December 31, 2015. In concluding its judgement, the Company evaluated the age of the debt and the reliability of assurances from the debtor as to their ability to repay the amount in full (see note 17).

## **5. Changes in accounting policy and disclosures**

### **(a) New and amended standards adopted by the Company**

The following standards became effective for annual periods commencing on or after January 1, 2015, and so have been applied by the Company this reporting period. There has been no material change to the Company's financial statements as a result of the first time application of these standards:

#### *Amendment to IAS 19, 'Employee benefits'*

This amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions by distinguishing between contributions linked to service only in the period in which they arise and those linked to service in more than one period. This became effective for years beginning on or after July 1, 2014.

#### *Annual improvements to IFRSs'*

On December 12, 2013 the IASB issued two cycles of annual improvements to IFRS, the 2010-2012 reporting cycle and 2011-2013 reporting cycle. These contained eleven changes to nine standards: IFRS 1, 'First-time adoption of International Financial Reporting Standards'; IFRS 2 'Share-based payment'; IFRS 3 'Business combinations'; IFRS 8 'Operating segments'; IFRS 13 'Fair value measurement'; IAS 16 'Property, plant and equipment'; IAS 24 'Related party disclosures'; IAS 38 'Intangible assets'; and IAS 40 'Investment Property'. Further amendments to the 2010-2012 reporting cycle were issued in 2014 including changes to IFRS5, 'Non-current assets'; IFRS 7, 'Financial instruments'; IAS 19, 'Employee benefits' and IAS 34, 'Interim financial reporting'. These improvements became effective for years beginning on or after July 1, 2014.

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### **(b) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations have been issued but are not effective for the annual period which started on 1 January 2015, but will be effective for later annual periods, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company:

#### IAS 1, '*Presentation of financial statements*'.

Amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies and is effective for annual periods beginning on or after January 1, 2016.

#### IFRS 10, '*Applying the consolidation exception*'.

Amended to clarify the application of the consolidation exception for investment entities and their subsidiaries and is effective for annual periods beginning on or after January 1, 2016.

#### IFRS 10 and IAS 28, '*Sale or contribution of assets between an investor and its associate or joint venture*'.

Amended to address an inconsistency between IFRS 10 and IAS 28. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves assets that do not constitute a business and is effective for annual periods beginning on or after January 1, 2016.

#### IAS 27 and IFRS 1, '*Equity method in separate financial statements*'.

Amends IAS 27 to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Amends IFRS 1 to permit use of the business combinations exemption for investments in subsidiaries accounted for using the equity method in the separate financial statements of the first-time adopter and is effective for annual periods beginning on or after January 1, 2016.

#### IAS 16 and IAS 38, '*Clarification of acceptable methods of depreciation and amortization*'.

Amends IAS 16 *Property Plant and Equipment* and IAS 38 *Intangible Assets* to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriated, and (ii) provide a rebuttable presumption for intangible assets and is effective for annual periods beginning on or after January 1, 2016.

#### IFRS 11, '*Accounting for acquisitions of interests in joint operations*'.

Amends IFRS 11 to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business and is effective for annual periods beginning on or after January 1, 2016.

#### IFRS 14, '*Regulatory deferral accounts*'.

IFRS 14, an Interim standard on accounting for certain balances that arise from rate-regulated activities ("regulatory deferral accounts"), permits entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and de-recognition of regulatory deferral accounts and is effective from January 1, 2016.

#### IFRS 15, '*Revenue from contracts with customers*'.

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This standard is effective for accounting periods starting on or after January 1, 2018.

#### IFRS 16, '*Leases*'.

Replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS16 is effective for periods commencing on or after January 1, 2019.

#### *Annual improvements to IFRS 2012 to 2014 Cycle*

The IASB issued the annual improvement to IFRS, the 2012-2014 reporting cycle to improve and amends existing standards, basis of conclusion and guidance. These contained changes the following standards: IFRS 5 '*Non-current assets held for sale and discontinued operations*'; IFRS 7, '*Financial*

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*instrument*: disclosures; IAS 19, *'Employee benefits'*; IAS 34, *'Interim financial reporting'*. The Company is yet to fully assess the impact of the improvements which are not yet effective.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

### 6. Discontinued operation

The Company's exploration interest in the Akdjol-Tokhtazan Project is held via its 100% interest in Tournon the parent of OIK the holder of the exploration licenses for the Akdjol-Tokhtazan Project. The Akdjol and Tokhtazan exploration licenses were renewed to January 1, 2020 following their expiry on December 31, 2015.

In 2011, the Company determined the Akdjol-Tokhtazan Project to be a non core asset which was made available for sale and determined to have met the criteria to be classified as "held for sale" under IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", and thereafter has actively sought to sell the Akdjol-Tokhtazan Project with interested parties for its potential sale.

Since 2012, the Company entered into a number of exclusivity agreements with David-Invest LLP ("David-Invest"), a Kyrgyz registered company, and a related company David Way Limited, a Hong Kong registered company (together the "Potential Buyers") for the potential sale of the Akdjol-Tokhtazan Project. The last of these agreements was in April 2015 when the Company entered into an exclusivity agreement with the Potential Buyers for a potential sale of the Akdjol-Tokhtazan Project for a total gross consideration of \$5 million less a \$0.4 million non-refundable deposit received in 2014 from the Potential Buyers and recorded as a deferred income liability by the Company as at December 31, 2014. The exclusivity agreement with the Potential Buyers expired in December 2015 and the Company has not to date been able to complete a sale of the project to the Potential Buyers or any other parties.

As a result, the Company re-appraised whether it was appropriate to continue to classify the Akdjol-Tokhtazan Project as an asset held for sale and the probability of a sale of the Akdjol-Tokhtazan Project. As the Company has not been able to sell the Akdjol-Tokhtazan Project since 2011, and Company concluded that it was no longer appropriate to consider a potential sale as highly probable and as result decided to suspend operations at the Akdjol-Tokhtazan Project. In addition, the Company considered the reliability of estimates of fair value of the Akdjol-Tokhtazan Project and concluded that in the absence of any current offers an impairment charge against the carrying net asset value of the Akdjol-Tokhtazan Project of \$4.4 million should be recorded as at December 31, 2015. This was partially offset by income of \$0.4 million in relation to the non-refundable deposit received in 2014 from the Potential Buyers and previously recorded as deferred income as at December 31, 2014.

In addition, during the term of the exclusivity agreement with the Potential Buyers all expenditures at the Akdjol-Tokhtazan Project were to be funded by the Potential Buyers. This included the Potential Buyers paying for the extension to the licence, but excluded payment of all liabilities incurred, At the expiry of the exclusivity agreement with the Potential Buyers as at December 31, 2015 there remained outstanding administration, tax, local staff salary and exploration liabilities for which the Company has recognised a total of \$0.5 million. Due to the Potential Buyers paying to extend the licence at the date the exclusivity agreement expired, judgement is required in assessing if the Company will ultimately settle these liabilities.

The net losses pertaining to the discontinued operation included in the consolidated statement of net loss and comprehensive loss for the years ended December 31, 2015 and 2014 are shown below:

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	2015	2014
	\$	\$
Deferred income recognized	400	-
Administration expenses	(271)	(92)
Foreign exchange gain	11	-
Exploration	(224)	-
Loss of discontinued operation	(84)	(92)
Impairment of mineral properties	(4,392)	-

The net assets of the discontinued operation as at December 31, 2015 and 2014 are shown below:

	2015	2014
	\$	\$
Cash and cash equivalents	-	1
Prepayments and other receivables	-	169
Mineral properties	-	4,392
Property, plant and equipment	-	21
Total Assets	-	4,583
Accounts payable and accrued liabilities	(475)	(187)
Net (liabilities)/ assets of discontinued operation	(475)	4,396

## 7. Exploration

The table below shows exploration expenditures for the years ended December 31, 2015 and 2014:

	2015	2014
	\$	\$
Kogodai Project	160	238
Balkhash Project	-	679
Karchiga Project	-	11
	160	928

Although the Company has taken steps to verify its title to mineral properties in which it has an interest, according to industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

### *Kogodai Project, Kazakhstan*

The Company holds an effective 51% interest in the Kogodai Project through its 63.75% subsidiary, Harssin, which in turn holds a 100% interest in Orsu Kazakhstan which has a majority 80% interest in Kogodai JV LLP. The exploration license for the Kogodai Project was transferred to Kogodai JV LLP from SPK Ertis JSC ("SPK Ertis"), a Kazakh state owned special enterprise company, which retained a 20% minority interest in Kogodai JV LLP.

The Company made an initial cash investment, via Orsu Kazakhstan, of a total value of \$194,700 in 2012 and 2013 to the relevant Kazakh authorities, and previously expensed by the Company in relation to a subscription bonus due under the terms of the exploration license.

A summary of the key terms for the Kogodai Project are set out below:

- 1) The exploration license is for exploration during a period of 5 years, ending in 2019, which can be further extended according to the legislation of Kazakhstan;
- 2) The minimum funding obligation for exploration work at the Kogodai Project is in total \$3.75 million over a period of five years commencing from date of grant of the exploration license to SPK Ertis:



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- i.\$525,100 for the first year;
- ii.\$803,900 for the second year,
- iii.\$1,258,100 for the third year,
- iv.\$914,000 for the fourth year, and
- v.\$253,000 in the fifth year.

In relation to the minimum funding obligation, the Company may modify the minimum funding obligation expenditure, outlined above, and associated exploration programme dependent on the geological results received and planned work for the exploration programme. The financing of the minimum funding obligation is considered to be discretionary and the nature and level of the expenditure will be assessed by the Company on a regular basis. As at December 31, 2015 the Company considers the Kogodai licenses to remain in good standing and not at risk of default.

3) Under the agreement, funding of the work programme will be provided by Orsu.

The Company estimates that the exploration programme will be fully financed from the Company's existing and future cash resources should the Company decide to proceed.

### *Balkhash Project, Kazakhstan*

In November 2012, the Company entered into an exclusivity agreement with Asem Tas-N LLC (“Asem Tas”), a privately owned Kazakh registered company and holder of a license area in Eastern Kazakhstan, which is host to a 30km long Dzharyk-Taisogan cluster of copper-polymetallic occurrences (the “Balkhash Project”) to jointly undertake exploration work at the Balkhash Project.

From 2012 to the third quarter of 2014, the Company undertook, and fully funded, an exploration programme at the Balkhash Project. During the third quarter of 2014 the Company made an extensive assessment of the results of the exploration programme to date and based on the geological results, as well as taking into consideration the geopolitical situation in the region, decided not to commit any further funds towards the next stage of exploration and also elected not to exercise the option to purchase an interest in the project on the terms set out in an exclusivity agreement which expired in September 2014.

The Company incurred cumulative exploration expenditure from the fourth quarter of 2012 to December 31, 2014 of \$3 million in relation to the Balkhash Project. The Company had no further funding obligations for the Balkhash Project as at December 31, 2014 or December 31, 2015.

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### 8. Property, plant and equipment

Property, plant and equipment as at December 31, 2015 were:

<b>Cost</b>	<u>Karchiga</u>	<u>Leasehold</u>	<u>Vehicles</u>	<u>Other</u>	<u>Total</u>
	<u>Project</u>				
	<u>development</u>	<u>improvements</u>		<u>assets</u>	
	<u>costs</u>				<u>costs</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cost brought forward - as at January 1, 2015	8,826	391	120	444	9,781
Additions (note i and ii)	96	-	-	3	99
Impairment of development costs (note i)	(752)	-	-	-	(752)
Cost carried forward - as at December 31, 2015	8,170	391	120	447	9,128
<b>Depreciation</b>					
Accumulated depreciation - as at January 1, 2015	-	(315)	(66)	(364)	(745)
Depreciation for the year (note ii)	-	(76)	(5)	(15)	(96)
Accumulated depreciation - as at December 31, 2015	-	(391)	(71)	(379)	(841)
Net book value as at December 31, 2014	8,826	76	54	80	9,036
Net book value as at December 31, 2015	8,170	-	49	68	8,287

#### Notes

##### i) Karchiga Project

The Company indirectly holds a 94.75% interest in the Karchiga Project via its 100% interest in Eildon, the immediate parent of GRK MLD and the holder of the exploration license for the Karchiga exploration property. The Company's interest in the Karchiga Project, via GRK MLD, is governed by an exploration and production contract until February 28, 2024 and the Company has obtained approval to commence mineral extraction within the Karchiga exploration license area for copper as well as approval for the construction of a mining and processing complex within the Karchiga exploration license area from the relevant Kazakh authority.

In March 2012 the Company successfully completed a technical feasibility and economic study for the Karchiga Project (the "Karchiga Definitive Feasibility Study Report"). Therefore, in accordance with IFRS, IAS 16 "Property, Plant and Equipment", the Company initially re-classified \$4.4 million previously classified as a mineral property for the Karchiga Project from Exploration properties and thereafter the Company capitalized costs incurred which directly related to the construction of a mining and processing facility at the Karchiga Project. Under IAS 16 costs are capitalized during the development phase, defined as being from the date that an economic study is completed and the date the asset is deemed to be available for use and are those that can be directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Company. Under IAS 16, these development costs are capitalized, as they meet the criteria for the capitalization for a qualifying asset. During the year ended December 31, 2015 the Company capitalised \$0.1 million of such costs (\$0.2 million during the year ended December 31, 2014, see table below).

A review was undertaken at each reporting date to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review new impairment triggers were identified following the sharp decline in copper prices during 2015, in addition to other indicators of impairment which existed at both December 31, 2015 and 2014, in particular the market capitalization of the Company being below the value of net assets.

As part of its review, when such indicators exist, management conducted an impairment test, which compared the recoverable amount to the carrying value. As a result, management estimated the fair value for the Karchiga Project to be \$8.1 million as at December 31, 2015, resulting in an impairment charge of

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\$752,000 being recorded. Management's assessment of fair value as at December 31, 2014 exceeded the carrying value as at that date, and, accordingly, no impairment was recognised as at that date.

In the absence of an active, observable market for projects in Kazakhstan, the estimate of fair value as at each year end was based on a calculation of the present value of cash flows from the Karchiga Project based on those arrived at in the Karchiga Definitive Feasibility Study Report and after allowing for inflationary increases on certain key costs. The principal assumptions used in assessing fair value are as follows:

	December 31, 2015	December 31, 2014
Copper price (\$/lb)	\$2.25	\$2.60
Discount rate (note a)	20.0%	15.0%

The increased in discount rate from 2014 to 2015 reflected the increased uncertainty arising from continued adverse economic conditions and the lower copper prices.

### ii) Akdjol-Tokhtazan Project

The table of property, plant and equipment for the year ended December 31, 2015 excludes a charge of \$1,000 in relation to the Akdjol-Tokhtazan Project.

Property, plant and equipment for the year ended December 31, 2014 were:

<b>Cost</b>	<u>Karchiga Project</u>		<u>Vehicles</u>	<u>Other assets</u>	<u>Total</u>
	<u>development costs</u>	<u>Leasehold improvements</u>			
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cost brought forward - as at January 1, 2014	8,664	391	163	446	9,664
Additions (note i)	162	-	-	1	163
Retirements	-	-	(43)	(3)	(46)
Cost carried forward - as at December 31, 2014	8,826	391	120	444	9,781
<b>Depreciation</b>					
Accumulated depreciation - as at January 1, 2014	-	(282)	(98)	(333)	(713)
Depreciation for the year	-	(33)	(11)	(34)	(78)
Retirements	-	-	43	3	46
Accumulated depreciation - as at December 31, 2014	-	(315)	(66)	(364)	(745)
Net book value as at December 31, 2013	8,664	109	65	113	8,951
Net book value as at December 31, 2014	8,826	76	54	80	9,036

### Note:

#### i) Akdjol-Tokhtazan Project

The table of property, plant and equipment for the year ended December 31, 2014 excludes fixed asset additions of \$8,000, depreciation charge of \$4,000 and fixed asset retirements of \$13,000 in relation to the Akdjol-Tokhtazan Project which was previously classified as held for sale and for which property, plant and equipment are shown separately in note 6.

## 9. Deferred finance costs written off

In relation to the Karchiga Project, since the successful completion of the Karchiga Definitive Feasibility Study Report in March 2012 the Company sought to secure debt financing for the

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construction of a mining and processing facility. As a result, during 2012 and 2013 the Company incurred legal and professional fees in total \$1.1 million, associated with the process of securing debt finance and initially classified these as deferred finance costs. Thereafter, the Company re-classified \$537,000 of the deferred finance costs as development expenditure, as defined under IFRS, IAS 16 "Property, Plant and Equipment", after it determined that these expenditures were related to the technical and economic evaluation of the Karchiga Project. As the Company was unable to secure all of the necessary finance required, for the construction of a mine and processing facility at the Karchiga Project, the Company expensed \$515,000 of deferred finance costs in the year ended December 31, 2014 which had related to a formal mandate to raise senior debt finance which lapsed.

### 10. Other assets

A summary of the changes in the Company's other assets for the years ended December 31, 2015 and December 31, 2014 is shown below:

	2015	2014
	\$	\$
Balance – Beginning of the year	832	1,212
Addition in the year	5	18
Impact of currency devaluation of Kazakh Tenge (notes i) a. and i) b.)	(491)	(189)
Present value adjustment (note ii)	(258)	(209)
Balance – End of the year	<u>88</u>	<u>832</u>

The Company's other asset balances consist of VAT recoverable amounts incurred primarily in relation to exploration and development expenditures in Kazakhstan and for corporate expenditures at its U.K. head office which are recoverable in the local currency:

- i) In relation to Kazakhstan, due to the continuing global uncertainty in natural resources the Company's VAT recoverable amounts have been affected by a devaluation of the Kazakh Tenge as a result of a decision by the National Bank of Kazakhstan to no longer actively manage the exchange rate between the Kazakh Tenge and US dollar, and thereby allow the exchange rate between the Kazakh Tenge and US dollar to float freely:
  - a. Firstly, in February 2014 the National Bank of Kazakhstan stopped maintaining the exchange rate for the Kazakh Tenge against the US dollar at the same level which resulted in an approximate 20% devaluation in the Tenge to US dollar exchange rate and as a result the Company incurred a currency loss of \$189,000 on its Kazakh denominated VAT recoverable amounts as at December 31, 2014 and,
  - b. Thereafter, in August 2015, there was a further devaluation of the exchange rate between the Kazakh Tenge and US dollar to 339.47 Kazakh Tenge per US dollar as at December 31, 2015 from an exchange rate of 182.35 Kazakh Tenge per US dollar as at December 31, 2014 which resulted in a currency loss of \$491,000 in the year ended December 31, 2015.
- ii) The VAT recoverable amounts in Kazakhstan include VAT expenditures which are expected to be recoverable against future VAT liabilities in the event of the Karchiga Project being constructed and moving into production. As at December 31, 2015 the Company measured the present value of the future VAT recoverable amounts in relation to the Karchiga Project and recorded a charge of \$258,000 (\$209,000 as at December 31, 2014). It should be noted that there are proposals that VAT be replaced by a sales tax in Kazakhstan which may result in this balance being irrecoverable, but this has not yet been passed into law and it is not clear when it will become effective or whether there will be any transitional arrangements.

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### 11. Lease obligations

The Company's lease obligations were in relation to its former head office at Red Place, London which were:

- a) Under the terms of a lease agreement for property rent (see note 18) which expired in February 2016 the Company is required to make reparations to the dilapidations to these offices before their return to the landlord. Under IAS 37, *Provisions, contingent liabilities and contingent assets*, in relation to the termination of the lease the Company recognised an initial dilapidation provision of \$120,000 in previous reporting periods, and
- b) The Company entered into a sublease agreement, dated June 1, 2012, with Equus Petroleum plc ("Equus"), who are a related party (see note 17b) to partially sub-let office space at these offices for a period up to February 2016. Under the terms of this sub-let agreement in August 2014 Equus served notice to vacate the premises effective January 31, 2015. The Company was unable to secure alternative arrangements to cover the cost of the office premises vacated by Equus and as a result for the year ended December 31, 2014 recorded a charge of \$389,000, as a provision for an 'onerous lease', as defined under IAS 37, in relation to the office premises vacated by Equus.

A summary of the changes in the Company's other liabilities for the years ended December 31, 2015 and 2014 are set out below:

	2015	2014
	\$	\$
Balance – Beginning of the year	-	120
Provision for onerous lease	-	389
Re-classified from "Other liabilities"	509	-
Increase in provision during the year	8	-
Released during the year	(346)	-
Balance – End of the year	<u>171</u>	<u>509</u>

### 12. Share warrant liability

In July 2013, the Company completed a subscription with a wholly owned subsidiary of Gold Fields Limited ("Gold Fields" or collectively with certain of its subsidiaries, the "Gold Fields Group") for 25 million units of the Company (each a "Unit") at a price of CAD\$0.40 per Unit for gross proceeds of CAD\$10 million (the "Subscription"), with each Unit consisting of one common share of the Company (a "Common Share") and one half of one common share purchase warrant (each whole warrant, a "Warrant"), each Warrant being exercisable for a period of three years from the date of issue to acquire one Common Share at a price of CAD\$0.50. Following the completion of the Subscription the Company received in cash the gross proceeds from the Subscription of CAD\$10 million, \$9.6 million, plus a further CAD\$35,446 of accumulated interest. The Company subsequently accounted for the Warrants issued to Gold Fields as a derivative instrument.

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A summary of the changes in the Company's share purchase warrants for the years ended December 31, 2015 and 2014 are set out below:

	2015			2014		
	Warrants Outstanding 000s	Value Assigned \$	Average exercise price CAD\$	Warrants Outstanding 000s	Value Assigned \$	Average exercise price CAD\$
Balance – Beginning of the year	12,500	46	0.50	12,500	160	0.50
Fair value re-measurement	-	(41)		-	(114)	
Balance – End of the year	<u>12,500</u>	<u>5</u>	0.50	<u>12,500</u>	<u>46</u>	0.50

A summary of the Warrants outstanding as at December 31, 2015 is set out below:

Exercise Price CAD\$	Expiry date	Number 000's	Value \$
0.50	July 25, 2016	12,500	5

The Company measured the fair value of the Warrants issued to Gold Fields based on the Black-Scholes option-pricing model using the following assumptions as at December 31, 2015 and as at December 31, 2014:

	December 31, 2015	December 31, 2014
Stock price	CAD\$0.02	CAD\$0.03
Exchange rate CAD\$/ US\$	1.389	1.1583
Risk free interest rate	0.474%	1.05%
Expected warrant life	0.57 years	1.57 years
Volatility (assuming a dividend yield of nil)	190.67%	143.87%

### 13. Other liabilities

During the first quarter of 2015, the Company re-classified \$509,000 in relation to head office lease provisions (note 11 "Lease obligations") as a result of this provision becoming due within one year. This provision consisted of a dilapidation provision of \$120,000 and a charge of \$389,000 as a provision for an 'onerous lease' in relation to the partial sub-let of office space to Equus, a related party (see note 17b), who vacated the premises effective January 31, 2015.

A summary of the changes in the Company's other liabilities for the years ended December 31, 2015 and 2014 are set out below:

	2015 \$	2014 \$
Balance – Beginning of the year	509	120
Provision for onerous lease	-	389
Re-classified to "Lease obligations" (note 11)	(509)	-
Balance – End of the year	<u>-</u>	<u>509</u>

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### 14. Income taxes

The income taxes shown in the consolidated statements of net loss and total comprehensive loss differ from the amount derived due to the following:

	2015	2014
	\$	\$
Statutory tax rate	20.10%	21.39%
Net loss before income tax recovery	(8,960)	(5,321)
Recovery of income taxes based on statutory rates	1,801	1,138
Non-deductible expenses	(1,359)	(520)
Different tax rates of foreign jurisdictions	(9)	(279)
Change in benefits not recognised, deferred tax rates and other	(433)	(339)
Tax expense for the year	-	-

The impact of tax rate changes reflects the statutory rates applicable in the UK, Canada, Kazakhstan and Kyrgyzstan.

During the year, the UK main corporation tax rate was reduced from 21% to 20%. The blended current tax rate of the Company is 20.10%. The main UK corporation tax rate is 20% (became effective from April 1, 2015) applying to all profits regardless of size. Therefore, as at December 31 2015, deferred tax assets and liabilities have been calculated based on a rate of 20% where the timing difference is expected to reverse after 1 April 2015. Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The significant components of the Company's deferred income tax assets and liabilities as at December 31, 2015 and 2014 are as follows:

<b>Deferred income tax assets not recognised</b>	2015	2014
	\$	\$
Tax loss carried forward	44,346	44,058

As at December 31, 2015 and 2014 the Company has the following tax losses to carry forward:

	2015	2014
	\$	\$
UK operating losses with no expiry	33,360	32,156
UK non trading losses which may be carried forward with no expiry	166,766	166,766
Kyrgyzstan operating losses	-	3,955
Kazakhstan operating losses	22,683	25,296
Canada operating losses	22	30

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### 15. Shareholders' equity

#### a) Authorized and Issued Share capital

The Company is authorized to issue 100,000,000,000 common shares of no par value. As at December 31, 2015 the total issued share capital of the Company were 182,696,049 common shares. A summary of the Company's issued share capital as at December 31, 2015 and December 31, 2014 is set out below:

	2015		2014	
	Number of shares 000's	Value \$	Number of shares 000's	Value \$
Balance – Beginning of the year	182,696	382,576	182,696	382,576
Balance – End of the year	182,696	382,576	182,696	382,576

#### b) Share Purchase Options

The Company maintains an incentive stock option plan (the "Plan") covering directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of an option is determined by the Board of Directors on the basis of the closing market price of the Company's shares on the trading day prior to the date of issue of the option. The Plan provides that options may be granted for a maximum period of ten years and the aggregate number of shares which may be issued and sold under the Plan may not exceed 10% of the issued and outstanding common shares from time to time, less options exercised since shareholder approval was last granted in respect of the Plan.

A summary of the changes in the Company's share purchase options during the years ended December 31, 2015 and 2014 are set out below:

	2015			2014		
	Options 000's	Value assigned \$	Average exercise price CAD\$	Options 000's	Value assigned \$	Average exercise price CAD\$
Balance – Beginning of the year	12,610	5,601	0.42	13,410	5,687	0.41
Options granted during the year	15,700	100		-	-	
Options lapsed	(10,535)	(5,299)		(500)	(37)	
Options forfeited	(2,000)	(287)		(300)	(49)	
Balance – End of the year	15,775	115	0.02	12,610	5,601	0.42

#### Notes:

i) On September 2, 2015, the Company granted 15,700,000 options to directors, employees and consultants of the Company for a period of five years at an exercise price of CAD\$0.02 which vested immediately upon grant.

Information relating to share options outstanding at December 31, 2015 is as follows:

Range of prices CAD\$	Number of options	Weighted average years to expire	Average exercise price CAD\$	Number of exercisable options	Average exercise price CAD\$
0.01 – 0.25	15,700,000	4.68	0.02	15,700,000	0.02
0.25 – 0.30	75,000	0.15	0.30	75,000	0.30
	15,775,000	4.66	0.02	15,775,000	0.02

The fair values of the share options granted are based on the Black-Scholes option-pricing model using the following assumptions:



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Average exercise price	C\$0.02
Dividend yield	Nil
Risk free interest rate	0.8985%-2.37%
Expected options life	2.8 – 5.0 years
Expected stock price volatility	40% – 140%

The expected stock price volatility is measured using the daily closing stock price, in CAD\$, over a period equivalent to the vesting period of the stock options from the date of grant.

Subsequent to the year end, 75,000 options lapsed following the expiry of the exercise period.

### 16. Contributed surplus

A summary of the changes in the Company's contributed surplus as at December 31, 2015 and December 31, 2014 are set out below:

	2015	2014
	\$	\$
Balance - Beginning of the year	28,560	28,474
Transfer of fair value of lapsed stock options	5,299	37
Transfer of fair value of forfeited stock options	287	49
Balance - End of the year	<u>34,146</u>	<u>28,560</u>

### 17. Related party transactions

#### (a) Key management compensation

Key management includes directors and officers. The salaries and other short term employee benefit compensation paid or payable to key management for employee services is shown below.

	Year ended December 31,	
	2015	2014
	\$	\$
<i>Directors</i>		
Dr Sergey V Kurzin	271	264
Dr Alexander Yakubchuk	254	254
Mr Mark Corra	37	30
Mr Timothy Hanford (directorship ceased June 22, 2015)	14	30
Mr Massimo Carello	37	30
Mr David Rhodes	37	30
	<u>650</u>	<u>638</u>
<i>Senior officers</i>		
Mr Kevin Denham	207	214
Mr Christopher Power (resigned effective April 30, 2015)	67	220
	<u>274</u>	<u>434</u>
<i>Other key management personnel</i>	113	166
Total	<u>1,037</u>	<u>1,238</u>

Notes:

- i) In September 2015, a total of 13,000,000 stock options were granted to the directors and the senior officer to purchase common shares of no par value in the Company at an exercise price of CAD\$0.02 (see note 15b);

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- ii) During the year ended December 31, 2015 a total of 5,885,000 stock options previously granted to the directors, senior officers and other key management, to purchase common shares in the Company expired (see note 15b).

Key management compensation is denominated in currencies other than \$ (principally in GBP Sterling) and the amounts are translated at the prevailing rate in accordance with the Company's policy for currency transactions. There have been no changes in the amounts paid to key management personnel and the differences above arise entirely from movements in the relevant exchange rates (primarily GBP to \$).

### (b) *Equus*

The Company and Equus had a director, Dr Sergey Kurzin, in common as at December 31, 2015. Dr Kurzin is Executive Chairman of Orsu was Non-Executive Chairman of Equus, having previously been Executive Chairman of Equus until June 11, 2014, and is considered to be a member of key management for both companies as defined under IFRS, IAS 24 "Related Party Disclosures". Dr Kurzin resigned as Non-Executive Chairman of Equus effective February 18, 2016.

Up to January 31, 2015, the Company charged Equus for services relating to property rent, administration support, office service and future dilapidation expenses. As at December 31, 2015 the total receivable was \$375,194 (\$258,354 as at December 31, 2014). The amounts receivable from Equus accrue interest of 4% per annum, above the Barclays Base Rate, from the due date of payment until the date of payment. The charges for all the services provided to Equus, as well as the interest charged on overdue payments from Equus, are considered to be on normal commercial terms. The total outstanding receivable from Equus as at December 31, 2015 and as at December 31, 2014 is shown on the table below:

	2015	2014
	\$	\$
Balance – Beginning of the year	258	525
Recharges to Equus	117	515
Provision for bad debt	(375)	-
Settlements received	-	(782)
Balance – End of the year	<u>-</u>	<u>258</u>

As stated in notes 11 and 13, in August 2014 Equus served notice to terminate the sub-lease, effective January 31, 2015. In accordance with the Company policy for outstanding receivables of more than 12 months as at December 31, 2015 made a provision for the full amount outstanding. The Company is actively pursuing the debt and is considering its options on accelerating recovery. Equus acknowledge the debt, and it is not in dispute, and has agreed to repayment plan to settle the outstanding amount on monthly basis by December 31, 2016.

## 18. Commitments

The Company's commitments related to a lease obligation are for its previous London head office located at Red Place, London, for property rents (excluding service charges and property taxes), payable under a lease agreement which expired in February 2016 (see note 22). Thereafter, effective February 1, 2016 Company relocated to temporary offices under a short term monthly rent agreement and therefore had no further long term commitments.

## 19. Capital disclosures

The Company considers the items included in shareholders' equity to be capital. As an exploration and development company the Company issues new capital to fund ongoing exploration and development activity, construction of mine and processing plant at the Karchiga Project, head office expenditures and the potential acquisition of new assets.

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The Company manages and monitors the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

Derivative assets and liabilities are recorded at fair value each period using a Black Scholes valuation model with changes in the fair value recorded in net earnings.

The Company is not exposed to any externally imposed capital requirements.

## 20. Financial risk management

### Fair values

The Company is required to disclose information about the fair value of its financial assets and liabilities.

Cash and cash equivalents are recorded at cost which approximates to the fair value. Where cash and cash equivalents are held in currency other than US Dollars then the exchange rate as at the balance sheet is used to translate to US Dollars.

Derivative instruments are recorded at fair value determined by the use of valuation models which use actual and forecast exchange rates and are adjusted for the counterparty's own credit risk. Valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses readily observable market inputs. Changes in fair value of derivative instruments are recorded in the consolidated statement of net loss and comprehensive loss.

The Company estimates that the carrying values of its accounts receivable, accounts payable and accrued liabilities approximate to their fair values. The Company's derivative liabilities are measured at their fair value and changes in their fair value are recorded in the consolidated statement of net loss and comprehensive loss.

The Company has classified the financial assets using a fair value hierarchy that reflects the significance of the inputs in determining their fair value. The fair value hierarchy consists of the following levels which classify these inputs:

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 and,

Level 3 – inputs for the asset or liability that are not based on observable market data.

As at December 31, 2015, the carrying value and fair value of financial instruments held at fair value were as follows:

	Carrying Value	Fair Value	Fair Value Hierarchy Level
<b>Financial liabilities</b>			
Share warrant liability	5	5	2

As at December 31, 2014, the carrying value and fair value of financial instruments held at fair value were as follows:

	Carrying Value	Fair Value	Fair Value Hierarchy Level
<b>Financial liabilities</b>			
Share warrant liability	46	46	2

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The Company classifies its financial assets as either loans and receivables or derivative receivable. Financial liabilities are classified as either other financial liabilities or derivative liability.

The Company's derivative liabilities are measured at their fair value at each reporting date.

The following provides a summary of the carrying values of each classification of financial instrument as at December 31, 2015:

	Loans and receivables \$	Derivative/ FVTPL \$	Other financial liabilities \$	Total carrying amount \$
<b>Financial assets</b>				
Cash and cash equivalents	4,697	-	-	4,697
<b>Financial liabilities</b>				
Accounts payable, accrued and other liabilities	-	-	436	436
Share warrant liability	-	5	-	5

The following provides a summary of the carrying values of each classification of financial instrument as at December 31, 2014:

	Loans and receivables \$	Derivative/ FVTPL \$	Other financial liabilities \$	Total carrying amount \$
<b>Financial assets</b>				
Cash and cash equivalents	7,606	-	-	7,606
Equus receivable	258	-	-	258
<b>Financial liabilities</b>				
Accounts payable, accrued and other liabilities	-	-	377	377
Share warrant liability	-	46	-	46

The Company is exposed to certain financial risks including credit risk, liquidity risk, currency risk and interest rate risk.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk as at December 31, 2015 and 2014 is as follows:

	2015 \$	2014 \$
<b>Cash and cash equivalents</b>		
Cash and cash equivalents	4,697	7,606
<b>Prepaid and other receivables</b>		
Equus receivables	-	258
<b>Derivative liability</b>		
Share warrant liability	5	46

The Company's maximum exposure to credit risk at the balance sheet date under its financial instruments is limited to cash and cash equivalents of \$4.7 million (2014, \$7.6 million). The Company's

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cash and short term deposits are all held at banks with a minimum credit rating (as defined by recognised credit agencies) of “A-1” and as such, the Company believes that these banks do not have a significant exposure to credit risk. In relation to other receivables, the Company’s credit risk control is to assess the past relationship, financial position and credit history of the counterparty after which the board of directors of the Company review for further action if necessary.

### Liquidity risk

The Company’s policy is to manage liquidity risk by maintaining cash and cash equivalent balances sufficient to meet its short term and long term obligations.

As at December 31, 2015, the Company’s short-term and long-term obligations were as follows:

	Total \$	Less than 1 year \$	1-2 years \$	2-3 years \$	Beyond 3 years \$
Accounts payable and accrued liabilities	436	436	-	-	-

As at December 31, 2014, the Company’s short-term and long-term obligations were as follows:

	Total \$	Less than 1 year \$	1-2 years \$	2-3 years \$	Beyond 3 years \$
Accounts payable and accrued liabilities	377	377	-	-	-

### Currency risk

The Company’s functional and presentation currency is US dollars.

Foreign exchange risk arises from transactions denominated in currencies other than US dollars. As some costs are denominated in Canadian dollars, UK Sterling, Kazakh Tenge, and Kyrgyz Som. In addition, as the Company holds financial assets in foreign currencies, the impact on earnings (reported in US Dollars) of a 10% appreciation or depreciation in currencies is as follows:

	10% depreciation \$	10% appreciation \$
Canadian dollars	(4)	4
UK Sterling	(27)	27
Kazakhstan Tenge	(1)	1
Kyrgyzstan Som	-	-

### Interest rate risk

The Company’s interest rate risk arises primarily from bank interest received on cash deposits. The variable bank interest for cash deposits expose the Company to cash flow interest rate risk.

The impact on cash and net earnings of a 1% per annum change in LIBOR would be as follows:

	December 31, 2015 \$	Impact of LIBOR change on net earnings	
		1% increase \$	1% decrease \$
Cash at bank	4,697	-	-

The cash at bank balance above only includes interest bearing accounts held by the Company’s head office in London. Local overseas accounts are non interest bearing.

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### 21. Segment information

Operating segments are based on the reports reviewed by the board of directors that are used to make strategic decisions.

The segment information provided to the board for the reportable segments for the year ended December 31, 2015 is as follows:

	Mineral exploration and development (Kazakhstan) \$	Mineral exploration and development (Kyrgyzstan) \$	Corporate (UK) \$	Total \$
Administrative	(598)	-	(1,957)	(2,555)
Legal and professional	-	-	(538)	(538)
Exploration	(160)	-	-	(160)
Stock based compensation charge	-	-	(100)	(100)
Net foreign exchange losses	(498)	-	-	(498)
Impairment of Karchiga Project	(752)	-	-	(752)
Unrealized gain on share warrant liability	-	-	41	41
Net off finance income and (expense)	1	-	77	78
Net loss from continuing operations for the year	(2,007)	-	(2,477)	(4,484)
Net loss from discontinued operation	-	(84)	-	(84)
Impairment of discontinued operation	-	(4,392)	-	(4,392)
Net loss and comprehensive loss for the year	(2,007)	(4,476)	(2,477)	(8,960)
Property, plant and equipment	8,283	-	4	8,287
Total assets	8,790	-	4,520	13,310
Capital expenditure	97	-	2	99

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The segment information for the year ended December 31, 2014 is as follows:

	<b>Mineral exploration and development (Kazakhstan) \$</b>	<b>Mineral exploration and development (Kyrgyzstan) \$</b>	<b>Corporate (UK) \$</b>	<b>Total \$</b>
Administrative	(703)	-	(2,511)	(3,214)
Legal and professional	(7)	-	(464)	(471)
Exploration	(928)	-	-	(928)
Net foreign exchange losses	(204)	-	(34)	(238)
Net loss from disposal group asset held for sale	-	(92)	-	(92)
Deferred finance costs written off	(515)	-	-	(515)
Unrealized gain on share warrant liability	-	-	114	114
Net off finance (expense) and income	(6)	-	29	23
Net loss for the year	<u>(2,363)</u>	<u>(92)</u>	<u>(2,866)</u>	<u>(5,321)</u>
Property, plant and equipment	8,952	-	84	9,036
Total assets	10,175	4,583	7,844	22,602
Capital expenditure	162	-	1	163

The amounts provided to the board with respect to total assets are measured in a manner consistent with that of the financial statements.

## 22. Subsequent events

Subsequent to the year end, in February 2016 the Company changed its UK registered office to Berkeley Square House, Berkeley Square in London. This followed the end of the Company's lease at its former offices at 1 Red Place in London on February 6, 2016.