

# KEFI

MINERALS

EMERGING GOLD MINER



*Ethiopia*

ANNUAL REPORT 2016



*Saudi Arabia*

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## Overview

- Focused on gold and copper projects in the highly prospective Arabian-Nubian Shield (“ANS”).
- During 2016, KEFI concentrated Tulu Kapi, Ethiopia’s first modern mine and upgrading the exploration portfolio.
- Conventional project finance proposals stalled in late 2016 with the Ethiopian State of Emergency.
- Nevertheless, operational activities continued uninterrupted and Ethiopia quickly lifted most restrictions.
- KEFI now has three financing proposals associated with contractors experienced in African mining.
- Targeting to commence the development of Tulu Kapi in 2017 and open-pit gold production 2019.
- Pipeline of ANS growth projects to complement the Tulu Kapi Gold Mine in Ethiopia, includes:
  - Underground gold mine below the initial Tulu Kapi open pit;
  - Satellite deposits around Tulu Kapi mine;
  - Oxide gold mine at Jibal Qutman in Saudi Arabia;
  - Large VHMS base metal target at Hawiah in Saudi Arabia; and
  - Exploration prospects in ANS.
- KEFI Minerals is the operator and has strong partners in both Ethiopia and Saudi Arabia.
- Saudi Arabia is likely to deregulate the minerals exploration sector in 2017, which should benefit KEFI.

The robust economics of KEFI Minerals’ two development projects are clear from the following table:

		<b>Tulu Kapi</b>	<b>Jibal Qutman</b>
Project Stage		Funding	PEA
<b>Gold Production</b>	<b>Ounces per annum</b>	<b>115,000</b>	<b>30,000</b>
All-in Sustaining Costs (“AISC”)	US\$/oz	777	600
Operating Margin	US\$/oz	473	650
<b>Net Operating Cash Flow</b>	<b>US\$ million per annum</b>	<b>55</b>	<b>19</b>
Operating Margin	%	38%	52%
<b>Initial Life-of-Mine Production</b>	<b>Ounces</b>	<b>980,000</b>	<b>139,000</b>
Initial Capital Payback	Years	3	2
<b>Initial Capital</b>	<b>US\$ million</b>	<b>160</b>	<b>30</b>

Notes:

- The above parameters are based on a gold price of US\$1,250/oz.
- AISC is per the World Gold Council Standard. The AISC includes each project’s operating costs, Government royalties and sustaining capital but excludes financing costs and income taxes.
- Tulu Kapi’s gold production and net operating cash flow are for the first eight years of gold production.
- Tulu Kapi’s initial capital cost is based on the 2017 DFS Update, total of US\$161 million reduced for contractually deferred payments and increased for non-Tulu Kapi costs during construction.

The above metrics demonstrate that:

- The AISC/oz place both projects in the bottom cost quartile of existing gold producers;
- Strong operating margins above AISC provide substantial annual cash flows;
- Both projects can comfortably debt-fund the majority of the development capital required; and
- Both projects rapidly repay the development capital.

Both of Tulu Kapi and Jibal Qutman are surrounded by significant potential for growth through exploration.



## Executive Chairman's Report

Our assets provide a healthy platform to deliver shareholder value by developing profitable mines in Ethiopia and Saudi Arabia.

KEFI Minerals made substantial progress during 2016 towards becoming a gold producer in one of the world's great under-developed minerals provinces – the Arabian-Nubian Shield ("ANS").

Our Tulu Kapi Gold Project in Ethiopia remains the primary focus of KEFI's activities. We have continued to work with the Government of Ethiopia, industry experts and project contractors over the past year in order to ensure that construction can commence as soon as funding is in place.

Initial open-pit gold production from Tulu Kapi is projected at 115,000 ounces per annum at a low All-in Sustaining Cost ("AISC") of less than US\$800/oz. Tulu Kapi's Ore Reserves of 1.0 million ounces and Mineral Resources of 1.7 million ounces have significant upside potential.

At our Jibal Qutman Gold Project in Saudi Arabia, the Mining Licence Application for the planned heap-leach operation has been lodged with the Saudi Government for continuing discussion and review.

### Development-Ready Gold Mine - Tulu Kapi

This high-value, low-capex asset is now poised for development when the funding package is finalised.

Whilst our finance team has been preparing the funding package, our project development team has continued to work with our selected contractors in order to further optimise Tulu Kapi's detailed development and operating plans.

Feedback on the 2015 Definitive Feasibility Study ("2015 DFS") from project contractors, financiers and partners was incorporated into an improved plan in early 2016. All refinements to the 2015 DFS were, in May 2017, incorporated into the 2017 DFS Update in preparation for financing. This reflects, among other things, the fixed price, lump-sum processing plant construction contract with Lycopodium and a warranted ore processing rate of 1.5-1.7 million tonnes per annum.

KEFI bases the finance structure on the numbers and schedules in the 2017 DFS Update which includes only the planned open pit. However, we will target a quicker construction schedule and 10% higher annual throughput compared with the contractually warranted estimates used for debt-structuring. KEFI's financial targets for the open-pit project include:

- Gold production of 120,000 ounces per annum for eight of the initially planned ten years;
- At a flat average gold price of US\$1,200-1400/oz for all ten years of gold production (2019-2028):
  - All-in Sustaining Costs of less than US\$800/oz (ignoring financing charges);
  - After-tax, unleveraged IRR of 25%-36%;
  - After-tax, unleveraged NPV (8% discount rate) of US\$98-184 million at start of construction;
  - After-tax, unleveraged NPV (8% discount rate) of US\$272-375 million at start of production in 2019;
  - Annual net operating cash flows of US\$56-78 million p.a. for the first eight years of production, and
  - Payback of 3 years.

As a result of KEFI's overhaul of all aspects of the project due diligence and planning, the project has soundly-based, robust economics and significant growth potential beyond the existing open-pit Ore Reserve estimate of 15.4 million tonnes at 2.12g/t gold, containing 1.05 million ounces.

The projected open-pit cash flows indicate that the net cash build-up (after financing costs) in the first three production years is US\$65 million to US\$265 million for a gold price range of US\$1,100/oz to US\$1,900/oz. Significant value is also expected from the contemplated underground mine.



Location of KEFI's projects in ANS

## **Strong Support from Ethiopian Government for Tulu Kapi Development**

The Tulu Kapi Gold Project ranks high as a national priority within Ethiopia's Growth and Transformation Plan and we are delighted to have the strong support of the community in addition to the support from the Government at all levels.

Responsible mine development is a high priority for KEFI and the Ethiopian Government. We welcome the Government's constructive attitude which encourages us to bring Tulu Kapi into production as rapidly as we prudently can whilst ensuring compliance with all relevant governance and quality standards.

The restrictions imposed by the State of Emergency declared by the Ethiopian Government in October 2016 have now mostly been lifted. KEFI Minerals' operational activities have continued as normal during this time and appropriate security precautions have been built into project planning.

After consultations with KEFI, the Government of Ethiopia has triggered the community resettlement programmes which began with property surveys and host land preparations and also incorporate livelihood restoration programmes.

Notably in May 2017, the Government of Ethiopia further demonstrated its strong support by executing the detailed formal documentation for its committed equity capital contribution of approximately US\$20 million to Tulu Kapi's development. This investment will increase the Government's share of the project from a 5% free-carried interest to circa 25%, depending on the final financing structure.

## **Further Potential at Tulu Kapi**

In parallel with working towards open-pit gold production, KEFI has already evaluated the potential for developing an underground mine underneath the Tulu Kapi open pit. A preliminary economic assessment ("PEA") completed in early 2016 indicated robust economics for an underground mine. Based on 2014 Mineral Resources, the addition of an underground mine has the potential to increase total (open pit + underground) gold production to more than 150,000 ounces per annum over four years. The orebody remains open and further potential will be added.

The Government has encouraged KEFI to plan an ambitious exploration programme in the district around Tulu Kapi and elsewhere in Ethiopia. Targets have been identified for both satellite gold deposits and stand-alone development projects. Tulu Kapi is intended to become a central ore processing centre for additional deposits to be developed in the district.

## **Oxide Gold Project - Jibal Qutman**

In Saudi Arabia, the first priority for our G&M Joint Venture ("G&M") is to develop an open-pit, heap-leach ("HL") gold operation, using a staged development approach predicated on a low-capex start-up to be expanded in modular stages as additional mineralisation is delineated. The potential cash flow from HL oxide gold production is an opportunity to fund:

- construction of a carbon-in-leach ("CIL") plant to process the deeper sulphide ore profitably; and
- exploration in Saudi Arabia to create a strong Saudi mining company for the long term.

Following on-site meetings with regulators in March 2017, the Mining Licence Application for the Jibal Qutman HL gold development was lodged with the Saudi Government for continuing discussion and review.

At Hawiah, G&M has identified a huge target for precious and base metals based on the surface-sampling of a six-kilometre long gossan (oxidised mineralisation exposed on the surface) and the results of the geophysical surveys of the ground beneath the gossan.

Our Saudi venture is a strategic long-term priority and the Company is confident of having established an early-entrant position in what will emerge as a world-class minerals province. During the past year, G&M overhauled its portfolio of licence applications by discarding some and adding others. The next key step is for G&M to review the new Saudi mining industry regulations and policies which are expected to be published soon. We will then proceed with Jibal Qutman soon after the planned Tulu Kapi development and also expand exploration activities as results warrant.

## **Changes to Board of Directors**

As KEFI Minerals prepares to develop Tulu Kapi, two key additions were made to the Board of Directors during 2016:

- Mr John Leach as Finance Director; and
- Mr Mark Wellesley-Wood, experienced African mining operator as a Non-Executive Director.

In early 2017, Mr Mark Wellesley-Wood took on the role of Deputy Chairman and Senior Independent Director.

As part of these changes, Mr. Jeff Rayner stepped down from the Board but continues to advise the Company on exploration and acquisition strategy. His acumen in identifying under-valued gold and copper projects has been instrumental in KEFI becoming an early entrant in emerging mining districts in the ANS.

## Outlook

Our initiatives on both sides of the Red Sea reflect our conviction that the ANS has world-class prospectivity overseen by governments that have put a strategic priority on the mining sector. KEFI is very fortunate to have a +1,000 km<sup>2</sup> portfolio of exploration properties at various stages within the highly prospective ANS. And this portfolio will grow.

We have established a solid platform with world-class partners in each jurisdiction and with industry-leading contractors have developed a counter-cyclical opportunity to establish successful mining operations in the region.

Our approach has been to place our development strategy into the hands of a team of seasoned operators with a proven record of start-up successes in Africa. This team has transformed Tulu Kapi from an uneconomic project into one which is now being evaluated by financiers as a robust, fully permitted project with significant upside potential for shareholders.

The calm and improving situation in Ethiopia, combined with the range of financing scenarios being considered by the Company, make the Board confident that the Tulu Kapi Gold Project can proceed to development in 2017.

The Board is confident of our strategy and asset base. We have the appropriate mix of industry-experienced technical and financial expertise to prudently progress our projects into profitable gold mines. And we have an organisational development plan which will see requisite human resources added with recruitment as we progress.

We appreciate the strong support of our shareholders, contractors, communities and other stakeholders. The Company now has two cornerstone shareholders in Odey Asset Management and Lanstead Capital that support rapid growth companies. Project contractors Ausdrill and Lycopodium are also shareholders as is the Board of Directors.

KEFI Minerals is positioned to become the operator of two gold development projects in the highly prospective ANS. We have achieved this progress with a small team around whom we will build the full operating team in conjunction with the project contractors, both of whom have over 20 years of mine building experience in Africa. We are well supported by a number of high calibre, quality specialist advisers also selected for their pre-eminence in start-ups of this nature.

I look forward to seeing some of you at the Annual General Meeting on 29 June 2017 in London.

### ***Harry Anagnostaras-Adams, Executive Chairman***



*KEFI Minerals plc Board of Directors meeting in Nicosia Cyprus Head Office. From left, Laki Catsamas (Financial Controller and Acting Company Secretary), Harry Anagnostaras-Adams (Executive Chairman), Wayne Nicoletto (Chief Operating Officer), Mark Wellesley-Wood (Deputy Chairman), John Leach (Finance Director), and Ian Plimer (Non-Executive Director). Non-Executive Director Norman Ling is not in this photo.*

## Finance Director's Report

KEFI's strategy is to maximize shareholder value through the development of a focused portfolio of mining operations and projects at various stages, while at the same time managing the significant risks faced by companies in the exploration and development stage.

Our risk management approach places a clear focus on discovering and exploiting mineral wealth through multiple ventures within a focused framework, thus increasing the odds of success. We introduce partners and contractors in certain circumstances to minimise risk and broaden the human and financial resources available.

KEFI minimises expenses while maintaining momentum towards becoming a gold producer. In order to help reduce cash outflows, some employees, Directors and consultants agreed to take KEFI shares in lieu of a significant portion of their salary or fees during 2016. Some Company officers also invested significant amounts into KEFI share placings.

### Equity Funding

KEFI Minerals has to date financed its activities through periodic capital raisings and contributions by partners.

The Company completed several equity placings during 2016, raising a total of £5.6 million (before expenses).

In March 2017, shareholders approved a £5.62 million fundraising comprised of:

- £0.60 million placing of equity by Brandon Hill Capital;
- £0.40 million subscription by certain of the Directors, employees and Lycopodium; and
- £4.62 million subscription by Lanstead Capital.

Following the completion of the March 2017 fundraising and associated consolidation of the Company's capital on a 17-for-1 basis, KEFI had a total of 332.7 million Ordinary Shares on issue.

A key aspect of the March 2017 fundraising is that £3.93 million of the £4.62 million subscription by Lanstead is subject to a Sharing Agreement which allows KEFI to benefit financially from positive share price performance, whilst limiting the financial downside risk from a negative share price performance.

The number of Ordinary Shares issued to Lanstead under the Sharing Agreement is fixed at 82.4 million Ordinary Shares. However, the amount from Lanstead due to KEFI under the Sharing Agreement is adjustable upwards or downwards at each of the 18 monthly settlements that commenced in May 2017.

The Lanstead Sharing Agreement underpins the Company's expenditure for 2017 and is focused on an increasing share price being beneficial to both Lanstead and KEFI shareholders.

The Notice of General Meeting includes a proposed shareholder resolution to provide the Directors with sufficient authority to implement equity raisings to allow the preferred project funding proposal to proceed for Tulu Kapi.

### Partnering the Government in Ethiopia and ARTAR in Saudi Arabia

In May 2017, KEFI Minerals (Ethiopia) Limited ("KME") and the Federal Democratic Republic of Ethiopia signed the Shareholders' Agreement and other foundation documentation for the incorporation, ownership and operation of Tulu Kapi Gold Mines Share Company Limited ("TKM"), which will result in TKM owning 100% of Tulu Kapi. The exploration projects outside the Tulu Kapi Mining Lease area are not part of TKM and remain 100% owned by KEFI.

In the Kingdom of Saudi Arabia KEFI conducts all its activities through Gold and Minerals Co. Limited ("G&M"), our joint venture company with Abdul Rahman Saad Al Rashid and Sons Limited ("ARTAR"). KEFI is operator with a 40% interest and ARTAR has 60%. KEFI's is fortunate to have such a strong Saudi group as a partner and G&M has assembled a large and prospective portfolio of exploration licences and applications. Having made a discovery at Jibal Qutman, the joint venture looks forward to development and expansion in the minerals sector which the Saudi Government has made a national strategic priority.

### Tulu Kapi Development Funding

The Tulu Kapi funding process is ongoing with several potential financiers who are comfortable investing in Ethiopia.

The foundations of risk management for funding Tulu Kapi include that all short term (up to five years) debt servicing commitments are met even if the price of gold drops to and stays at c. US\$900/oz whilst longer term (5-10 years)



commitments are acceptable as long as they are covered by a flat price of c. US\$1,000/oz. It is notable that the lowest gold price in the past seven years is c. US\$1,100/oz and the highest c. US\$1,900/oz.

Since acquiring the project, KEFI has continually refined and reduced project capital requirements and rendered more reliable production plans. Before adding financing charges and costs of other KEFI activities, the current estimate of total KEFI Group requirement for Tulu Kapi development capital is c. US\$160 million, which has been approximately halved from the previous owner's estimate.

KEFI's progress on project financing was delayed during 2016 as a result of the tightening of the mining debt-finance sector generally and the declaration of the Ethiopian State of Emergency, which had the effect of depressing the interest of financiers unfamiliar with Ethiopia. The Company responded by elevating its focus onto alternative financiers familiar with Africa and especially Ethiopia and, in particular, to design financing proposals with African-experienced gold project contractors. We now have three financing proposals built around alternative project contracting syndicates, and we have prioritised the funding structure designed around the preferred contractors selected in 2016 - Ausdrill for mining and Lycopodium for processing.

As a result of recent progress, along with potential financiers, the Government and contractors, KEFI has intensified preparations for development to commence this year. The syndication brings with it the complexities of multiple jurisdictions and some "paving the way" in Ethiopia for which this is the first internationally financed major mining project finance transaction. Nevertheless, all syndicate members are working to the common objective of starting production in 2019.

#### ***Statutory Accounts and Reporting***

KEFI's financial statements for 2016 are attached and report financial results based, inter alia, on the write-off of most historical pre-development expenditure at Tulu Kapi and the write-off of all exploration expenditure.

In May 2017, KEFI reported progress of closing out any potential exposure to a damages claim brought in 2014 by third parties in Ethiopia relating to events which took place between 1998 and 2006. The claim has been reduced from approximately US\$12 million to approximately US\$600,000 which KEFI is appealing to a higher court.

#### ***John Leach, Finance Director***



*Resettlement property survey teams planning their day.*



# Chief Operating Officer's Report

During 2016, we continued to work towards triggering the development of Tulu Kapi. This entailed working with selected contractors and the Government of Ethiopia, as well as assisting potential financiers with their due diligence.

## Project and Construction Management

KEFI's project management team has extensive gold development experience, mainly in Western Australia and Africa. This team managed the rounds of bidding for the Engineering, Procurement and Construction ("EPC") contract and for the Mining Contract. Our project management team has been based in Perth so as to work closely with Ausdrill and Lycopodium head offices.

Upon commencement of development, KEFI's project management team, myself included, and those of the principal contractors will move to Tulu Kapi in remote western Ethiopia where we have an exploration camp and will build a larger accommodation village.

## EPC Contractor

In June 2016, KEFI appointed Lycopodium as the EPC Contractor with a scope of work including:

- Detailed equipment specification and procurement;
- Construction of the processing plant to occur under a fixed-price, lump-sum contract;
- Start-up management support (for up to two years of operation) including installation of plant operating policies and procedures, personnel training and systems, with handover upon satisfaction of performance;
- Performance guarantees:
  - to remain in place until the end the first year of production; and
  - to ensure successful start-up before the final contractual retention sums are paid by KEFI.

KEFI has recently approved the formal Front End Engineering and Design ("FEED") proposal for US\$68 million under the proposed fixed-price EPC contract. This is the largest component of the initial capital expenditure to develop Tulu Kapi.

The FEED proposal is to build a 1.5-1.7 Mtpa (range of nameplate capacity dependent on ore type) processing plant and compares favourably with the previous estimate in the 2015 DFS of a total cost of US\$61 million for a 1.2 Mtpa processing plant. The 2015 DFS also did not anticipate a fixed-price, lump-sum contract for construction with performance guarantees which have been incorporated into the recently published 2017 DFS Update. KEFI targets 10% higher-than-nameplate capacity from production year 2 onwards, which would bring forward processing of some of the lower-grade ore that is assumed to be stockpiled in the 2017 DFS Update.

## Mining Contractor

KEFI has appointed African Mining Services ("AMS"), a wholly-owned subsidiary of Ausdrill Limited as the mining contractor. AMS has a strong track record in African operations and has become a significant (c. 5%) KEFI shareholder.

The principal terms and consequences of this appointment are set out below, all of which have been documented:

- Scope covers certain pre-mining earthworks as well as the life-of-open-pit mining operation.
- Contractual payment rate to be based on per cubic metre delivered.
- Direct purchases by KEFI of certain key input costs such as explosives and fuel.

KEFI and AMS have agreed a detailed operating plan for mining the Tulu Kapi open pit. AMS has confirmed mining fleet specifications and detailed contract specifications. The mining method and equipment specification are considered straightforward and technically sound by the lenders' independent technical expert. Under the mining contract specifications, only c. 21% of the ore tonnage and 5% of the total material movement is categorised as "selective" ore and waste mining, indicating standardised mining methods for most material. The selective mining aspects for the

peripheral ore zones have been carefully planned in detail with appropriate specialists to optimise mine dilution and operating costs.

## Community

Responsible mine development is the core requirement for KEFI and the Ethiopian Government. We welcome the Government's constructive attitude which encourages us to bring Tulu Kapi into production as rapidly as we prudently can whilst ensuring compliance with all relevant quality standards.

The 2015 Tulu Kapi Mining Agreement between the Ethiopian Government and KEFI incorporated several key documents including an Environmental and Social Impact Assessment ("ESIA") and the Community Resettlement Action Plan ("RAP"). The ESIA is fully integrated with the design contemplated in the 2015 DFS and compliant with International Finance Corporation Performance Standards and Equator Principles.

Our social licence team is based at Tulu Kapi and our processes involve continual consultation with the community, federal, regional and local authorities and other local institutions before and during implementation of the RAP.

KEFI and the Government continue to ensure transparent and compliant procedures for the resettlement of displaced farmers at Tulu Kapi. KEFI is playing a supporting role to the Government's efforts and is committed to assist where it can to ensure Tulu Kapi remains an exemplary example of due process and social licence management.

Ethiopian Government experts and our advisers are ensuring that compensation and plans comply with Ethiopian law and IFC (World Bank) principles.

## Operations

KEFI's project management team will be replaced during the start-up phase with its Operations Team, which will include new appointees some of whom have already been selected. The Company has set out organisational plans for the three main sets of personnel: mining (Ausdrill), processing (initially Lycopodium) and KEFI general management, planning, monitoring and control teams for safety, security, environmental, compliance, operations, administration and finance.

## Outlook

All the post-2015 DFS refinements have been incorporated into the 2017 DFS Update completed in May 2017. The 2017 DFS Update reflects the costings and schedules built into detailed draft contractual documentation with the project contractors – a schedule of rates mining contract and a fixed-price, lump-sum process plant construction contract.

The KEFI team, the Tulu Kapi community and the Ethiopian Government are all looking forward to mine development commencing as soon as practical.

KEFI's collaborative approach with contractors, community and other stakeholders during the planning phase should put us in good stead to work through the inevitable challenges as the project progresses.

It remains an exciting time to be developing a new gold mine and many quality people have expressed interest in joining the KEFI team as the Company enters the development phase.

**Wayne Nicoletto**

**Chief Operating Officer**

**Managing Director, KEFI Minerals Ethiopia**

## Organic Growth in Arabian-Nubian Shield

The highly prospective Arabian-Nubian Shield is one of the largest under-explored mineral provinces in the world. The ANS has been the Company's primary focus since 2008 when it commenced exploration activities in the Kingdom of Saudi Arabia.

Precambrian rocks host many of the major gold and base metal deposits globally, for example in Australia, Canada and South Africa. It is notable that the ANS is much larger than these other Precambrian terranes. Even though a number of significant gold and base metal deposits are being mined in the ANS, very little modern exploration has been carried out over much of the area.

While our focus and expenditure is on adding resources for our two development projects, KEFI continues to work towards creating shareholder value by assessing other prospects in the under-explored ANS, particularly on the pipeline of Exploration Licence Applications ("ELAs") in both countries.

We are continually adding to our knowledge of the ANS and systematically building our database for project generation and optimisation. The intellectual property of the information and experience gained over this period reinforces the value-creating potential of the Company's assets. We are indeed excited by the opportunity provided, in the Company's pole position in a very prospective region.

For example, the Hawiah Exploration Licence ("EL") is the sort of prospect that makes us excited to be exploring the ANS as it has all the hallmarks of a copper-gold-zinc VHMS deposit, which are typically quite valuable.

Our aim has always been to deliver shareholder value by developing into profitable mines the gold and base metal deposits that the Company discovers or acquires in a cost-effective manner.



*KEFI Minerals' Non-Executive Director Ian Plimer and former Exploration Director Jeffrey Rayner at Hawiah, Saudi Arabia.*



## Ethiopia

Following completion of the DFS in 2015, Tulu Kapi has continued to be progressed towards development with the appointment of contractors and subsequent work to further improve project economics.

Annual average gold production is currently estimated to be approximately 115,000 ounces per annum for the eight core years of production from the open pit. All-in Sustaining Cost is less than US\$800/ounce, much lower than the industry average.

All aspects of the Tulu Kapi (open pit) gold project have been reported in compliance with the JORC Code (2012) and subjected to reviews by appropriate independent experts. These plans now also reflect the agreed construction and operating terms with project contractors.

There is significant potential to expand Tulu Kapi's Mineral Resource as it remains open along strike, down plunge and at depth. The economic potential is also enhanced by the gold grades increasing with depth as well as the ore lenses thickening, making underground mining very attractive.

A number of prospects have been identified within trucking distance of Tulu Kapi. Proposed exploration activity will be significantly expanded with this focus, as these prospects have the scope and potential to add substantial value by providing additional ore to the Tulu Kapi processing facility.

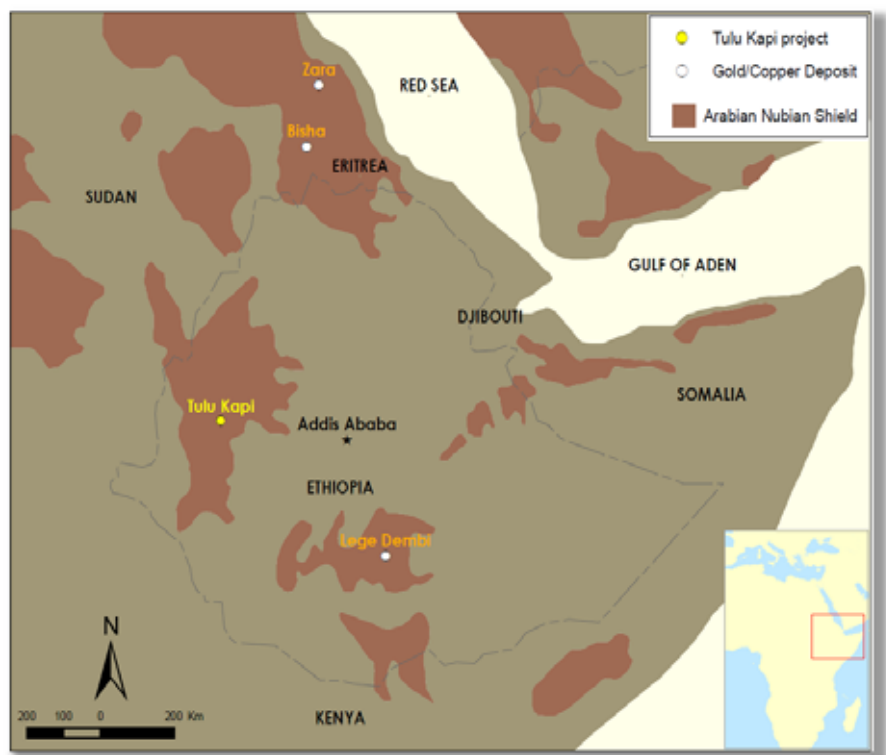
### Tulu Kapi - Background

Tulu Kapi is located approximately 360km due west of Ethiopia's capital, Addis Ababa. A main road to Addis Ababa is within 12km of Tulu Kapi and was sealed with asphalt during 2014-15.

The altitude of the project area is between 1,600m and 1,765m above sea level. The climate is temperate with annual rainfall averaging about 150cm.

The surface topography around Tulu Kapi is hilly with deeply dissected river valleys. Subsistence farmers primarily grow coffee and fruit in the river valleys.

The Tulu Kapi gold deposit was discovered and mined on a small scale by an Italian consortium in the 1930's. Nyota Minerals Limited acquired the project in 2009 and then undertook extensive exploration and drilling which culminated in an initial DFS in December 2012.



*Location of Tulu Kapi in Ethiopia.*

In December 2013, KEFI Minerals acquired 75% of Tulu Kapi for £4.5 million. This acquisition cost equates to only US\$10 per reserve ounce and provided information collected from historical expenditure of more than US\$50 million.

In September 2014, KEFI acquired Nyota Minerals' remaining 25% interest in Tulu Kapi for £1.5 million. The Ethiopian government became entitled to a 5% free-carry interest in Tulu Kapi upon granting of the Mining Licence in April 2015.

## Tulu Kapi – Permits and Mining Agreement

The Tulu Kapi Mining Agreement (“MA”) between the Ethiopian Government and KEFI was formalised in April 2015. The terms of the MA include:

- Renewable 20-year Mining Licence covering an area of 7km<sup>2</sup>, with full permits for the development and operation of the Tulu Kapi gold project.
- Fiscal arrangements:
  - 5% Government free-carried interest;
  - Royalty of 7%;
  - Income tax rate for mining of 25%;
  - Historical and future capital expenditure is tax deductible over four years; and
  - Stabilisation of fiscal arrangement to protect KEFI in case of future legislative changes.
- Government undertaking to facilitate international financing arrangements.

Attachments to the MA include the Environmental and Social Impact Assessment, the Development and Production Work Programme and the Community Resettlement Action Plan.



*Geologists working in Tulu Kapi core shed.*

## Tulu Kapi - Geology

The Tulu Kapi region has typical Precambrian type geology which is characterised by prominent hills of intrusive rocks and deeply incised valleys containing metasediments and metavolcanic rocks.

Gold at the Tulu Kapi deposit is hosted in quartz-albite alteration zones as stacked sub-horizontal lenses in a syenite pluton into which a swarm of dolerite dykes and sills have been intruded. Gold mineralisation extends over a 1,500m by 500m zone and is open at depth (+550m).

The mineralisation is characterised by a simple mineralogy comprising gold, silver, pyrite and minor sphalerite and galena. The gold is free milling with metallurgical recoveries averaging 93% for oxide and sulphide ore in the planned open pit.

At depth beneath the main body of mineralised syenite there is a zone adjacent to the Bedele shear that is characterised by significantly higher gold grades, with occasional coarse visible gold, more base metal sulphides and a shallower apparent dip than the main body above it.

KEFI geologists have steadily increased their understanding of the Tulu Kapi orebody and utilising this knowledge as part of the systematic search for nearby gold deposits.

### Tulu Kapi – Resources and Reserves

The Tulu Kapi Mineral Resources total 20.2 million tonnes at 2.65g/t gold, containing 1.72 million ounces. As summarised in the table below, c. 94% of the Mineral Resources are in the Indicated category.

Resource Category	Area	Tonnes (millions)	Gold (g/t)	Contained Gold (million ounces)
Indicated	Above 1,400m RL	17.7	2.49	1.42
Inferred		1.3	2.05	0.08
<b>Sub-Total</b>		<b>19.0</b>	<b>2.46</b>	<b>1.50</b>
Indicated	Below 1,400m RL	1.1	5.63	0.20
Inferred		0.1	6.25	0.02
<b>Sub-Total</b>		<b>1.2</b>	<b>5.69</b>	<b>0.22</b>
Indicated	Overall	18.8	2.67	1.62
Inferred		1.4	2.40	0.10
<b>Total</b>		<b>20.2</b>	<b>2.65</b>	<b>1.72</b>

*Note: Resources were estimated using cut-off grades of 0.45g/t gold above 1,400m RL and 2.50g/t gold below 1,400m RL. For further information, see KEFI announcement dated 4 February 2015.*

The Mineral Resources were split above and below the 1,400m RL to reasonably reflect the portions of the resource that may be mined via open pit and underground mining methods, respectively.

The Tulu Kapi Ore Reserves were based on the Indicated Resource above 1,400m RL and total 15.4 million tonnes at 2.12g/t gold, containing 1.05 million ounces. As detailed in the table below, the high-grade portion of the Ore Reserve contains nearly all the contained ounces and totals 12.0 million tonnes at 2.52g/t gold, containing 0.98 million ounces. This split shows that 78% of the ore tonnes and 93% of the contained gold is contained in the higher-grade zones of the Ore Reserve which are processed preferentially in the first eight production years. Lower-grade ore is stockpiled for processing subsequently.

Reserve Category	Cut-off (g/t gold)	Tonnes (millions)	Gold (g/t)	Contained Gold (million ounces)
Probable - High grade	0.90	12.0	2.52	0.98
Probable - Low grade	0.50 - 0.90	3.3	0.73	0.08
<b>Total</b>		<b>15.4</b>	<b>2.12</b>	<b>1.05</b>

*Note: Mineral Resources are inclusive of Ore Reserves.*

The above Mineral Resources and Ore Reserves were estimated using the guidelines of the JORC Code (2012).

### Tulu Kapi - Definitive Feasibility Study and Subsequent Optimisation

The DFS completed in December 2012 by Nyota Minerals evaluated construction of a 2.0Mtpa CIL processing plant and estimated initial capital expenditure of US\$289 million, including an allocation for working capital. KEFI is pursuing an alternative approach for Tulu Kapi that has significantly reduced the anticipated aggregate capital and operating expenditure, which provides less start-up risk and a higher overall return.



Following KEFI completing the 2015 Definitive Feasibility Study (“2015 DFS”) in June 2015, the cost estimates and mine plan were refined further and summarised in the 2017 DFS Update of May 2017. These refinements are the product of:

- collaboration between the KEFI project management team, its specialist advisers and the project contractors - Ausdrill/African Mining Services and Lycopodium; and
- reviews by the Independent Technical Consultants for the project financiers.

It is planned to preferentially process higher-grade ore (mined above cut-off grade of 0.9g/t gold) and to stockpile ore mined at grade 0.5-0.9g/t gold.

KEFI targets to run the plant at slightly higher (c. 10%) than nameplate processing rate from year 2 and further reduce the build-up of ore stockpiles.

This work has delivered even more robust gold project than in KEFI’s 2015 DFS as shown in the table below.

	2015 DFS 13-year LOM (owner mining)	2017 DFS Update 10-year LOM (contract mining)
Waste:ore ratio	7.4:1.0	7.4:1.0
Processing rate warranted	1.2Mtpa	1.5-1.7Mtpa
Total ore processed	15.4Mt	15.4Mt
Average head grade	2.1g/t gold	2.1g/t gold
Gold recoveries	91.5%	93.3%
Annual steady-state gold production	95,000 ounces	115,000 ounces
Total LOM gold production	961,000 ounces	980,000 ounces
Initial construction capital	US\$176M	US\$145M
All-in Sustaining Costs	US\$724/oz	US\$777/oz
Average net operating cash flow	US\$50M p.a.	US\$55M p.a.
Payback	3.5 years	3 years

**Notes:**

- The above metrics assume a gold price of US\$1,250/oz.
- Life of Mine (“LOM”) is the time to mine the planned open pit only.
- Gold production and net operating cash flow are for the first eight years of gold production.
- The Initial construction capital under the 2017 DFS Update is reduced from US\$161 million to US\$145 million due to contractually deferred payments. Planned funding requirements of US\$160 million include non-Tulu Kapi costs and finance charges incurred during construction.

## Tulu Kapi - Development

Tulu Kapi will be a conventional open-pit mining operation with a CIL processing plant. The mine will be connected to Ethiopia’s electricity grid via a new 47km long, 132 kV dedicated power line relatively close to the country’s major hydro power-generation source. An emergency diesel power plant will also be installed to provide emergency backup power to critical process equipment in the event of a grid power failure.

Following the international tenders, KEFI appointed Ausdrill (via subsidiary African Mining Services) as mining contractor and Lycopodium as process plant construction contractor.

Tulu Kapi is permitted for development and operation. The work currently being undertaken should ensure construction can proceed quickly and efficiently once funding is in place. Minor licences and permits are expected to be dealt with expeditiously as development progresses. The Government has established a Prime Ministerial Steering Committee to fast-track Tulu Kapi. KEFI Minerals works closely with the members of that committee, who head the various ministries and government organisations involved with the project.

## Tulu Kapi – Potential for Underground Mine

The Tulu Kapi orebody is amenable to underground mining as ground conditions are good, Ore Reserve gold grades increase and ore lenses thicken with depth. Gold mineralisation remains open along strike, down plunge and at depth. Notably, the most northerly hole drilled into the deepest portion of the deposit intersected 90m at 3g/t gold and demonstrates that the deposit remains open down plunge.

A preliminary economic assessment (“PEA”) of Tulu Kapi’s underground mining potential was completed in March 2016. Based on the 2014 Mineral Resources, the current underground mining inventory of 1.3 million tonnes at 5.2g/t gold potentially adds gold production of c. 50,000 ounces p.a. for four years.

The PEA considered the gold mineralisation below the base of planned open pit at a cut-off grade of greater than 2.5g/t gold, which is c. 1,450m RL (i.e. 50m higher than the 1400m RL division for the 2015 Mineral Resource Statement). It also considered economic lenses above 1,450m RL but outside of the planned open pit.

The key outcomes of the PEA were that:

- Underground mine development is economically justified based on the 2014 Mineral Resources;
- Combined gold production from the open pit and underground mine approximates 150,000 ounces p.a.;
- The underground mine adds an estimated US\$28 million to the project’s after-tax NPV (8%) at a gold price of US\$1,250/oz; and
- Subject to the results of a full DFS, underground mine development is targeted to commence in the first half of open-pit operations.

As the deposit remains open, KEFI has identified exploration potential for tripling the current 330,000oz underground Mineral Resource to c. 1 million ounces.



*Inaugural Directors of Tulu Kapi Gold Mines Share Company Limited, newly created to assume the role of KEFI Minerals (Ethiopia) Limited: Harry Anagnostaras-Adams (Chairman) Wayne Nicoletto (Managing Director) and Dr Kebede Belete (Director and Manager Government Relations), Muluken Kassa (Director and Finance Manager) plus Derartu Legesse (Office Manager) and Meseret Ayalew Kassaye (Financial Accountant)*

## Tulu Kapi – Regional Exploration Potential

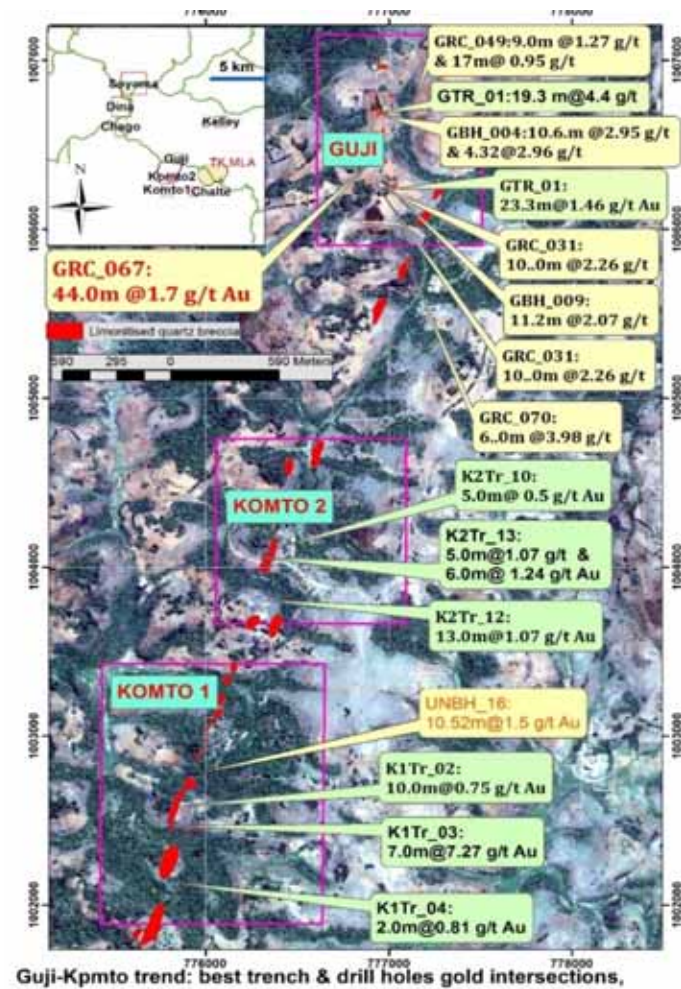
Regional exploration is at an early stage but significant potential has already been identified for further gold orebodies to be discovered near Tulu Kapi.

During 2016, KEFI worked on improving geological and structural understanding of the district. Drilling is planned to commence once Tulu Kapi is in development.

Geochemical and geophysical surveys have identified strong gold anomalies along three major shear zones parallel to the shear zone containing the Tulu Kapi gold deposit.

One of these shear zones lies only a few kilometres to the west of Tulu Kapi where shallow gold mineralisation has been identified over +9km along the Guji-Komto Belt. Trenching and drilling results already indicate the potential for oxide gold mineralisation totalling 300-500,000 ounces at c.1.5g/t gold in a series of shallow open pits (c.40m depth).

Once proven up by further drilling, this gold mineralisation may be treated by either trucking to the Tulu Kapi processing plant or as stand-alone heap-leach operations. Preliminary work indicates initial heap-leach operations could produce c.50,000 ounces of gold p.a. with low stripping ratios and high gold recoveries. This approach is likely to result in low operating and capital costs as most infrastructure would be provided by the planned Tulu Kapi mine.



*Guji-Komto Belt: best trench and drill hole gold results*



## Saudi Arabia

Our priorities in cost effectively discovering economic gold and copper in Saudi Arabia remain:

1. Jibal Qutman – increase oxide gold resources on the granted Exploration Licence (“EL”) and surrounding Exploration Licence Applications (“ELAs”);
2. Hawiah – determine if a copper-gold-zinc VHMS deposit lies beneath the 6km-long, gold-bearing surface gossan;

KEFI has a 40% beneficial interest in a large portfolio of ELAs and two granted ELs in Saudi Arabia via G&M, our joint venture company with ARTAR.



### *Location of G&M ELs and ELAs in Saudi Arabia, including the main gold and VHMS copper deposits in the ANS.*

KEFI remains well placed to advance and develop our projects with the assistance of our partner ARTAR, a leading local industrial group owned by Sheikh Al Rashid and his family.

The Kingdom of Saudi Arabia is a country with a long history of gold and copper mining that dates back over 3,000 years. As part of a broader strategy to diversify the country’s revenues away from oil, Saudi Arabia is looking to expand and develop its mineral sector.

During 2016, the Saudi Government created the Energy, Industry and Mineral Resources Ministry. This new ministry is now preparing new mining policies in consultation with local mining industry participants. KEFI and ARTAR regard this as a positive sign and look forward to the new mining policy being released. KEFI has upgraded its portfolio of licence applications in preparation for the deregulation of the sector which should expedite mining development in the country.

Key commercial advantages for KEFI in Saudi Arabia are:

- A country under-explored for minerals with only a few companies exploring for gold and copper;
- The Precambrian ANS rocks are very prospective for gold and copper;
- Exploration, development and operating costs are low by industry standards, benefitting from low energy and labour costs;
- Saudi Industrial Development Fund provides loans for up to 75% of the capital cost of mine development at attractive interest rates;
- A modern mining code; and
- A strong local joint venture.

The Directors of KEFI are increasingly confident that, given the Company's approach of strong local ownership from the outset for its operations in Saudi Arabia, it is well placed to establish a secure long term position in the country. KEFI is fully committed to consolidate G&M's presence in Saudi Arabia as the exploration results achieved since commencing exploration demonstrate the substantial opportunity to discover and develop mines in the country.



*Exploration Manager Fabio Granitzio assisting authorities on a site inspection.*

### **Saudi Arabia - Jibal Qutman**

Since the Jibal Qutman EL was granted in July 2012, KEFI Minerals rapidly advanced this project from grassroots exploration to assessing the best way to bring to account the gold mineralisation discovered to date.

The Jibal Qutman EL is located in the central southern region of the Arabian Shield and covers an area of 99km<sup>2</sup>. The EL covers an important part of the prospective Nabitah-Tathlith Fault Zone, a 300km-long structure with over 40 gold occurrences and ancient gold mines.

Drilling undertaken by G&M has identified gold resources in six areas - Main Zone, West Zone, South Zone, 3K Hill, 4K Hill and Red Hill. Given the established regional prospectivity for shallow oxide gold deposits, ELAs have been submitted for four additional areas near Jibal Qutman.

G&M envisages initially developing a small heap-leach operation to self-fund G&M's exploration activities in Saudi Arabia.

## Mineral Resource Estimates for Jibal Qutman

The current Mineral Resource estimate for Jibal Qutman totals 28.4 million tonnes at 0.80g/t gold, containing 733,045 ounces. As summarised in the table below, the majority of the Mineral Resource is in the Indicated category.

	Category	Tonnes (millions)	Gold (g/t)	Contained Gold ('000 ounces)
Oxide	Indicated	8.3	0.86	229
	Inferred	2.8	0.64	58
	<b>Sub-Total</b>	<b>11.1</b>	<b>0.80</b>	<b>287</b>
Sulfide	Indicated	9.7	0.86	269
	Inferred	7.6	0.72	176
	<b>Sub-Total</b>	<b>17.3</b>	<b>0.80</b>	<b>446</b>
Oxide + Sulfide	Indicated	18.0	0.86	498
	Inferred	10.4	0.70	235
	<b>Grand Total</b>	<b>28.4</b>	<b>0.80</b>	<b>733</b>

*Note: For further information, see KEFI Minerals announcement dated 6 May 2015.*

The oxide gold mineralisation contained in the above Mineral Resource is estimated to total 11.1 million tonnes at 0.80g/t gold, containing 287,000 ounces.

## Preliminary Economic Assessment for Jibal Qutman

Metallurgical test work has confirmed that Jibal Qutman oxide mineralisation is amenable to heap leach (“HL”) processing. Accordingly, the Company is focusing on initially producing gold via an open cut, HL operation. The HL approach has the advantages of speeding up the potential development timetable and lowering capital requirements.

Key outcomes from a Preliminary Economic Assessment for Jibal Qutman completed in May 2015 were:

- 1.5Mtpa HL operation;
- Gold production 139,000 ounces over an initial mine life of 4.5 years;
- Oxide open-pit optimisation studies show a potential mineable resource of 6.6 million tonnes at 0.95g/t gold, for 201,600 contained ounces;
- Waste:ore ratio of 2.2:1.0;
- Average gold recovery of 73%;
- Cash operating cost of US\$597/ounce; and
- Capital expenditure of US\$30 million.

Combined with the potential for development loans for up to 75% of capex requirements, it may be possible for KEFI to fund its share of the equity portion for under US\$3 million in equity or other forms of finance.

Following on-site meetings with regulators, the Mining Licence Application for the Jibal Qutman HL gold development was lodged with the Saudi Government in March 2017.

## Jibal Qutman Outlook

Jibal Qutman’s business objectives over the coming year are to:

- Follow-up the Mining Licence Application with the regulatory authorities;
- Explore the surrounding ELAs after their grant, which have high prospectivity for additional near-surface oxide gold resources; and
- Prepare applications for construction and operating licences.

This strategy envisages Jibal Qutman becoming G&M's foundation for a strong, sustainable mining company in Saudi Arabia.



*Drilling South Zone at Jibal Qutman.*

## **Saudi Arabia - Hawiah**

Following the grant of the 95km<sup>2</sup> Hawiah EL in December 2014, KEFI commenced exploration of an unusually large 6km-long gossan for gold at the surface and a volcanic-hosted massive sulphide ("VHMS") copper-gold-zinc sulphide orebody at depth.

The Hawiah EL was one of KEFI's higher priority ELAs as the geological setting is analogous to large VHMS deposits in the ANS that also have well-preserved, mature oxidised zones enriched in gold at surface.

Initial surface exploration has confirmed that the gossans are enriched in gold and the mineralisation has good continuity along strike, as well as containing abundant secondary copper showings. Our initial geophysical survey indicates it is underlain by a large metal-bearing body. Further exploration activities at the prospect are pending the outcome of negotiations with local stakeholders to ensure robust long-term access to this and other prospective ground in the region.

The Hawiah prospect is located within the Wadi Bidah Mineral District ("WBMD") in the southwest of the Arabian Shield. The WBMD is a 120km long belt which hosts over 24 VHMS occurrences and historic workings for copper and gold.

### **Hawiah Geology and Exploration**

The planned exploration programme at Hawiah aims to:

- Define a near-surface, economic gold resource in the gossan via trenching and RC drilling; and
- Simultaneously search for a major copper-gold-zinc sulphide ore body along strike and/or at depth.

The Hawiah EL covers a predominantly bimodal mafic and felsic volcanoclastic succession in a broad anticline, with an unusually large expression of surface mineralisation outcropping on the eastern limb. Hawiah's silicified and gossanous horizon was mapped and trenched by France's Bureau De Recherches Geologiques et Minieres ("BRGM") in the 1980s, which identified its gold-bearing potential.



In February 2015, KEFI completed a first-pass, wide-spaced trenching programme over the 6km-long gossanous horizon. KEFI's trenches repeated all of the BRGM's trenches, as well as extending the known (4km) exposure to the south and to the north.

Almost all of KEFI's trenches contained anomalous gold, including 6m at 2.2g/t gold, 2m at 8.7g/t gold, 6m at 1.9g/t gold, 3m at 5.8g/t gold, 2m at 7.5g/t gold and 8m at 3.0g/t gold.

The BRGM and KEFI results both confirm that gold grades occur with good continuity along the strike length of this 6km-long gossanous horizon.

In order to test the deeper VHMS potential, KEFI is using geophysics and geochemistry to define drill targets.

Self-potential ("SP") geophysical surveys were completed over the 6 km-long gossanous horizon during 2015 and 2016. Two strong anomalies were identified:

- An intense north-south trending SP anomaly with a continuous maxima of 350 millivolts, located between 125m and 300m below surface with an 800m strike length. The intensity of this anomaly is consistent with the presence of a massive sulphide source, or to a high and contiguous concentration of disseminated sulphides at depth; and
- A parallel SP anomaly with a similar but less continuous intensity located 600m to the east.

The targets generated by the SP survey are planned to be followed-up with a more detailed induced polarisation ("IP") geophysical survey. The IP survey is designed to test for electrical conductors (i.e. massive sulphides) down to vertical depth of 600m below surface. The IP anomalies will provide targets with vertical depths that are planned to be tested by diamond drilling.

Following resolution of some community requests, further exploration activities are planned to commence at Hawiah in the second half of 2017. G&M continues to ensure that the correct steps are taken with local stakeholders to ensure our licence to operate is robust both on the Hawiah EL and for other ELAs in the WBMD.

### **Hawiah Regional Prospectivity**

The WBMD is a 120km-long, north-south trending belt which hosts 36 prospects of three main types:

- VHMS deposits;
- Volcano-sedimentary deposits associated with disseminated to sub-massive sulphides; and
- Shear zone & quartz vein hosted deposits.

KEFI has seven other ELAs pending within the WBMD covering other existing targets and highly prospective ground.

The BRGM assessed the gold potential of gossans in the entire WBMD in the 1980s. The BRGM estimated a total of 400,000 ounces of gold to be contained in the gossans that were assessed in the WBMD, with the average grades of some deposits ranging from 5g/t gold to 7g/t gold. The BRGM also carried out some geophysical surveys over the gossans and carried out limited drilling to test the anomalies generated. Some massive copper-zinc sulphides were intersected, but the drill core was not systematically assayed for base metal content, nor followed up by further drilling.

VHMS deposits are major sources of copper-lead-zinc-gold-silver ore bodies. Examples of large VHMS deposits in the ANS include:

- Eritrea - Bisha (Nevsun) and Asmara (Sunridge) deposits;
- Sudan - Hassaii (Ariab) deposits; and
- Saudi Arabia - Jabal Sayid (Barrick and Ma'aden) and Al Masane (Arabian American) deposits.

The Hawiah EL and surrounding under-explored WBMD are considered to be very prospective for gold and VHMS deposits.

## Saudi Arabia - Exploration Licence Applications

ELs are renewable for up to three years and bestow the exclusive right to explore and to obtain a 30-year exploitation (mining) lease within the area. ELAs are initially applied for and granted to ARTAR and granted ELAs will be transferred into G&M in due course.

Since first applying for exploration title in 2009, five ELs have been granted:

- 2011 - Selib North EL;
- 2012 - Hikyrin EL, Hikyrin South EL and Jibal Qutman EL; and
- 2014 - Hawiah EL.

Following rapid assessment, the Selib North, Hikyrin and Hikyrin South ELs have been relinquished.

As detailed in previous Annual Reports, the granting of ELs in Saudi Arabia involves extensive community and regulatory consultation. The involvement of more than a dozen government departments and committees at the application stage helps to facilitate the potential development phase.

G&M currently holds a large portfolio of ELAs that are at various stages of being processed by the DMMR, cover an area of more than 1,000km<sup>2</sup>.

These ELAs are expected to provide a long-term stream of exploration projects containing ancient gold and copper occurrences to be evaluated using modern exploration methods. Surface sample results and some historical drilling from these ELAs suggests that they are highly prospective for gold and, or copper mineralisation.

Some of our applications are at advanced stages and we are also discussing with the authorities the appropriateness of prioritising applications in the vicinity of Jibal Qutman. The regional programme warrants long-term dedication.



*Exploration Manager Fabio Granitzio and geologist Luca Purpura mapping a new area.*

## Glossary and Abbreviations

AIC	All-in Costs
AISC	All-in Sustaining Costs
Arabian-Nubian Shield or ANS	The Arabian-Nubian Shield is a large area of Precambrian rocks in various countries surrounding the Red Sea
ARTAR	Abdul Rahman Saad Al Rashid & Sons Company Limited
BRGM	Bureau de Recherches Géologiques et Minières – the Geological Survey of France
c.	Circa
CIL	Carbon in Leach
DFS	Definitive Feasibility Study
DMMR	Deputy Ministry for Mineral Resources – Kingdom of Saudi Arabia
EL	Exploration Licence
ELA	Exploration Licence Application
Epithermal	Hydrothermal mineral deposit formed within about 1 km of the Earth's surface and in the temperature range of 50 to 200 degrees Celsius, occurring mainly as veins
ESIA	Environmental and Social Impact Assessment
G&M	Gold and Minerals Co. Limited
g/t	Grams per tonne
Gossan	An iron-bearing weathered product overlying a sulphide deposit
HL	Heap leach
IP	Induced polarisation - a ground-based geophysical survey technique measuring the intensity of an induced electric current, used to identify disseminated sulphide deposits
JORC	Joint Ore Reserves Committee
JORC Code 2012	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
LOM	Life of mine
Massive sulphide	Rock comprised of more than 40% sulphide minerals
MA	Mining Agreement
ML	Mining Licence
Mt	Million tonnes
Mtpa	Million tonnes per annum
oz	Troy ounce of gold

PEA	Preliminary Economic Assessment
PFS	Pre-Feasibility Study
Precambrian	Era of geological time before the Cambrian, from approximately 4,600 to 542 million years ago
RC drilling	Reverse Circulation drilling. Percussion drilling method. Reverse circulation is achieved by blowing air down the rods, the differential pressure creating air lift of the water and cuttings up the "inner tube", which is inside each rod.
RL	Relative Level
SP	Self potential - a ground-based geophysical survey technique measuring the potential difference between any two points on the ground produced by the small, naturally produced currents that occur beneath the Earth's surface
VHMS deposits	Volcanic-hosted massive sulphides; refers to massive sulphide deposits formed in a volcanic environment with varying base metals (copper, lead and zinc) often with significant additional gold and silver
WBMD	Wadi Bidah Mineral District

## Competent Person Statement

KEFI Minerals reports in accordance with the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code 2012").

The information in this annual report that relates to exploration results, Mineral Resources and Ore Reserves is based on information compiled by Mr Jeffrey Rayner. He is the former Exploration Director of KEFI Minerals and a Member of the Australian Institute of Geoscientists ("AIG"). Mr Rayner is a geologist with sufficient relevant experience for Group reporting to qualify as a Competent Person as defined in the JORC Code 2012. Mr Rayner consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

The Mineral Resources and Ore Reserves in this report have been previously released as follows:

Date of Release	Project	Subject	Competent Persons
22 April 2015	Tulu Kapi	Probable Ore Reserves	Frank Blanchfield Sergio Di Giovanni
4 February 2015	Tulu Kapi	Mineral Resource	Simon Cleghorn Lynn Olssen
6 May 2015	Jibal Qutman	Mineral Resource	Jeffrey Rayner

KEFI confirms that it is not aware of any new information or data that materially affects the information in the above releases and that all material assumptions and technical parameters, underpinning the estimates continue to apply and have not materially changed. KEFI confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.



## Directors, Secretary and Advisers

### Directors

Harry Anagnostaras-Adams, **Executive Chairman**  
Mark Wellesley-Wood, **Non-Executive Deputy Chairman**  
John Leach, **Finance Director**  
Norman Ling, **Non-Executive**  
Ian Plimer, **Non-Executive**

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# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Consolidated Financial Statements

Year ended 31 December 2016

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# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Group Strategic Report

For the year ended 31 December 2016

**KEFI Minerals PLC Company number: 05976748**

The directors present their Group Strategic Report for the year ended 31 December 2016.

### Incorporation and principal activity

KEFI Minerals PLC ("KEFI" or the "Company") or together with its subsidiaries ("the Group") was incorporated on 24 October 2006 and was admitted to AIM in December 2006 with an initial market capitalisation of £2.7 million at the placing price.

The principal activities of the Company are:

- To explore for mineral deposits of precious and base metals and other minerals that show potential for commercial exploitation;
- To evaluate mineral deposits determining the viability of commercial development; and
- To develop those mineral deposits and market the metals produced.

### Review of operations

KEFI made solid progress during 2016 towards becoming a gold production company. The calm and pro-development situation in Ethiopia, combined with the financing proposals being considered by KEFI, makes the Board confident that the Tulu Kapi Gold Project ("Tulu Kapi") should start development in 2017.

#### KEFI Minerals in Ethiopia

KEFI owns 100% of the Tulu Kapi Gold Project in Ethiopia. The Government of Ethiopia is entitled to a 5% free carried-interest and a 7% royalty on gold production. Tulu Kapi has been overhauled and enhanced by the Company as follows:

- Successfully overhauled the project's development and operating plans;
- Completed several independent cycles of due diligence on the optimised plans;
- Subsequent refinements and the terms of appointment of the project contractors in October 2015 reduced the previous owner's estimated capital requirement of c. US\$300 million to KEFI's estimate of c. US\$160 million, which has since been the focus of the financing syndicate with a view to striking an appropriate balance between risk-mitigation and equity dilution.
- The project now has soundly-based robust economics and significant growth potential beyond the existing Ore Reserves estimate of 15.4Mt at 2.12g/t gold, containing 1.05Moz.
- Received the Mining Licence which fully permits the development and operation of the project;
- Signed a bilateral Mining Agreement with the Government of Ethiopia setting out the fiscal regime for life of mine.

As part of preparations during 2016 for the development phase, Mr. John Leach joined the senior executive team as Finance Director and Mr. Mark Wellesley-Wood, an experienced African mining operator, joined the Board as a Non-Executive Director.

The equity requirement for KEFI is targeted at c. US\$20 million, after taking all components into account, including mezzanine finance. But there can be no assurance of the final composition until closure.

KEFI is also assembling project funding proposals from alternative sources to examine all reasonable choices for triggering development on a suitably risk managed basis whilst minimising equity dilution.

During 2016, the Company fully repaid the inherited VAT liability and became entitled to an ETB 73,497,020 VAT refund (approximately £2.5 million). The Company received GBP 1 million post year end.

#### KEFI Minerals in the Kingdom of Saudi Arabia

In Saudi Arabia, KEFI's gold discovery at Jibal Qutman appears to be quite robust based on preliminary economic assessment, with a low-capex requirement and the potential to generate the net cash flows for financing an ambitious Saudi exploration programme by the Gold and Minerals ("G&M") joint venture, of which KEFI is 40% owner and operator. The Mining Licence Application for the Jibal Qutman gold development was lodged with the Saudi Government in March 2017.

Plans are to explore the sizeable portfolio of licences and applications in Saudi Arabia, starting with the large target for precious and base metals at Hawiah, where G&M has identified a huge target for precious and base metals based on the surface-sampling of a six-kilometre long gossan and the results of the geophysical surveys of the ground beneath the gossan.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Group Strategic Report (continued)

For the year ended 31 December 2016

### Funding

The Company successfully completed a number of equity placings in 2016. Overall the Company raised £5.6 million (before expenses) through the placing of 1,261,281,530 new Ordinary Shares at an average price of 0.44p per share during the year. The funds raised were allocated to:

- Discharge of the KEFI Minerals Ethiopia Limited VAT obligations to the Ethiopian government in 2015. In August 2016, the Company fully settled this obligation;
- Tulu Kapi community resettlement, livelihood restoration and community activities which remain ongoing.
- Completion of the Front End Engineering and Design ("FEED") proposal from Lycopodium under its proposed fixed price Engineering Procurement and Design ("EPC") contract for Tulu Kapi.
- KEFI's ongoing corporate costs including the arrangement of project finance facilities for the planned gold mine developments.

### Key Performance Indicators

Key Performance Indicators for the Group for the year ended 31 December 2016 are those relevant to the exploration, acquisition, project evaluation and early-stage finance phases of its activities.

Key Performance Indicators include:

- Progress in FY 2016:
  - Mining Licence Application for Jibal Qutman gold project in Saudi Arabia;
  - Complete the FEED for Tulu Kapi;
  - Trigger preparations for community resettlement in Ethiopia;
- Focus for FY 2017:
  - Formalisation of development funding for Tulu Kapi;
  - Execution and regulatory clearance of project debt finance and contract documentation;
  - Raising the equity required to complete the finance and trigger loan drawdown;
  - Resettle the community; and
  - Start construction.

The Group considers that its primary projects in Ethiopia and Saudi Arabia continue to progress satisfactorily and careful monitoring and control has been carried out in respect of cash management.

This includes the periodic review of the Group's results through management accounts, appraisal of technical reports, monitoring of the marketplace and the Group's physical presence in the Kingdom of Saudi Arabia and the Democratic Republic of Ethiopia, including attendance at regular board meetings. Based on the results, the Board have concluded that no changes are required to the current strategy.

Management ensure that the Group's projects are in compliance with relevant environmental and employment legislation in the applicable jurisdiction.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Group Strategic Report (continued)

For the year ended 31 December 2016

### Results

As at 31 December 2016, the Group had net working capital of £1,495,000 (2015: (£ 983,000)) and the Company's market capitalisation was £12.43 million (2015: £8.39 million). At the year end the Group had equity of £15,547,000 (2015: £10,943,000). During 2016, the Group has incurred exploration expenditure of £125,000 (2015: £4,000) from operations and an operating loss of £974,000 (2015: £2,837,000).

The Company made several successful placements during the year raising £5.5 million (before expenses) as follows:

Issued	£'000
March 2016 at 0.35p	1,746
July 2016 at 0.50p	3,810
Funds raised before expenses	5,556
Less costs deducted from share premium and equity	(364)
	<u>5,192</u>

All exploration expenditure incurred at the Group's projects in the Kingdom of Saudi Arabia is written off when incurred in accordance with IFRS 6, pending the Directors' decision to commence project development.

Since the acquisition of KEFI Minerals Ethiopia Limited, the administrative expenditure increased because of the greater focus on permitting, financing and staffing in preparation for exploitation of the Tulu Kapi asset. Direct development expenditure for the Group's project at Tulu Kapi in Ethiopia is capitalised, as this is intended to be developed for production. The Ethiopian Government is entitled to a 7% royalty on the gold mining revenue and a 5% free carried interest in the project.

### Operating Expenses

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Exploration expenditure	(125)	(4)
Administrative expenses	(2,190)	(1,720)
Vat refund	2,512	-
Warrants issued costs	(164)	(163)
Share based payments	(281)	(215)
Share of loss from jointly controlled entity	(726)	(735)
Foreign exchange loss	(123)	(50)
Interest cost	(136)	(319)
Loss for the year	<u>(1,233)</u>	<u>(3,206)</u>

The Group's results for the year are set out on page 42.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Group Strategic Report (continued)

For the year ended 31 December 2016

### Organisation overview

The Corporate Head Office of the Group is located in Nicosia, Cyprus, and provides corporate and support services to the overseas operations. An administration office is maintained in Izmir, Turkey. East African operations are managed out of Addis Ababa, Ethiopia. The Saudi Arabia exploration is managed through the office on Riyadh. Field and base facilities are also maintained as required.

### Strategic approach

The Board's strategic intent is to maximize shareholder value through the development of a focused portfolio of operations and projects at various stages, while at the same time managing the significant risks faced by companies in the exploration and development stage.

Our risk management approach places a clear focus on discovering and exploiting mineral wealth through multiple ventures within a focused framework, thus increasing the odds of success. We continuously monitor and review our investment strategies and are quick to relinquish licences which we believe will be uneconomic. We introduce partners in certain circumstances to minimise risk and broaden the human and financial resources available.

The Group has to date financed its activities through periodic capital raisings.

### Business model

The following business model sets out how the Group will deliver on its strategic aims:

- Define additional reserves and resources in Saudi Arabia and Ethiopia;
- Develop metals production;
- Maintain good community relationships; and
- Employ good environmental governance practices.

### Principal risks and uncertainties

The Group's operations are exposed to a variety of risks, many of which are outside of the Group's control. The Group has put in place controls to minimise these risks where possible.

#### Exploration industry risks:

Mineral exploration is speculative in nature, involves many risks and is typically unsuccessful in any one target. Following any discovery, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible, during which time the economic feasibility of production may change.

Substantial expenditure is required to establish Ore Reserves through drilling, to determine metallurgical processes to extract minerals from ore and to construct mining and ore processing facilities.

As a result of these uncertainties, no assurance can be given that the exploration programmes undertaken by the Group will result in any new commercial mining operations being brought into operation.

Government activity, which could include non-renewal of licences, and may result in any income receivable by the Group being adversely affected. In particular, changes in the application or interpretation of mining and exploration laws and/or taxation provisions in the countries in which the Group operates could adversely affect the value of its interests.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Group Strategic Report (continued)

For the year ended 31 December 2016

### Principal risks and uncertainties continued

#### Political risks:

All of the Group's operations are located in foreign jurisdictions. As a result, the Group is subject to political, economic and other uncertainties, including but not limited to changes in policies or the personnel administering them, terrorism, nationalisation, appropriation of property without fair compensation, cancellation or modification of contract rights, foreign exchange restrictions, currency fluctuations, export quotas, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which these operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrection.

The Group enjoys a good working relationship with the relevant authorities in Ethiopia and Kingdom of Saudi Arabia and has a permanent management team in these countries to monitor developments.

#### Financial risks:

Commodity risk: A potential fall in commodity prices which could lead to it becoming uneconomic for the Group to mine its assets. The Group's principal interest is gold. The Group will consider the use of appropriate hedging products to mitigate this risk as it approaches production.

The Group's other financial risks and use of financial instruments are described in Note 3 to the consolidated financial statements. Other risks are described in the Chairman's and Finance Director's Reports.

### Future developments

The Group will continue to focus efforts in Ethiopia and Kingdom of Saudi Arabia with the objective of identifying mineral prospects for further exploration and development.

### By Order of the Board

Cargil Management Services Limited  
27/28 Eastcastle Street  
London  
United Kingdom  
Company Secretary

4 June 2017

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors

For the year ended 31 December 2016

The Board of Directors presents its report for KEFI Minerals PLC and its subsidiaries (the "Group") together with the financial statements of the Group for the year ended 31 December 2016.

### General information

The following information is set out in the Group Strategic Report and includes: Incorporation and Principal Activity, Review of Operations, Funding, Key Performance Indicators, Results, Organisation Overview, Strategic Approach, Business Model, Principal risks and uncertainties, and Future Developments.

### Board of directors

The members of the Board of Directors of the Company as at 31 December 2016 and at the date of this report are shown on page 25. In accordance with the Company's Articles of Association, one third of the board of directors must resign each year. The remaining directors, presently members of the Board, will continue in office.

The Board comprises five Directors.

#### Harry Anagnostaras-Adams

Executive Director – Chairman

Mr Anagnostaras-Adams (B.Comm, MBA) has been Executive Chairman since 2014 and was previously a Non- Executive Chairman. Mr Anagnostaras-Adams is Chairman of the Physical Risks Committee. He holds a Bachelor of Commerce (Finance and Systems) from the University of New South Wales, Australia and a Master of Business Administration from the Australian Graduate School of Management. He qualified as a Chartered Accountant while working with PricewaterhouseCoopers and has a Master of Business Administration from the Australian Graduate School of Management where he was awarded the John Story Memorial Prize as outstanding graduate.

Mr Anagnostaras-Adams founded AIM and TSX - listed Atalaya Mining PLC (previously EMED Mining Public Ltd). Mr Anagnostaras-Adams has previously served as the Managing Director of Atalaya Mining PLC, ASX and AIM-listed, Devex Limited (later Gympie Gold Limited), Executive Director of investment company Pilatus Capital Ltd., General Manager of resources investment group Clayton Robard Limited Group, Senior Investment Manager of Citicorp Capital Investors Australia Ltd. and serves (or has served) as a non-executive Director of many other public and private companies across a range of industries. He has overseen many successful start-ups.

#### Mark Wellesley-Wood

Deputy Chairman and Lead Independent Director

Mr Mark Wellesley-Wood is a mining engineer, with over 40 years' experience in both the mining industry and investment banking. He has been closely involved in mining activities in Africa, having started his career on the Zambian copper-belt. Mark is a former Executive Chairman and CEO of South African gold miner, DRDGold Limited, and a former director of Investec Investment Banking and Securities in London. He is currently Chairman of AIM-quoted Tri-Star Resources plc.

#### John Edward Leach

Finance Director

Mr Leach was appointed non-executive director and part-time Finance Director in December 2006 with responsibility for oversight of the Company's finance and accounting functions. In August 2016, he assumed a full-time role as Finance Director as part of the Company's transition towards gold production.

Mr Leach holds a Bachelor of Arts (Economics) and a Masters of Business Administration. Mr Leach is a member of the Institute of Chartered Accountants (Australia), the Canadian Institute of Chartered Accountants and a Fellow of the Australian Institute of Directors. He has over 30 years' experience in senior financial and executive director positions within the mining industry internationally. Mr Leach is non-executive Chairman of ASX listed Pan Continental Oil & Gas NL and has served on the Board of AIM and TSX listed Atalaya Mining PLC (2007 to 2014), and is a former member of the boards of Resource Mining Corporation Limited (2006 to 2007) and Gympie Gold Limited (1995 to 2003).



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors (continued)

For the year ended 31 December 2016

### Norman Ling

Non-Executive Independent Director

Mr Norman Ling holds a BA (Hons) German and Economic History and has previously served as a non-executive director of Nyota Minerals Limited. He has held a series of appointments at the UK Foreign and Commonwealth Office in a career spanning more than 30 years. Mr Ling's last post was as British Ambassador to Ethiopia, Djibouti and the African Union from 2008 to 2011, when he retired from government service.

### Ian Rutherford Plimer

Non-Executive Director

Professor Ian Plimer BSc (Hons), PhD, FTSE, FGS, FAIMM was appointed Non-Executive Deputy Chairman in December 2006 and is Chairman of the Group's Audit Committee. He is Emeritus Professor at The University of Melbourne where he was Professor and Head (1991-2005). He was Professor of Geology (University of Newcastle 1985-1991) and Professor of Mining Geology (University of Adelaide 2005-2012). He has been awarded the prestigious Leopold von Buch Medal for Science, the Centenary Medal and the Eureka Prize (twice). Professor Plimer has published more than 130 scientific papers and is author of multiple best-selling books for the general public. Professor Plimer's main geological interests are in mineral resources. He serves on the boards of Silver City Minerals (ASX:SCI) and Niuminco Group Ltd (ASX:NIU), unlisted Hancock Prospecting Pty Ltd companies (Roy Hill Holdings, Hope Downs, Queensland Coal Investments) and represents Hancock Prospecting on the Lakes Oil NL board (ASX:LKO).

### Directors' indemnities

The Group maintains directors' and officers' liability insurance providing appropriate cover for any legal action brought against its Directors.

### Directors' interests

The interests of the Directors and their immediate families (all of which are beneficial unless otherwise stated) and of persons connected with them in the existing ordinary shares as at date of report are as follows:

Director	Number of existing ordinary shares	% of issued share capital
H Anagnostaras-Adams	5,794,809	1.74%
I Plimer	822,816	0.25%
J Leach	1,715,742	0.52%
N Ling	296,265	0.09%

On the 2 March 2017 the Company consolidated 17 Existing Ordinary Shares into one New Ordinary Share. The Directors to whom options over Ordinary shares have been granted after the share consolidation at the date of this document and the number of ordinary shares subject to such options are as follows:

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors (continued)

For the year ended 31 December 2016

Grant Date	Expiration Date	Exercise Price	H. Anagnostaras-Adams	I. Plimer	J. Rayner	J. Leach	N Ling	M.Wellesley-Wood
22-Mar-17	21-Mar-23	7.5	3,442,184	441,176		674,083		882,353
05-Aug-16	04-Aug-22	6.8	-	-	-	882,353	-	588,235
19-Jan-16	18-Jan-22	7.14	943,412	314,471	943,412	314,471	314,471	-
20-Mar-15	19-Mar-21	22.44	382,353	58,824	382,353	58,824	117,647	-
12-Sep-14	11-Sep-20	29.92	-	-	-	-	132,353	-
27-Mar-14	26-Mar-20	39.1	382,353	259,824	519,588	132,353	-	-
13-Sep-12	12-Sep-18	68	176,471	147,059	294,118	88,235	-	-
			5,326,773	1,221,354	2,139,471	2,150,319	564,471	1,470,588

### Directors' emoluments

In compliance with the disclosure requirements of the listing requirements of AIM, the aggregate remuneration paid to the directors of KEFI for the year ended 31 December 2016 is set out below:

#### 31 December 2016

	Salary and fees	Other compensation	<sup>2</sup> Share based benefit incentive options	<sup>3</sup> Deferred incentive bonus	2016 Total
<b>Executive</b>					
J Rayner-Retired <sup>1</sup>	96	21	47	-	164
H. Anagnostaras-Adams	211	18	46	-	275
J. Leach-Appointed <sup>1</sup>	87	10	31	-	128
<b>Non-Executive</b>					
I. Plimer	25	-	14	-	39
N. Ling	71	-	16	-	87
M Wellesley-Wood <sup>1</sup>	10	-	13	-	23
	500	49	167	-	716

#### 31 December 2015

	Salary and fees	Other compensation	Share based benefit incentive options	<sup>3</sup> Deferred incentive bonus	2015 Total
<b>Executive</b>					
J. Rayner	147	26	55	-	228
H. Anagnostaras-Adams	198	25	46	50	319
<b>Non-Executive</b>					
I. Plimer	25	-	19	-	44
J. Leach	25	-	12	-	37
N. Ling	76	-	14	-	90
	471	51	146	50	718

<sup>1</sup>Appointments and Retirement as Director: In August 2016 Mr. Wellesley-Wood was appointed as Non-Executive director and Mr Leach assumed the role of Finance Director. Mr. Rayner stepped down from the Board in August 2016 but continues to serve as Adviser – Exploration and Corporate Development.

<sup>2</sup> Share based benefit incentive options: These represent the proportion of the fair value of the options at the grant date that vested in the current year, and are not a cash payment.

<sup>3</sup>Deferred incentive bonus: Bonus payable once finance is secured or approved by board. The deferred incentive bonus in 2015 was paid in KEFI shares.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors (continued)

For the year ended 31 December 2016

### Corporate governance statement

The Board is committed to maintaining high standards of corporate governance. The Directors recognise the importance of sound corporate governance and intend to observe the requirements of the UK Corporate Governance Code, as published by the Financial Reporting Council, and the Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013, as published by the Quoted Companies Alliance, to the extent they consider appropriate in light of the Company's size, stage of development and resources. However, it should not be considered that the Company has complied with the UK Corporate Governance Code or the Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013.

### Board of Directors

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving Company policies and strategies. It meets at least every three months and is supplied with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for new Directors and other Directors as necessary. The Group's key strategic and operational decisions are reserved exclusively for the decision of the Board.

The Board consists of two full time Executive Directors who hold key operational positions in the Company (the Executive Chairman and Finance Director), and three Non-Executive Directors. Two of the Non-Executive Directors, Mark Wellesley-Wood and Norman Ling, are considered to be independent of management and any business or other relationship which could interfere with the exercise of their independent judgment, bring a breadth of experience and knowledge to the Company. Mark Wellesley-Wood was appointed as lead independent director in March 2017. The Board regularly reviews key business risks, including the financial risks facing the Group in the operations of its business. The Directors are of the opinion that the Board composition contains a suitable balance. The Board maintains regular contact with its advisers and public relations consultants in order to ensure that the Board develops an understanding of the views of shareholders about the Company.

### Board meetings

The Board meets regularly throughout the year. The Board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the Executive Directors who are charged with consulting the Board on all significant financial and operational matters. All Directors have access to the advice of the Company's solicitors. Necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Company's expense, as and when required.

### Board committees

The Board has established the following committees, each of which has its own terms of reference:

#### Audit Committee

The Audit Committee considers the Company's financial reporting (including accounting policies) and internal financial controls. The Audit Committee comprises two Non-Executive Directors: Ian Plimer (Chairman) and Mark Wellesley-Wood (Lead Independent Director), and is responsible for ensuring that the financial performance of the Company is properly monitored and reported on and in this capacity interacts as needed with the Company's External Auditors. The Finance Director is invited and attends the audit committee meetings to provide his skills and knowledge in audit committee matters.

#### Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration of the Directors and senior executives. It comprises three Non-Executive Directors: Mark Wellesley-Wood (Chairman), Ian Plimer and Norman Ling. Directors' remuneration and conditions are considered and agreed by the Board.

Financial packages for Executive Directors are established by reference to those prevailing in the employment market for executives of equivalent status both in terms of level of responsibility of the position and their achievement of recognized job qualifications and skills. The Committee also takes into consideration the terms that may be required to attract equivalent experienced executives to join the Board from other companies.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors (continued)

For the year ended 31 December 2016

### Internal controls

The Directors acknowledge their responsibility for the Company's systems of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. Whilst the Directors are aware that no system can provide absolute assurance against material misstatement or loss, regular reviews of internal controls are undertaken to ensure that they are adequate and effective.

### Risk management

The Board considers risk assessment important in achieving its strategic objectives. There is a process of evaluation of performance targets through regular reviews by senior management who compare actual progress to forecasts. Project milestones and timelines are regularly reviewed.

### Risks and uncertainties

Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The principal risks facing the Company are set out in the Strategic Report.

### Risk management and treasury policy

The Board considers risk assessment as an integral activity in achieving its strategic objectives, with the Board regularly reviewing its projects and activities in this regard. The Company finances its operations through equity and holds its cash as a liquid resource to fund the obligations of the Company. Decisions regarding the management of these assets are approved by the Board. Please refer to page 51 of the financial statements.

### Securities trading

The Directors intend to comply with Rules 21 and 31 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group's applicable employees as well. The Board has adopted a Share Dealing Code that is appropriate for an AIM quoted company and this applies to Directors, senior management and any employees who are in possession of "unpublished price sensitive information". All such persons are prohibited from trading in the Company's securities if they are in possession of "unpublished price sensitive information". Subject to this condition and trading prohibitions applying to certain periods, trading can occur provided the relevant individual has received the appropriate prescribed clearance.

### Relations with shareholders

The Board is committed to providing effective communication with the shareholders of the Company. Significant developments are disseminated through stock exchange announcements and regular updates of the Company's website. The Board views the AGM as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors (continued)

For the year ended 31 December 2016

### Shareholders holding more than 3% of share capital

The Shareholders holding more than 3% of the share capital of the Company as at the date of this report and as far as the Directors' are aware:

Name	Percentage	Number of Shares
The Bank Of New York (Nominees) Limited	21.9%	73,035,872
Nomura Custody Nominees Limited	8.7%	28,823,529
Securities Services Nominees Limited	7.1%	23,823,530
Barclayshare Nominees Limited	5.9%	19,661,765
BNY (OCS) Nominees Limited	5.4%	18,090,000
Ausdrill International Pty Ltd	5.0%	16,559,487
Jim Nominees Limited	4.6%	15,366,334
Beaufort Nominees Limited	3.0%	9,877,598

Registered holdings per TR-1 disclosures were:

Lanstead Capital LP	26.0%	86,470,588
Odey Asset Management LLP	18.9%	62,764,330
Ausdrill International Pty Ltd	5.0%	16,559,487

### Events after the reporting date

#### Consolidation of Ordinary Shares

At the close of business, 1 March 2017, shareholders received one New Ordinary Share of nominal value 1.7 pence each for every 17 Existing Ordinary Shares of nominal value 0.1 pence each. Immediately following the Consolidation (and prior to the issue of the Fundraising Shares) the number of New Ordinary Shares in issue and admitted to trading on AIM was 228,407,085.

#### Placing and the Lanstead Subscription

The Company conditionally raised £5,620,000 before expenses on 1 March 2017 through a placing of 104,295,888 ordinary shares of 1.7p each at a price of 5.61p per share. After the placing and the 17:1 consolidation approved on 1 March 2017 there are 332,702,973 shares on issue.

The Lanstead Subscription involves the issuance of 82,352,941 shares and is governed according to a 'sharing agreement' and structured relative to a benchmark price, which has been set at 7.48p/share (0.44p/share pre-consolidation), such that KEFI may receive more than £4,620,000 if the share price exceeds this level and vice versa if it does not. To this end, £693,000 was contributed in March 2017 by Lanstead, with the balance being paid in equal instalments of £218,000 per month (subject to adjustment upwards or downwards) for 18 months commencing in April 2017.

#### Other

On 22 March 2017, 6,829,613 options were issued to persons who discharge director and managerial responsibilities ("PDMRs") and a further 2,705,509 options have been granted to other non-board members of the senior management team. The options have an exercise price of 7.5p, expire after 6 years, and vest in two equal annual instalments, the first upon the achievement of practical completion of the planned processing plant at the Tulu Kapi Gold Project and the second upon the achievement of nameplate capacity for a twelve-month period.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Report of the board of directors (continued)

For the year ended 31 December 2016

### Auditors

The auditors, Moore Stephens LLP, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

### Directors' confirmation

Each of the persons who are a director at the date of approval of this annual report confirms that:

- there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that ought to have been taken as a Director, in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### By Order of the Board

Company Secretary

Cargil Management Services Limited  
27/28 Eastcastle Street  
London  
United Kingdom

**4 June 2017**

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Statement of directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors prepare the consolidated financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the Company; such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law Directors must not approve the financial statements unless they are satisfied that they give a true and fair view. The Directors are also required to prepare the financial statements in accordance with the rules of the London Stock Exchange for companies trading on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Independent auditor's report

### To the shareholders of KEFI Minerals PLC

We have audited the financial statements of KEFI Minerals PLC for the year ended 31 December 2016 which are set out on pages 42 to 75. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the Company and Group's ability to continue as a going concern. The going concern presumption may not be appropriate because its validity depends principally on securing funding to develop the Tulu Kapi mine project as an economically viable mineral deposit, and the availability of subsequent funding to extract the resource, or alternatively the availability of funding to extend the Company's and Group's exploration activities. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company and Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Independent auditor's report (continued)

To the shareholders of KEFI Minerals PLC (continued)

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Stephen Corrall, Senior Statutory Auditor*

For and on behalf of Moore Stephens LLP, Statutory Auditor  
150 Aldersgate Street  
London  
EC1A 4AB

**5 June 2017**

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Consolidated statement of comprehensive income

Year ended 31 December

	Notes	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>Revenue</b>		-	-
Exploration costs		(125)	(4)
<b>Gross loss</b>		(125)	(4)
Administrative expenses		(2,190)	(1,720)
Vat refund		2,512	-
Share-based payments	17	(445)	(378)
Share of loss from jointly controlled entity	19	(726)	(735)
<b>Operating loss</b>	6	(974)	(2,837)
Foreign exchange loss		(123)	(50)
Finance costs	8	(136)	(319)
<b>Loss before tax</b>		(1,233)	(3,206)
Tax	9	-	-
<b>Loss for the year</b>		(1,233)	(3,206)
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		200	56
<b>Total comprehensive loss for the year</b>		(1,033)	(3,150)
<b>Basic and fully diluted loss per share (pence)</b>	10	(0.037)	(0.203)

The notes on pages 48 to 75 are an integral part of these consolidated financial statements.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Statements of financial position

31 December

	Notes	The Group 2016	The Company 2016	The Group 2015	The Company 2015
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	61	6	81	3
Intangible assets	12	13,992	3,939	11,845	1,078
Fixed asset investments	13.1	-	4,598	-	4,598
Investments in jointly controlled entities	13.2	-	181	-	181
		<u>14,053</u>	<u>8,724</u>	<u>11,926</u>	<u>5,860</u>
<b>Current assets</b>					
Available for sale financial assets	14	95	-	92	8
Trade and other receivables	15	3,056	8,069	358	7,710
Cash and cash equivalents	16	410	400	562	393
		<u>3,561</u>	<u>8,469</u>	<u>1,012</u>	<u>8,111</u>
<b>Total assets</b>		<u><u>17,614</u></u>	<u><u>17,193</u></u>	<u><u>12,938</u></u>	<u><u>13,971</u></u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	17	3,883	3,883	2,623	2,623
Deferred Shares	17	12,436	12,436	12,436	12,436
Share premium	17	16,279	16,279	12,347	12,347
Share options reserve	17	1,474	1,474	1,212	1,212
Foreign exchange reserve		170	-	(30)	-
Accumulated losses		(18,695)	(18,496)	(17,645)	(15,623)
<b>Total equity</b>		<u>15,547</u>	<u>15,576</u>	<u>10,943</u>	<u>12,995</u>
<b>Current liabilities</b>					
Trade and other payables	20	2,067	1,617	1,995	976
		<u>2,067</u>	<u>1,617</u>	<u>1,995</u>	<u>976</u>
<b>Total liabilities</b>		<u>2,067</u>	<u>1,617</u>	<u>1,995</u>	<u>976</u>
<b>Total equity and liabilities</b>		<u><u>17,614</u></u>	<u><u>17,193</u></u>	<u><u>12,938</u></u>	<u><u>13,971</u></u>

The notes on pages 48 to 75 are an integral part of these consolidated financial statements.

The Company has taken advantage of the exemption conferred by section 408 of Companies Act 2006 from presenting its own statement of comprehensive income. Loss after taxation amounting to £3.1 million (2015: £2.5 million) has been included in the financial statements of the parent company.

On the 4 June 2017, the Board of Directors of KEFI Minerals PLC authorised these financial statements for issue.

Harry Anagnostaras-Adams  
Executive Director- Chairman  
Company Number: 05976748

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Consolidated statement of changes in equity

Year ended 31 December 2016

	Attributable to the owners of the Company						Total
	Share capital	Deferred shares	Share premium	Share options reserve	Foreign exchange reserve	Accumulated losses	
<b>At 1 January 2015</b>	12,352	-	8,433	848	(86)	(14,389)	7,158
Loss for the year	-	-	-	-	-	(3,206)	(3,206)
Other comprehensive income	-	-	-	-	56	-	56
Total Comprehensive Income	-	-	-	-	56	(3,206)	(3,150)
Recognition of share based payments	-	-	-	378	-	-	378
Cancellation of options	-	-	-	(14)	-	14	-
Issue of share capital	2,707	-	4,293	-	-	-	7,000
<b>Restructuring of share capital</b>	(12,436)	12,436	-	-	-	-	-
Share issue costs	-	-	(379)	-	-	(64)	(443)
<b>At 31 December 2015</b>	<b>2,623</b>	<b>12,436</b>	<b>12,347</b>	<b>1,212</b>	<b>(30)</b>	<b>(17,645)</b>	<b>10,943</b>
Loss for the year	-	-	-	-	-	(1,233)	(1,233)
Other comprehensive income	-	-	-	-	200	-	200
Total Comprehensive Income	-	-	-	-	200	(1,233)	(1,033)
Recognition of share based payments	-	-	-	445	-	-	445
Cancellation of options	-	-	-	(183)	-	183	-
Issue of share capital	1,260	-	4,296	-	-	-	5,556
Share issue costs	-	-	(364)	-	-	-	(364)
<b>At 31 December 2016</b>	<b>3,883</b>	<b>12,436</b>	<b>16,279</b>	<b>1,474</b>	<b>170</b>	<b>(18,695)</b>	<b>15,547</b>

The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Share capital	amount subscribed for ordinary share capital at nominal value
Deferred shares	on 16 June 2015, under the restructuring of share capital, ordinary shares of 1p each in the capital of the Company were sub-divided into one new ordinary share of 0.1p and one deferred share of 0.9p
Share premium	amount subscribed for share capital in excess of nominal value, net of issue costs
Share options reserve	reserve for share options granted but not exercised or lapsed
Foreign exchange reserve	cumulative foreign exchange net gains and losses recognized on consolidation
Accumulated losses	cumulative net gains and losses recognized in the statement of comprehensive income, excluding foreign exchange gains within other comprehensive income
Non-controlling interest (NCI)	the portion of equity ownership in a subsidiary not attributable to the parent company

The notes on pages 48 to 75 are an integral part of these consolidated financial statements.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Company statement of changes in equity

Year ended 31 December 2016

	Share capital	Deferred shares	Share premium	Share options reserve	Accumulated losses	Total
<b>At 1 January 2015</b>	12,352	-	8,433	848	(13,117)	8,516
Comprehensive loss for the year	-	-	-	-	(2,456)	(2,456)
Recognition of share based payments	-	-	-	378	-	378
Cancellation of options	-	-	-	(14)	14	-
<b>Restructuring of share capital</b>	(12,436)	12,436	-	-	-	-
Issue of share capital	2,707	-	4,293	-	-	7,000
Share issue costs	-	-	(379)	-	(64)	(443)
<b>At 31 December 2015</b>	<b>2,623</b>	<b>12,436</b>	<b>12,347</b>	<b>1,212</b>	<b>(15,623)</b>	<b>12,995</b>
Comprehensive loss for the year	-	-	-	-	(3,056)	(3,056)
Recognition of share based payments	-	-	-	445	-	445
Cancellation of options	-	-	-	(183)	183	-
Issue of share capital	1,260	-	4,296	-	-	5,556
Share issue costs	-	-	(364)	-	-	(364)
<b>At 31 December 2016</b>	<b>3,883</b>	<b>12,436</b>	<b>16,279</b>	<b>1,474</b>	<b>(18,496)</b>	<b>15,576</b>

The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Share capital	amount subscribed for ordinary share capital at nominal value
Deferred shares	on 16 June 2015, under the restructuring of share capital, ordinary shares of 1p each in the capital of the Company were sub-divided into one new ordinary share of 0.1p and one deferred share of 0.9p
Share premium	amount subscribed for share capital in excess of nominal value, net of issue costs
Share options reserve	reserve for share options granted but not exercised or lapsed
Accumulated losses	cumulative net gains and losses recognized in the statement of comprehensive income

The notes on pages 48 to 75 are an integral part of these consolidated financial statements.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Consolidated statement of cash flows

Year ended 31 December 2016

	Notes	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Loss before tax</b>		(1,233)	(3,206)
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	11	55	90
Share based payments	18	281	215
Impairment of intangible asset	12	266	-
Issue of warrants	17	164	163
Share of loss from jointly controlled entity	19	726	735
Exchange difference		44	37
		<u>303</u>	<u>(1,966)</u>
<b>Changes in working capital:</b>			
Trade and other receivables		(2,701)	29
Trade and other payables		51	(1,111)
<b>Net cash used in operating activities</b>		<u>(2,347)</u>	<u>(3,048)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Deferred exploration costs		(1,189)	(967)
Project evaluation costs		(1,224)	(1,739)
Acquisition of property plant and equipment		(35)	(11)
Advances to jointly controlled entity		(566)	(790)
Proceeds from disposal of available for sale asset		16	-
<b>Net cash used in investing activities</b>		<u>(2,998)</u>	<u>(3,507)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	17	5,556	6,923
Issue costs	17	(364)	(443)
<b>Net cash from financing activities</b>		<u>5,192</u>	<u>6,480</u>
<b>Net decrease in cash and cash equivalents</b>		(153)	(75)
<b>Effect of cash held in foreign currencies</b>		1	(3)
<b>Cash and cash equivalents:</b>			
At beginning of the year	16	562	640
At end of the year	16	<u>410</u>	<u>562</u>

The notes on pages 48 to 75 are an integral part of these consolidated financial statements.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Company statement of cash flows

Year ended 31 December 2016

	Notes	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Loss before tax</b>		<b>(3,056)</b>	(2,456)
<b>Adjustments for:</b>			
Share based payments	18	281	215
Issue of warrants	17	164	163
Impairment of loan to subsidiary		64	28
Impairment of amount receivable from jointly controlled entity		494	720
Exchange difference		1	74
		<u>(2,052)</u>	<u>(1,256)</u>
<b>Changes in working capital:</b>			
Trade and other receivables		37	45
Trade and other payables		641	20
<b>Net cash used in operating activities</b>		<u>(1,374)</u>	<u>(1,191)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of property plant and equipment		(3)	(1)
Project evaluation costs		(2,861)	(587)
Advances to jointly controlled entity		(566)	(790)
Proceeds from disposal of available for sale asset		16	-
Loan to subsidiary		(397)	(4,125)
<b>Net cash used in investing activities</b>		<u>(3,811)</u>	<u>(5,503)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	17	5,556	6,923
Issue costs	17	(364)	(443)
<b>Net cash from financing activities</b>		<u>5,192</u>	<u>6,480</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7</b>	(214)
<b>Cash and cash equivalents:</b>			
<b>At beginning of the year</b>	16	<u>393</u>	<u>607</u>
<b>At end of the year</b>	16	<u>400</u>	<u>393</u>

The notes on pages 48 to 75 are an integral part of these consolidated financial statements.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements

Year ended 31 December 2016

### 1. Incorporation and principal activities

#### Country of incorporation

KEFI Minerals PLC (the "Company") was incorporated in United Kingdom as a public limited company on 24 October 2006. Its registered office is at 27/28, Eastcastle Street, London W1W 8DH.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these financial statements.

#### Principal activities

The principal activities of the Group for the year were:

- To explore for mineral deposits of precious and base metals and other minerals that appear capable of commercial exploitation, including topographical, geological, geochemical and geophysical studies and exploratory drilling.
- To evaluate mineral deposits determining the technical feasibility and commercial viability of development, including the determination of the volume and grade of the deposit, examination of extraction methods, infrastructure requirements and market and finance studies.
- To develop mineral deposits and market the metals produced.

### 2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout both periods presented in these financial statements unless otherwise stated.

#### Basis of preparation and consolidation

The Company and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. They comprise the accounts of KEFI Minerals PLC and all its subsidiaries made up to 31 December 2016. The Company and the consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

#### Going concern

The Directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Company and Group will be able to secure adequate resources to continue in operational existence for the foreseeable future.

The financial information has been prepared on the going concern basis, the validity of which depends principally on securing funding to develop the Tulu Kapi mine project as an economically viable mineral deposit, and the availability of subsequent funding to extract the resource, or alternatively the availability of funding to extend the Company's and Group's exploration activities.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company and Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

#### Functional and presentational currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which for the Company is British Pounds (GBP). The financial statements are presented in British Pounds (GBP).

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 2. Accounting policies (continued)

#### Foreign currency translation

##### (1) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the statement of comprehensive income.

##### (2) Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's foreign operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly in which case they are recorded at the actual rate. Exchange differences arising, if any, are recognized in the foreign currency translation reserve and as a component of other comprehensive income, and recognized in profit or loss on disposal of the foreign operation.

#### Revenue recognition

The Group had no sales or revenue during the year ended 31 December 2016 (2015: £Nil).

#### Property plant and equipment

Property plant and equipment are stated at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition less depreciation.

Depreciation is calculated using the straight-line method to write off the cost of each asset to their residual values over their estimated useful life. The annual depreciation rates used are as follows:

Furniture, fixtures and office equipment	25%
Motor vehicles	25%
Plant and equipment	25%

#### Acquisitions and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Any costs directly attributable to the business combination are written off to the statement of comprehensive income. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date. Where the Group acquires a subsidiary for less than the fair value of its assets and liabilities, this results in negative goodwill which is recognized in profit and loss.

Purchased goodwill is capitalized and classified as an asset on the statement of financial position. Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is reviewed for impairment on an annual basis. When the directors consider the initial value of the acquisition to be negligible, the goodwill is written off to the statement of comprehensive income immediately. Trading results of acquired subsidiary undertakings are included from the date of acquisition.

Goodwill is deemed to be impaired when the present value of the future cash flows expected to be derived is lower than the carrying value. Any impairment is charged to the statement of comprehensive income immediately.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 2. Accounting policies (continued)

#### Interest in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has joint control are referred to as jointly controlled entities. The results and assets and liabilities of jointly controlled entities are included in these financial statements for the period using the equity method of accounting.

#### Finance costs

Interest expense and other borrowing costs are charged to the statement of comprehensive income as incurred.

#### Tax

The tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Tax is payable in the relevant jurisdiction at the rates described in note 9.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable differences and deferred tax assets are recognized to the extent that taxable profits will be available against which deductible temporary differences can be utilized. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities and when the deferred taxes relate to the same fiscal authority.

#### Investments

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognized as an expense in the period in which the impairment is identified, in the Company accounts. These investments are consolidated in the Group accounts.

#### Exploration costs

The Group has adopted the provisions of IFRS 6 "Exploration for and Evaluation of Mineral Resources".

Exploration, evaluation and development expenditure, including acquisition costs of licences, in respect of each identifiable area of interest is expensed to the statement of comprehensive income as incurred, until the point at which development of a mineral deposit is considered economically viable.

Once the Board decides on the development of a project, development expenditure will be capitalized as incurred and amortized over the estimated useful life of the area according to the rate of depletion of the economically recoverable reserves or over the estimated useful life of the mine, if shorter.

The directors consider that the stage of development of its Licence areas in Saudi Arabia has not yet met its criteria for capitalization. Capitalized development costs for the Group's project in Ethiopia have been recognized on acquisition, and will continue to be capitalised since this date, in accordance with IFRS 6.

A regular review will be undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated capitalized costs in relation to an abandoned area of interest will be written off in full against profit in the year in which the decision to abandon the area is made. Capitalized development expenditure will be amortized from the date at which production commences on a unit of production basis over the lifetime of the ore reserves for the area to which the costs relate.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### Share-based compensation benefits

IFRS 2 "Share-based Payment" requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each statement of financial position date. The total amount expensed is recognized over the vesting period, which is the period over which performance conditions are to be satisfied.

The fair value is measured using the Black Scholes pricing model. The inputs used in the model are based on management's best estimate, including consideration of the effects of non-transferability, exercise restrictions and behavioural considerations.

### Financial instruments

#### Financial assets at amortized cost

Loans and receivables are recognized when the Group becomes party to the contractual provisions of the financial instrument. Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Financial assets at fair value through profit or loss

Subsequent to initial recognition, when a financial asset is designated as such on initial recognition, it is classified as held at fair value through profit or loss. Assets other than held for trading are designated at fair value through profit and loss when the Group manages the holdings and makes purchase and sale decisions based on fair value assessments and documented risk management and investment strategies. Attributable transaction costs and changes in fair value are recognized in profit or loss.

#### Financial liabilities - equity

Financial liabilities are recognized when the Group becomes party to the loan. Financial liabilities represent trade payables and are initially measured at fair value and subsequently at amortized cost.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## 3. Financial risk management

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand with an original maturity date of less than three months.

#### **Financial risk factors**

The Group is exposed to market risk (interest rate risk and currency risk), liquidity risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below:

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group does not consider this risk to be significant.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 3. Financial risk management (continued)

#### Market risk - Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group's operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

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

	<u>2016</u>	<u>2015</u>
<u>Variable rate instruments</u>		
Financial assets	410	562

#### Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2016 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. Given current interest rate levels, a decrease of 25 basis points has been considered, with the impact on profit and equity shown below.

	<u>Equity</u> <u>2016</u>	<u>Profit or Loss</u> <u>2016</u>	<u>Equity</u> <u>2015</u>	<u>Profit or Loss</u> <u>2015</u>
<u>Variable rate instruments</u>				
Financial assets – increase of 100 basis points	4	4	6	6
Financial assets – decrease of 25 basis points	(1)	(1)	(1)	(1)

#### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the functional currency of the entity.

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro, Turkish Lira, US Dollar, Ethiopia ETB and Saudi Arabian Riyal. Since 1986 the Saudi Arabian Riyal is pegged to the US Dollar, it is fixed at USD/SAR 3.75. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows: The Saudi Arabian Riyal exposure is included in the USD amounts.

	<u>Liabilities</u> <u>2016</u>	<u>Assets</u> <u>2016</u>	<u>Liabilities</u> <u>2015</u>	<u>Assets</u> <u>2015</u>
Australian Dollar	215	-	24	-
Euro	205	2	276	2
Turkish Lira	1	40	1	40
US Dollar	1,025	318	663	266
Ethiopia ETB	187	2,943	779	354



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 3. Financial risk management (continued)

#### Sensitivity analysis

A 10% strengthening of the British Pound against the following currencies at 31 December 2016 would have increased/(decreased) equity and profit or loss by the amounts shown in the table below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the British Pound against the relevant currency, there would be an equal and opposite impact on the loss and equity.

	Equity 2016	Profit or Loss 2016	Equity 2015	Profit or Loss 2015
AUD Dollar	22	22	3	3
Euro	20	20	27	27
Turkish Lira	(4)	(4)	(4)	(4)
US Dollar	58	58	40	40
Ethiopia ETB	(276)	(276)	42	42

#### Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The Group's contractual cash flows for its financial liabilities are all due within 3 months or less. In January 2014 agreement was made with the Ethiopian tax authorities to pay the reverse VAT over a period of three years (principal and interest). The VAT amount was settled during 2016 and has given rise to a VAT refund.

#### Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. This is done through the close monitoring of cash flows.

The capital structure of the Group consists of cash and cash equivalents of £410,000 (2015: £562,000) and equity attributable to equity of the parent, comprising issued capital and deferred shares of £16,319,000 (2015: £15,059,000), other reserves of £17,923,000, (2015: £13,529,000) and accumulated losses of £18,695,000 (2015: £17,645,000). The Group does not use derivative financial instruments and has no long term debt facilities.

#### Fair value estimation

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the reporting date.

	Carrying Amounts		Fair Values	
	2016	2015	2016	2015
<b>Financial assets</b>				
Cash and cash equivalents (Note 16)	410	562	410	562
Available for sale financial assets (Note 14)	95	92	95	92
Trade and other receivables (Note 15)	3,056	358	3,056	358
<b>Financial liabilities</b>				
Trade payables (Note 20)	2,067	1,995	2,066	1,995

Available for sale financial assets are classified as Level 1 within the fair value hierarchy, except for Ethiopian Government bonds, which are classified as Level 2. Level 1 items are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 items are derived from inputs other than quoted prices included within Level 1 that are observable for the assets either directly or indirectly.

Other financial assets and liabilities are short term and their carrying value is considered to approximate to their fair value.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 4. Use and revision of accounting estimates and judgements

The preparation of the financial report requires the making of estimations and assumptions that affect the recognized amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant judgements include:

#### Going concern

The going concern presumption depends principally on securing funding to develop the Tulu Kapi mine project as an economically viable mineral deposit, and the availability of subsequent funding to extract the resource, or alternatively the availability of funding to extend the Company's and Group's exploration activities.

Significant estimates include:

#### Fair value of acquisitions

The 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. Fair value estimates are required. In calculating the fair value estimates of net identifiable net assets on acquisition significant judgements and estimates are required.

#### Share based payments

In calculating the fair value at the grant date, the Black Scholes model requires us to estimate the inputs to this model, in particular in respect of volatility. This assessment is based on historical share price movements assuming these will continue into the future.

#### Impairment review of asset carrying values

Events or changes in circumstances can give rise to significant impairment charges or reversals of impairment in a particular year. Where the recoverable amounts of Group cash generating units are assessed by analyses of discounted cash flows, the resulting valuations are particularly sensitive to changes in estimates of long term commodity prices, exchange rates, operating costs, the grouping of assets within cash-generating units and discount rates.

#### Capitalisation of exploration and evaluation costs

Under the Group's accounting policy, exploration and evaluation expenditure is not capitalised until the point is reached at which there is a high degree of confidence in the project's viability and it is considered probable that future economic benefits will flow to the Group. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.

#### Contingent liabilities

A contingent liability arises where a past event has taken place for which the outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain events outside of the control of the Group, or a present obligation exists but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A provision is made when a loss to the Group is likely to crystallise. The assessment of the existence of a contingency and its likely outcome, particularly if it is considered that a provision might be necessary, involves significant judgment taking all relevant factors into account.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 5. Operating segments

The Group has only one distinct operating segment, being that of mineral exploration. The Group's exploration activities are located in the Kingdom of Saudi Arabia (through the jointly controlled entity), Ethiopia and its administration and management is based in Cyprus.

	Cyprus	Turkey	Bulgaria	Ethiopia	Consolidated
<b>2016</b>					
Operating (loss)/profit	(2,467)	(34)	(3)	(255)	(2,759)
Material non-recurring item	(482)	-	-	2,994	2,512
Foreign exchange profit/(loss)	(193)	70	-	-	(123)
Interest	(136)	-	-	-	(136)
	<b>(3,278)</b>	<b>36</b>	<b>(3)</b>	<b>2,739</b>	<b>(506)</b>
Share of loss from jointly controlled entity					(726)
Loss before tax					(1,232)
Tax					-
Loss for the year					(1,232)
Total assets	4,520	42	4	13,049	17,615
Total liabilities	1,617	2	4	443	2,066
Depreciation of property, plant and equipment	1	-	-	54	55
Impairment of intangible assets	-	-	-	266	266
<b>2015</b>					
Operating loss	(1,552)	(33)	8	(525)	(2,102)
Foreign exchange profit/(loss)	13	(26)	-	(37)	(50)
Interest	(179)	-	-	(140)	(319)
	<b>(1,718)</b>	<b>(59)</b>	<b>8</b>	<b>(702)</b>	<b>(2,471)</b>
Share of loss from jointly controlled entity					(735)
Loss before tax					(3,206)
Tax					-
Loss for the year					(3,206)
Total assets	1,695	42	4	11,197	12,938
Total liabilities	976	2	4	1,013	1,995
Depreciation of property, plant and equipment	-	-	-	90	90

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 6. Expenses by nature

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Exploration costs	125	4
Depreciation of property, plant and equipment (Note 11)	55	90
Material non-recurring item- vat refund (Note 15 and Note 20)	(2,512)	-
Impaired intangible assets (Note 12)	266	-
Warrants issue costs (Note 17)	164	163
Share based benefits to employees (Note 17)	77	69
Share of losses from jointly controlled entity (Note 5 and Note 19)	726	735
Directors' fees and other benefits (Note 21.1)	716	718
Consultants' costs	439	246
Auditors' remuneration - audit current year	62	51
Auditors' remuneration - associated firm	7	-
Other expenses	849	761
Operating loss	<u>974</u>	<u>2,837</u>

The Group's stages of operations in Saudi Arabia as at the year-end and as at the date of approval of these financial statements have not yet met the criteria for capitalization of exploration costs. The Company only capitalises direct development costs for the Tulu Kapi gold project in Ethiopia.

### 7. Staff costs

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Salaries	550	474
Accumulated Leave Provision	49	-
Termination Package	126	-
Social insurance costs and other funds	32	39
	<u>757</u>	<u>513</u>
Average number of employees	<u>45</u>	<u>46</u>

Excludes Directors' remuneration and fees which are disclosed in note 21.1. These staff costs are capitalised in development exploration costs.

### 8. Finance costs

	<u>2016</u>	<u>2015</u>
Interest paid to Ethiopian Revenue and Customs Authority ("ERCA") – Note 20	-	140
Other finance costs	136	179
	<u>136</u>	<u>319</u>

### 9. Tax

	<u>2016</u>	<u>2015</u>
Loss before tax	(1,233)	(3,206)
Tax calculated at the applicable tax rates	(382)	(515)
Tax effect of non-deductible expenses	248	308
Tax effect of tax losses	341	280
Tax effect of items not subject to tax	(207)	(92)
Tax effect of capital allowances	-	19
Tax effect of other timing differences	-	-
Charge for the year	<u>-</u>	<u>-</u>

The Company is resident in Cyprus for tax purposes. A deferred tax asset of £1,242,770 (2015: £1,336,989) has not been accounted for due to the uncertainty over future recoverability.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 9. Tax (continued)

#### Cyprus

The corporation tax rate is 12.5%. Under certain conditions interest income may be subject to defence contribution at the rate of 15%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax year 2013 and 17% for 2014 and thereafter. Due to tax losses sustained in the year, no tax liability arises on the Company. Under current legislation, tax losses may be carried forward and be set off against taxable income of the five succeeding years. As at 31 December 2016, the balance of tax losses which is available for offset against future taxable profits amounts to £ 9,942,163 (2015: £ 7,795,644).

#### Bulgaria

Mediterranean Minerals (Bulgaria) EOOD, the 100% subsidiary of the Company, is resident in Bulgaria for tax purposes. The corporation tax rate is 10%. Due to tax losses sustained in the period, no tax liability arises on the Mediterranean Minerals (Bulgaria) EOOD. Under current legislation, tax losses may be carried forward and be set off against taxable income of the following five years. As at 31 December 2016, the balance of tax losses which is available for offset against future taxable profits amounts to £25,476 (2015: £34,035). The reduction in tax losses from the prior year is due to losses passing the five year threshold for their utilization.

#### Turkey

Doğu Akdeniz Mineralleri Sanayi ve Ticaret Limited Şirket (Doğu Akdeniz Mineralleri), the 100% subsidiary of Mediterranean Minerals (Bulgaria) EOOD, and ultimately 100% subsidiary of the Company, is resident in Turkey for tax purposes. The corporation tax rate is 20%. Under local tax legislation, exploration costs are can only be set off against income from mining operations. Tax losses may be carried forward and be set off against taxable income of the five succeeding years. As at 31 December 2016, the balance of exploration costs that is available for offset against future income from mining operations amount to £ 811,471 (2015: £948,764).

#### Ethiopia

KEFI Minerals Ethiopia Limited is subject to other direct and indirect taxes in Ethiopia through its foreign operations. The mining industry in Ethiopia is relatively undeveloped. As a result, tax regulations relating to mining enterprises are evolving. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

During 2013, the House of People's Representatives passed an amendment to the Mining Income Tax Proclamation, reducing income tax from 35% to 25% and had received an initial draft of proposed amendments to the Mining Proclamation, which includes a reduction in royalty on gold production from 8% to 7%.

### 10. Loss per share

The calculation of the basic and fully diluted loss per share attributable to the ordinary equity holders of the parent is based on the following data:

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Net loss attributable to equity shareholders	(1,233)	(3,206)
Average number of ordinary shares for the purposes of basic loss per share (000's)	<u>3,313,626</u>	<u>1,577,708</u>
<b>Loss per share:</b>		
Basic and fully diluted loss per share (pence)	<u>(0.037)</u>	<u>(0.203)</u>

The effect of share options and warrants on losses per share is anti-dilutive.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 11. Property, plant and equipment

	Motor Vehicles	Plant and equipment	Furniture, fixtures and office equipment	Total
<b>The Group</b>				
Cost				
At 1 January 2015	60	198	61	319
Additions	-	7	4	11
Disposals	(17)	(70)	(6)	(93)
<b>At 31 December 2015</b>	<b>43</b>	<b>135</b>	<b>59</b>	<b>237</b>
Additions	32	-	3	35
<b>At 31 December 2016</b>	<b>75</b>	<b>135</b>	<b>62</b>	<b>272</b>
Accumulated Depreciation				
At 1 January 2015	39	73	47	159
Charge for the year	5	67	18	90
Disposals	(17)	(70)	(6)	(93)
<b>At 31 December 2015</b>	<b>27</b>	<b>70</b>	<b>59</b>	<b>156</b>
<b>Charge for the year</b>	<b>6</b>	<b>46</b>	<b>3</b>	<b>55</b>
<b>At 31 December 2016</b>	<b>33</b>	<b>116</b>	<b>62</b>	<b>211</b>
<b>Net Book Value at 31 December 2016</b>	<b>42</b>	<b>19</b>	<b>-</b>	<b>61</b>
Net Book Value at 31 December 2015	16	65	-	81

The above property, plant and equipment is located in Turkey and Ethiopia.

The Company has no significant property, plant and equipment.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 12. Intangible assets

	Project evaluation costs	Deferred exploration costs	Total
<b>The Group</b>			
<b>Cost</b>			
At 1 January 2015	976	8,163	9,139
Additions	1,739	967	2,706
<b>At 31 December 2015</b>	<b>2,715</b>	<b>9,130</b>	<b>11,845</b>
Additions	1,224	1,189	2,413
<b>At 31 December 2016</b>	<b>3,939</b>	<b>10,319</b>	<b>14,258</b>
<b>Accumulated Amortization and Impairment</b>			
At 1 January 2015	-	-	-
Charge for the year	-	-	-
<b>At 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>
Impairment Charge for the year	-	266	266
<b>At 31 December 2016</b>	<b>-</b>	<b>266</b>	<b>266</b>
<b>Net Book Value at 31 December 2016</b>	<b>3,939</b>	<b>10,053</b>	<b>13,992</b>
Net Book Value at 31 December 2015	2,715	9,130	11,845

	Project evaluation costs	Total
<b>The Company</b>		
<b>Cost</b>		
At 1 January 2015	976	976
Additions	587	587
Transfer from subsidiary	(485)	(485)
<b>At 31 December 2015</b>	<b>1,078</b>	<b>1,078</b>
Additions	1,225	1,225
Transfer to subsidiary	1,636	1,636
<b>At 31 December 2016</b>	<b>3,939</b>	<b>3,939</b>
<b>Accumulated Amortization and Impairment</b>		
At 1 January 2015	-	-
Charge for the year	-	-
<b>At 31 December 2015</b>	<b>-</b>	<b>-</b>
Charge for the year	-	-
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>
<b>Net Book Value at 31 December 2016</b>	<b>3,939</b>	<b>3,939</b>
Net Book Value at 31 December 2015	1,078	1,078

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 12. Intangible assets

Deferred exploration costs are associated with the Tulu Kapi mine in Ethiopia. The group recognized deferred exploration costs with a fair value of US\$ 6,900,000 on acquisition of the project in December 2013. Further costs incurred by the Group since the acquisition have been capitalized.

Once the Board decides on the development of a project, development expenditure will be capitalized as incurred and amortised over the estimated useful life of the area according to the rate of depletion of the economically recoverable reserves or over the estimated useful life of the mine, if shorter.

As at 31 December 2016 management performed an impairment review for deferred exploration costs, which relate to the Tulu Kapi licence area, at 31 December 2016. The Net Present Value of the Tulu Kapi asset exceeded the net book value significantly.

The impairment review compared the recoverable amount of assets to the carrying value. The recoverable amount of an asset is assessed by reference to the higher of value in use ("VIU"), being the net present value ("NPV") of future cash flows expected to be generated by the assets, and fair value less costs to dispose ("FVLCD"). The FVLCD is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's length basis.

Project evaluation costs relating to work performed in assessing the economic feasibility and the independent technical review of the Tulu Kapi project have been capitalised by the Company. In August 2015, the Company published the Tulu Kapi Definitive Feasibility Study ("DFS") evaluating a conventional open-pit mining operation and carbon-in leach ("CIL") processing plant.

Feedback on the 2015 Definitive Feasibility Study ("2015 DFS") from project contractors, financiers and partners was incorporated into an improved plan in early 2016. All refinements to the 2015 DFS were, in May 2017, incorporated into the 2017 DFS Update in preparation for financing. This reflects, among other things, the fixed price, lump-sum processing plant construction contract with Lycopodium and a warranted ore processing rate of 1.5-1.7 million tonnes per annum.

The Tulu Kapi Mining Agreement between the Ethiopian Government and the Company was formalised in April 2015. The terms include a 20-year Mining License, full permits for the development and operation of the Tulu Kapi gold project and a 5% Government free-carried interest. The Company is working towards funding the development of the Tulu Kapi project.

The schedule remains on track for project finance syndicate documentation and inter-creditor arrangements to be assembled and approved by syndicate and National Bank of Ethiopia for full drawdown by late- 2017. The Government of Ethiopia confirmed its intention to invest equity capital of US\$20 million.

KEFI Minerals Ethiopia also has no other mining exploration licences in Ethiopia. All development costs relating to Yubdo and Billa Guilisso exploration licenses capitalised in previous years was impaired in the current year.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 13. Investments

#### 13.1 Fixed asset investments

The Company	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>Cost</b>		
At 1 January	4,598	4,598
Acquisitions	-	-
At 31 December	<u>4,598</u>	<u>4,598</u>

Subsidiary companies	Date of acquisition/ incorporation	Country of incorporation	Effective proportion of shares held
Mediterranean Minerals (Bulgaria) EOOD	08/11/2006	Bulgaria	100%-Direct
Doğu Akdeniz Mineralleri Sanayi ve Ticaret Limited Şirket	08/11/2006	Turkey	100%-Indirect
KEFI Minerals Ethiopia Limited	30/12/2013	United Kingdom	100%-Direct
KEFI Minerals Marketing and Sales Cyprus Limited	30/12/2014	Cyprus	100%-Direct

#### Subsidiary companies

#### The following companies have the address of:

Mediterranean Minerals (Bulgaria) EOOD	10 Tsar Osvoboditel Blvd., 3rd floor, Sredets Region, 1000 Sofia, the Republic of Bulgaria.
Doğu Akdeniz Mineralleri Sanayi ve Ticaret Limited Şirket	Zeytinalani Mah. 4183 SK. Kapı No:6 Daire:2 UrlaA Izmir
KEFI Minerals Ethiopia Limited	27/28 Eastcastle Street, London, United Kingdom w1w 8DH
KEFI Minerals Marketing and Sales Cyprus Limited	23 Esekia Papaioannou Floor 2, Flat 21 1075, Nicosia Cyprus

On 8 November 2006, the company entered into an agreement to acquire from Atalaya Mining PLC (previously EMED) the whole of the issued share capital of Mediterranean Minerals (Bulgaria) EOOD, a company incorporated in Bulgaria, in consideration for the issue of 29,999,998 ordinary shares in the Company.

Mediterranean Minerals (Bulgaria) EOOD owns 100% of the share capital of Doğu Akdeniz Mineralleri ("Dogu"), a private limited liability company incorporated in Turkey, engaging in activities for exploration and developing of natural resources.

The Company owns 100% of Kefi Minerals Ethiopia, which operates the Tulu Kapi project in Ethiopia. The Government of Ethiopia is entitled to a 5% free-carried interest in the Tulu Kapi Gold Project. This entitlement is enshrined in the Ethiopian Mining Law and the Ethiopian Mining Agreement between the Ethiopian Government and KEFI Minerals Ethiopia. The implementation of this entitlement is intended to issue 5% of the shareholding of KEFI Minerals Ethiopia at the time of the final completion of the full project finance of the Tulu Kapi Gold Project. Once all the relevant documents are executed the intended arrangement would add 5% to the shareholding paid by the Ethiopian Government.

The company owns 100% of KEFI Minerals Marketing and Sales Cyprus, a company incorporated in Cyprus. The company was dormant for the year end 31 December 2016 and 2015. KEFI Minerals Marketing and Sales Cyprus had no assets or liabilities at the date of acquisition. No additional disclosure is considered necessary, as the entity is not significant to the financial statements. KEFI Minerals Marketing and Sales Cyprus will provide sales and marketing services for the Group once production commences. It is planned that this company will act as agent and off-taker for the onward sale of gold and other products in international markets.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 13.2 Investment in jointly controlled entity

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>The Company</b>		
At 1 January/31 December	181	181

Jointly controlled entity	Date of acquisition/ incorporation	Country of incorporation	Effective proportion of shares held
Gold and Minerals Co. Limited (G&M)	04/08/2010	Saudi Arabia	40%-Direct

The company owns 40% of G&M more information in note 19.2.

### 14. Available for sale financial assets

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>The Group</b>		
At 1 January	92	86
Change in value of available-for-sale financial assets	3	6
On 31 December	95	92

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>The Company</b>		
At 1 January	8	8
Disposal of Investment	(16)	-
Profit on Sale	8	-
Change in value of available-for-sale financial assets	-	-
At 31 December	-	8

The Company successfully divested four Licences in Turkey in July 2011 to AIM listed Ariana Resources (AIM:AAU) for a nominal cash payment of 10,000 Turkish Lira, 910,747 new ordinary shares in Ariana and a Net Smelter Royalty ("NSR") of 2%. The NSR is payable by Ariana's wholly owned Turkish subsidiary Galata Madencilik San. ve Tic. Ltd. ("Galata") to KEFI Mineral's Turkish Subsidiary, Dogu, on commercial production of any mineral from the licences. No value has been attributed in these financial statements for the NSRs, due to uncertainty regarding when income from the NSRs will commence.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 15. Trade and other receivables

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>The Group</b>		
Other receivables	38	45
Placing funds	198	207
Amount receivable from Saudi Arabia Jointly controlled entity (Note 21.3)	6	6
VAT Refund	2,809	95
Deposits and prepayments	5	5
	<u>3,056</u>	<u>358</u>

The Company fully discharged the inherited VAT liability during August 2016 and is entitled to a £2.7 million (Birr 73,5000,000) VAT refund. The directors are of the opinion that the results of recent discussion with the VAT office that the reverse VAT refund is been processed by the relevant VAT branch office for settlement. Post Balance sheet during April 2017, the company received c.£1 million of the £2.7 million VAT refund. The Company has come to an agreement with Ethiopian Revenues and Customs Authority to receive the remainder of the funds by mid-2017.

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>The Company</b>		
Deposits	8	3
Placing Funds	198	207
KEFI Minerals Marketing and Sales Cyprus Limited (Note 21.3)	3	3
Advance to KEFI Minerals Ethiopia Limited (Note 21.3)	7,815	7,417
Amount receivable from Saudi Arabia Jointly controlled entity (Note 21.3)	45	80
	<u>8,069</u>	<u>7,710</u>

Amounts owed by group companies total £7,818,000 (2015: £7,420,000). Balances of £1,256,000 have been fully provided for all projects except for Ethiopia due to the uncertainty over the timing of future recoverability. The advance issued to KEFI Minerals Ethiopia Limited are unsecured interest free and repayable on demand. At the reporting date, no receivables were past their due date.

### 16. Cash and cash equivalents

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
<b>The Group</b>		
Cash at bank and in hand	<u>410</u>	<u>562</u>
<b>The Company</b>		
Cash at bank and in hand	<u>400</u>	<u>393</u>

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

<b>17. Share capital</b>	<b>Number of shares '000</b>	<b>Share Capital</b>	<b>Deferred Shares</b>	<b>Share premium</b>	<b>Total</b>
<b>Issued and fully paid</b>					
At 1 January 2015	1,235,337	12,352	-	8,433	20,785
Issued 20 March 2015 at 1p	80,000	800	-	-	800
Issued 16 May 2015 at 1p	66,611	667	-	-	667
Sub-division of shares 16 June 2015 0.1p	-	(12,436)	12,436	-	-
Issued 16 June 2015 at 0.8p	362,500	363	-	2,538	2,901
Issued 11 December 2015 at 0.3p	877,191	877	-	1,755	2,632
Share issue costs	-	-	-	(379)	(379)
<b>At 31 December 2015</b>	<b>2,621,639</b>	<b>2,623</b>	<b>12,436</b>	<b>12,347</b>	<b>27,406</b>
Issued 22 March 2016 at 0.35p	499,360	499	-	1,248	1,747
Issued 29 July 2016 at 0.5p	761,922	761	-	3,048	3,809
Share issue costs	-	-	-	(364)	(364)
<b>At 31 December 2016</b>	<b>3,882,921</b>	<b>3,883</b>	<b>12,436</b>	<b>16,279</b>	<b>32,598</b>

Share issue costs of £Nil (2015: £64,000) relating to the 146,610,600 shares issued at par value during 2015 have been charged to equity. The remainder of share issue costs are charged against share premium arising on issue.

### Authorized capital

That the articles of association of the Company were amended in 2010 and the liability of the members of the Company is limited.

### Issued capital

#### 2015

On 20 March 2015, 80,000,000 shares of 1p were issued at a price of 1p per share.

On 16 May 2015, 66,610,600 shares of 1p were issued at a price of 1p per share.

On 16 June 2015, 362,500,000 shares of 0.1p were issued at a price of 0.8p per share. On issue of the shares, an amount of £2,537,500 was credited to the Company's share premium reserve.

On 11 December 2015, 877,191,422 shares of 0.1p were issued at a price of 0.3 p per share. On issue of the shares, an amount of £1,754,500 was credited to the Company's share premium reserve.

#### 2016

On 22 March 2016, 499,359,791 shares of 0.1p were issued at a price of 0.35p per share. On issue of the shares, an amount of £1,248,299 was credited to the Company's share premium reserve.

On 29 July 2016, 761,921,739 shares of 0.1p were issued at a price of 0.5p per share. On issue of the shares, an amount of £3,047,687 was credited to the Company's share premium reserve.

### Restructuring of share capital into deferred shares

On 16 June 2015 the Company's issued ordinary shares of 1p each in the capital of the Company were sub-divided into one new ordinary share of 0.1p and one deferred share of 0.9p. The deferred shares have no value or voting rights. After the share capital reorganization there were the same number of New Ordinary Shares in issue as there are existing Ordinary Shares. The New Ordinary Shares have the same rights as those currently accruing to the existing Ordinary Shares in issue under the Company's articles of association, including those relating to voting and entitlement to dividends.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 17. Share capital (continued)

#### Warrants

##### 2015

On 18 March 2015, the Company issued 4,000,000 warrants to subscribe for new ordinary shares of 1p each at 1p per share.

On 11 May 2015, the Company issued 1,680,530 warrants to subscribe for new ordinary shares of 1p each at 1p per share.

On 15 June 2015, the Company issued 14,500,000 warrants to subscribe for new ordinary shares of 0.1p each at 0.8p per share.

On 11 December 2015, the Company issued 43,859,571 warrants to subscribe for new ordinary shares of 0.1p each at 0.3p per share.

##### 2016

On 22 March 2016, the Company issued 24,967,989 warrants to subscribe for new ordinary shares of 0.1p each at 0.35p per share.

On 29 June 2016, the Company issued 38,096,087 warrants to subscribe for new ordinary shares of 0.1p each at 0.5p per share.

During the period 1 January 2016 to 31 December 2016, 22,780,000 warrants were cancelled or expired.

Details of warrants outstanding as at 31 December 2016:

Grant date	Expiry date	Exercise price	Expected Life Years	000's
20-Feb-12	19-Feb-17	3.00p	5 years	2,917
04-Jul-13	03-Jul-18	2.10p	5 years	1,310
16-Oct-13	15-Oct-18	2.25p	5 years	1,111
02-Dec-14	01-Dec-17	1.00p	3 years	4,000
16-Dec-14	15-Dec-17	1.00p	3 years	5,500
18-Mar-15	17-Mar-18	1.00p	3 years	4,000
11-May-15	10-May-18	1.00p	3 years	1,680
15-Jun-15	14-Jun-18	0.80p	3 years	14,500
11-Dec-15	10-Dec-18	0.30p	3 years	43,860
22-Mar-16	21-Mar-19	0.35p	3 years	24,968
29-Jul-16	28-Jul-19	0.50p	3 years	38,096
				<u>141,942</u>

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 17. Share capital (continued)

#### Warrants (continued)

The Company has issued warrants to advisers to the Group. All warrants, as noted above expire between two to five years after grant date and are exercisable at the exercise price.

	<b>Number of warrants 000's</b>
Outstanding warrants at 1 January 2016	101,658
- granted	63,064
- cancelled/forfeited/expired	(22,780)
Outstanding warrants at 31 December 2016	<u>141,942</u>

The estimated fair values of the warrants were calculated using the Black Scholes option pricing model.

The inputs into the model and the results for warrants granted during the year are as follows:

	<b>29 July 2016</b>	<b>22 March 2016</b>	<b>11 Dec 2015</b>	<b>15 June 2015</b>	<b>11 May 2015</b>	<b>18 Mar 2015</b>
Closing share price at issue date	0.56p	0.36p	0.32p	0.90p	0.88p	1.33p
Exercise price	0.50p	0.35p	0.3p	0.8p	1.00p	1.00p
Expected volatility	87.3%	80.3%	79.10%	61.10%	60.90%	59%
Expected life	3yrs	3yrs	3yrs	3yrs	3yrs	3yrs
Risk free rate	0.31%	0.31%	0.39%	0.98%	0.98%	0.98%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Estimated fair value	0.32p	0.17p	0.17p	0.40p	0.33p	0.64p

Expected volatility was estimated based on the historical underlying volatility in the price of the Company's shares.

For 2016, the impact of issuing warrants is a net charge to income of £164,000 (2015: £163,000). At 31 December 2016, the equity reserve recognized for share based payments, including warrants, amounted to £1,474,000 (2015: £1,212,000).

	<b>Year Ended 31.12.16 £'000</b>	<b>Year Ended 31.12.15 £'000</b>
Opening amount	1,212	848
Warrants issued costs (Note 6)	164	163
Share options issued to employees (Note 6)	77	69
Share options issued to directors and key management (Note 6)	204	146
Cancelled options	(183)	(14)
Closing amount	<u>1,474</u>	<u>1,212</u>

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 18. Share options reserve

Details of share options outstanding as at 31 December 2016:

Grant date	Expiry date	Exercise price	Number of shares 000's
13-Sep-12	12-Sep-18	4.00p	14,150
24-May-13	23-May-19	2.915p	1,000
03-Sep-13	02-Sep-18	2.94p	1,000
08-Oct-13	07-Oct-18	2.27p	350
08-Jan-14	07-Jan-20	1.88p	400
16-Jan-14	15-Jan-20	1.99p	100
01-Feb-14	31-Jan-20	1.89p	100
27-Mar-14	26-Mar-20	2.30p	27,125
04-Apr-14	03-Apr-20	1.83p	100
12-Sep-14	11-Sep-20	1.76p	2,250
20-Mar-15	19-Mar-21	1.32p	27,000
16-Jun-15	15-Jun-21	1.32p	6,500
19-Jan-16	18-Jan-22	0.42p	80,190
23-Feb-16	22-Feb-22	0.74p	3,000
05-Aug-16	05-Aug-22	0.60p	35,000
			<u>198,265</u>

	Weighted average ex. Price	Number of shares 000's
Outstanding options at 1 January 2016		81,275
- granted	0.48p	118,190
- cancelled/forfeited/expired	3.94p	(1,200)
Outstanding options at 31 December 2016		<u>198,265</u>

The Company has issued share options to directors, employees and advisers to the Group.

On 13 September 2012, 15,500,000 options were issued which expire six years after the grant date, and are exercisable at the exercise price in whole or in part no more than one half after one year from the grant date and one half two years from the grant date.

On 24 May 2013 1,000,000 options were issued which expire six years after the grant date and are exercisable in part no more than one half after one year from the grant date and one half two years from the grant date. On 3 September 2013 1,000,000 options were issued and on 8 October 2013, 350,000 options were issued both which expire five after the grant date and are exercisable in part no more than one half after one year from the grant date and one half two years from the grant date

During January 2014 and February 2014 600,000 options were issued which expire six years after the grant date and are exercisable in part no more than one half after one year from the grant date and one half two years from the grant date.

On 27 March 2014, 22,000,000 options were issued to the Directors and a further 5,400,000 options have been granted to other non-board members of the senior management team. Of the options issued, previously granted options over 22,100,000 Ordinary shares which were due to expire during 2014 have all been cancelled and the new grants of options have been made, in accordance with the terms of the Scheme the options vest in equal annual instalments over a period of 2 years and expire after 6 years.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 18. Share options reserve (continued)

On 4 April 2014, 100,000 options were issued which expire six years after the grant date and are exercisable in part no more than one half after one year from the grant date and one half two years from the grant date.

On 12 September 2014, 2,250,000 options were issued which expire six years after grant date and vest in equal annual instalments over a period of two years.

On 20 March 2015, 27,000,000 options were issued which expire six years after grant date and vest in equal annual instalments over a period of two years.

On 16 June 2015, 6,500,000 options were issued which expire six years after grant date and vest in equal annual instalments over a period of two years.

On 19 January 2016, 80,190,000 options were issued which expire six years after grant date and vest in normal circumstances, vest in two equal annual instalments, the first upon the achievement of practical completion of the planned processing plant at the Tulu Kapi Gold Project and the second upon the achievement of nameplate capacity for a twelve-month period.

On 23 February 2016, 3,000,000 options were issued which expire six years after grant date and vest immediately.

On 5 August 2016, 35,000,000 options were issued which expire six years after grant date and vest in normal circumstances, vest in two equal annual instalments, the first upon the achievement of practical completion of the planned processing plant at the Tulu Kapi Gold Project and the second upon the achievement of nameplate capacity for a twelve-month period.

The option agreements contain provisions adjusting the exercise price in certain circumstances including the allotment of fully paid Ordinary shares by way of a capitalisation of the Company's reserves, a sub division or consolidation of the Ordinary shares, a reduction of share capital and offers or invitations (whether by way of rights issue or otherwise) to the holders of Ordinary shares. The estimated fair values of the options were calculated using the Black Scholes option pricing model. The inputs into the model and the results are as follows:

Date	Closing share price at issue date	Exercise price	Expected volatility	Expected life	Risk free rate	Expected dividend yield	Discount factor	Estimated fair value
05-Aug-16	0.56p	0.60p	87.20%	6yrs	0.75%	Nil	0%	0.40p
23-Feb-16	0.33p	0.74p	82.65%	6yrs	0.90%	Nil	0%	0.11p
19-Jan-16	0.34p	0.42p	83.18%	6yrs	0.90%	Nil	0%	0.22p
16-Jun-15	0.83p	1.32p	61.11%	6yrs	1.53%	Nil	0%	0.38p
20-Mar-15	1.20p	1.32p	59.04%	6yrs	1.53%	Nil	0%	0.64p
12-Sep-14	1.43p	1.76p	43.40%	6yrs	1.09%	Nil	0%	0.52p
04-Apr-14	1.83p	1.83p	59.60%	6yrs	2.17%	Nil	0%	0.94p
27-Mar-14	1.85p	2.30p	59.60%	6yrs	2.17%	Nil	0%	0.94p
01-Feb-14	1.90p	1.89p	59.60%	6yrs	2.17%	Nil	0%	0.94p
16-Jan-14	1.83p	1.99p	59.60%	6yrs	2.17%	Nil	0%	0.94p
08-Jan-14	1.85p	1.88p	59.60%	6yrs	2.17%	Nil	0%	0.94p
08-Oct-13	2.69p	2.27p	63.83%	5yrs	1.70%	Nil	50%	0.80p
03-Sep-13	2.76p	2.94p	63.63%	5yrs	1.70%	Nil	50%	0.75p
24-May-13	2.19p	2.92p	59.80%	6yrs	5.00%	Nil	0%	1.18p
13-Sep-12	3.63p	4.00p	56.90%	6yrs	5.00%	Nil	0%	2.05p

Expected volatility was estimated based on the historical underlying volatility in the price of the Company's shares.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 18. Share options reserve (continued)

For 2016, the impact of share option-based payments is a net charge to income of £281,000 (2015: £215,000). At 31 December 2016, the equity reserve recognized for share option-based payments, including warrants, amounted to £1,474,000 (2015: £1,212,000).

### 19. Jointly controlled entities

#### 19.1 Jointly controlled entity with Centerra Gold (KB) Inc.

On 22 October 2008, the Company entered into a Joint Venture Agreement in respect of its 100%-owned Artvin Project with Centerra Gold (KB) Inc ("Centerra KB"), a wholly-owned subsidiary of Centerra Gold Inc. In August 2011, KEFI Mineral's subsidiary holding these licences, was sold in return for a cash payment of US\$100,000 and a 1% Net Smelter Royalty on all future mineral production from the Artvin licences.

#### 19.2 Joint controlled entity with Gold and Minerals

<u>Company name</u>	<u>Date of incorporation</u>	<u>Country of incorporation</u>	<u>Effective proportion of shares held at 31 December</u>
Gold & Minerals Co. Limited	3 August 2010	Saudi Arabia	40%

Gold & Minerals Co. Limited has the following registered address: Olaya District. 659, King Fahad Road, Riyadh, Kingdom of Saudi Arabia.

<u>Amounts relating to the Jointly Controlled Entity</u>	<u>SAR'000</u>		<u>GBP'000</u>	
	<u>Year Ended 31.12.16</u>	<u>Year Ended 31.12.15</u>	<u>Year Ended 31.12.16</u>	<u>Year Ended 31.12.15</u>
Non-current assets	223	493	19	36
Current assets	685	1,473	59	106
	<u>908</u>	<u>1,966</u>	<u>78</u>	<u>142</u>
Non-current liabilities	60,594	54,974	5,246	3,971
Current liabilities	667	1,048	58	76
	<u>61,261</u>	<u>56,022</u>	<u>5,304</u>	<u>4,047</u>
<b>Net liabilities</b>	<b><u>(60,353)</u></b>	<b><u>(54,056)</u></b>	<b><u>(5,226)</u></b>	<b><u>(3,905)</u></b>
Share capital	2,500	2,500	217	181
Accumulated losses	(62,853)	(56,556)	(5,443)	(4,086)
	<u>(60,353)</u>	<u>(54,056)</u>	<u>(5,226)</u>	<u>(3,905)</u>
<u>Exchange rates SAR to GBP</u>				
Closing rate			0.2165	0.1806

In May 2009, KEFI announced the formation of a new minerals exploration jointly controlled entity, Gold & Minerals Co. Limited ("G&M"), a limited liability company in Saudi Arabia, with leading Saudi construction and investment group Abdul Rahman Saad Al-Rashid & Sons Company Limited ("ARTAR"). KEFI is the operating partner with a 40% shareholding in G&M with ARTAR holding the other 60%. KEFI provides G&M with technical advice and assistance, including personnel to manage and supervise all exploration and technical studies. ARTAR provides administrative advice and assistance to ensure that G&M remains in compliance with all governmental and other procedures. G&M is treated as a jointly controlled entity and has been equity accounted and has reconciled its share in G&M's losses.

The above figures reported represent cumulative exploration activity incurred by G&M since its incorporation in 2009. The accounting policy for exploration costs recorded in the G&M audited financial statements is to capitalise qualifying expenditure and review for impairment, if applicable. This is in contrast to the Group's accounting policy relating to exploration costs which is to expense costs through profit and loss until the Board decides on the development of a project (Note 2). Consequently, exploration costs of G&M at 31 December 2016 amounting to SAR62.6 million (2015: SAR56.6 million) have been adjusted to bring the figures in line with the Group's accounting policies.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 19. Jointly controlled entities (continued)

#### 19.2 Jointly controlled entity with Gold and Minerals (continued)

A loss of £726,000 was recognized by the Group for the year ended 31 December 2016 (2015: £ 735,000) representing the Group's share of losses in the year.

As at 31 December 2016 KEFI owed ARTAR an amount of £170,000 (2015: receivable £90,000) - Note 21.5.

As at 31 December 2016, G&M owed KEFI an amount of £6,000 (2015: £6,000) – Note 21.4.

### 20. Trade and other payables

The Group	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Accruals and other payables	1,640	1,011
Other loans	257	236
Payable to shareholders (Note 21.2)	-	8
Payable to jointly controlled entity (Note 21.4)	170	90
VAT Liability	-	650
	<u>2,067</u>	<u>1,995</u>

In January 2014 an agreement was made with Ethiopian Revenue and Customs Authority ("ERCA") to repay the balance of the VAT liability plus interest accruing on the unpaid principal amount over a three-year payment plan in accordance with the relevant tax proclamation, 25% of the assessed outstanding amount is payable immediately and the balance under an agreed payment schedule. . The balance of the liability plus interest accruing on the unpaid principal amount was paid within the three year payment period.

Other loans are unsecured, interest free and repayable on demand.

#### The Company

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Accruals and other payables	1,447	886
Payable to jointly controlled entity (Note 21.4)	170	90
	<u>1,617</u>	<u>976</u>

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.



# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 21. Related party transactions

The following transactions were carried out with related parties:

#### 21.1 Compensation of key management personnel

The total remuneration of key management personnel was as follows:

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Directors' consultancy fees *	500	471
Directors' other consultancy benefits	49	51
Directors' bonus	-	50
Share option-based benefits to directors (Note 17)	167	146
Other key management personnel fees and other benefits	323	204
Other key management personnel bonus	-	37
Share option-based benefits other key management personnel (Note 17)	37	11
	<u>1,076</u>	<u>970</u>

\* Part of the salary of the Exploration Director was paid directly by the jointly-controlled entity G&M.

\* Directors' fees paid to the Executive Director Chairman and Finance Director are paid to consultancy companies of which they are beneficiaries.

#### Share-based benefits

The Company has issued share options to directors and key management. All options, except those noted in Note 18, expire six years after grant date and vest in normal circumstances, vest in two equal annual instalments, the first upon the achievement of practical completion of the planned processing plant at the Tulu Kapi Gold Project and the second upon the achievement of nameplate capacity for a twelve month period.

#### 21.2 Payable to shareholders

Name	Nature of transactions	Relationship	2016	2015
Atalaya Mining PLC (previously EMED)	Finance	Shareholder	-	8
Atalaya Mining PLC (previously EMED)	Provision of management and other professional services	Shareholder	18	8

#### 21.3 Receivable from related parties

The Group			2016	2015
Name	Nature of transactions	Relationship		
Gold & Minerals Co. Limited	Finance	Jointly controlled entity	6	6
			<u>6</u>	<u>6</u>
The Company			2016	2015
Name	Nature of transactions	Relationship		
Gold & Minerals Co. Limited	Finance	Jointly controlled entity	45	80
KEFI Minerals Marketing and Sales Cyprus Limited	Finance	Subsidiary	3	3
Kefi Minerals Ethiopia Limited	Advance	Subsidiary	7,815	7,417
			<u>7,863</u>	<u>7,500</u>

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 21. Related party transactions (continued)

#### 21.4 Payable to related parties

The Group			2016	2015
Name	Nature of transactions	Relationship		
Abdul Rahman Saad Al-Rashid & Sons Company Limited ("ARTAR")	Finance	Jointly controlled entity	170	90
			<u>170</u>	<u>90</u>
The Company			2016	2015
Name	Nature of transactions	Relationship		
Abdul Rahman Saad Al-Rashid & Sons Company Limited ("ARTAR")	Finance	Jointly controlled entity	170	90
			<u>170</u>	<u>90</u>

### 22. Contingent liabilities

#### 22.1 Geological database

In 2006, Atalaya Mining PLC (previously EMED) acquired a proprietary geological database that covers extensive parts of Turkey and Greece and transferred to the Company that part of the geological database that relates to areas in Turkey.

Under the agreement, the Company has undertaken to make a payment of approximately £61,400 (AUD 105,000) for each tenement it is subsequently awarded in Turkey and which was identified from the database. The maximum number of such payments required under the agreement is four, resulting in a contingent liability of up to £246,000. These payments are to be settled by issuing shares in the Company. To date, only one tranche of shares have been issued under this agreement in June 2007 for £43,750 (AUD 105,000).

#### 22.2 Charge issued

On 13 August 2015, the Company created a fixed charge in favour of AIB Group (UK) Plc over amounts held in the Company's deposit accounts with the bank. The charge is in regard to time credit banking facilities provided by AIB Group (UK) Plc. At 31 December 2016, the balance in the deposit accounts was £20,000.

#### 22.3 Legal Allegations

A claim for damages of £9,000,000 (approximately ETB249 million) had been lodged against the Company in 2014. The claim was based on the impact of exploration field activities conducted between 1998 and 2006, a period which pre-dated the Company's involvement in the Tulu Kapi project. These exploration activities comprised the construction of drill pads and access tracks. No objections had been made until 2014 when certain parties from outside the Tulu Kapi district raised this matter and initiated court action. Those parties have since been removed by the Court rulings from the list of plaintiffs. The Oromia Regional Supreme Court in April 2017 rejected 95% of these claims as having no basis in fact or law and reduced KEFI's potential liability to c.£435,000 (ETB12,762,721). Moreover, the Company has appealed to the Federal Supreme Court with regards to the remaining ETB12,762,721 on the basis that it remains firmly of the belief, on legal advice and as previously reported, that it has no contingent or actual liability, having already settled any obligations when the matter was originally closed by both the regulators and the land occupiers. The Federal Supreme Court last week officially admitted the Company's appeal after due review, and the case is expected to be heard within the next two years.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 23. Capital commitments

The Group has the following capital or other commitments as at 31 December 2016 Nil (2015 0.03 Million),

	Year Ended 31.12.16 £'000	Year Ended 31.12.15 £'000
Exploration programme commitments	-	-
Property, plant and equipment	-	27
	-	27

### 24. Events after the reporting date

#### Consolidation of Ordinary Shares

At the close of business, 1 March 2017, shareholders received one New Ordinary Share of nominal value 1.7 pence each for every 17 Existing Ordinary Shares of nominal value 0.1 pence each. Immediately following the Consolidation (and prior to the issue of the Fundraising Shares) the number of New Ordinary Shares in issue and admitted to trading on AIM was 228,407,085.

#### Placing and the Lanstead Subscription

The Company conditionally raised £5,620,000 million before expenses on 1 March 2017 through a placing of 104,295,888 ordinary shares of 1.7p each at a price of 5.61p per share. After the placing and the 17:1 consolidation approved on 1 March 2017 there are 332,702,973 shares on issue.

The Lanstead Subscription involves the issuance of 82,352,941 shares and is governed according to a 'sharing agreement' and structured relative to a benchmark price, which has been set at 7.48p/share (0.44p/share pre-consolidation), such that KEFI may receive more than £4,620,000 if the share price exceeds this level and vice versa if it does not. To this end, £693,000 was contributed in March 2017 by Lanstead, with the balance being paid in equal instalments of £218,000 per month (subject to adjustment upwards or downwards) for 18 months commencing in April 2017.

#### Other

On 22 March 2017, 6,829,613 options were issued to persons who discharge director and managerial responsibilities ("PDMRs") and a further 2,705,509 options have been granted to other non-board members of the senior management team. The options have an exercise price of 7.5p, expire after 6 years, and vest in two equal annual instalments, the first upon the achievement of practical completion of the planned processing plant at the Tulu Kapi Gold Project and the second upon the achievement of nameplate capacity for a twelve-month period.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 25. Adoption of new and revised International Financial Reporting Standards (IFRSs)

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. This adoption did not have a material effect on the accounting policies of the Group.

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

Issued by the IASB and adopted by the European Union New standards

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).

#### *IFRS 9 "Financial Instruments"*

IFRS 9 makes substantial changes to the measurement of financial assets and financial liabilities. There will only be three categories of financial assets at either fair value through profit and loss, fair value through comprehensive income or measured at amortized cost. On adoption of the standard the Group will have to re-determine the classification of its financial assets based on the business model for each financial asset. This is not considered likely to give rise to any significant adjustments, other than the re-classification.

The principal change to the measurement of financial assets measured at amortized cost or fair value through other comprehensive income is that impairments will be recognized on an expected loss basis, compared with the current incurred loss approach. As such, where there are expected to be credit losses, these are recognized in profit or loss. For financial assets measured at amortized cost, the carrying amount is reduced for the loss allowance. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial assets.

Financial liabilities of the Group are expected to continue to be recognized at amortized cost.

#### *IFRS 15 "Revenue from Contracts with Customers"*

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around five steps in recognizing revenue:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognize revenue when a performance obligation is satisfied.

The Group is not currently generating income from gold sales revenue, hence there is not considered to be any significant impact at the Group's current stage of development. Management are currently evaluating the impact of the standard on the financial statements.

# KEFI MINERALS PLC

(All amounts in GBP thousands unless otherwise stated)

## Notes to the consolidated financial statements (continued)

Year ended 31 December 2016

### 25. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

#### Amendments

- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual periods beginning on or after 1 January 2017)
- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014–2016 Cycle (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014–2016 Cycle (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2018).

#### New IFRICs

- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Group is currently evaluating the effect of these standards or interpretations on its consolidated financial statements

**KEFI Minerals is listed on AIM (Code: KEFI)**  
**[www.kefi-minerals.com](http://www.kefi-minerals.com)**