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Griffin Mining Limited is a mining and investment company whose principal asset is the Caijiaying zinc-gold mine. Further information on the Company is available on the Company's web site: www.griffinmining.com.

Griffin Mining Limited's shares are quoted on the Alternative Investment Market (AIM) of the London Stock Exchange (symbol GFM).

Registered in Bermuda, number: 13667.

Registered Office: Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda

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CHAIRMAN'S STATEMENT

It gives me great pleasure to present to you, the shareholders and owners of Griffin Mining Limited ("Griffin" or the "Company"), the Annual Report and Accounts of the Company for the 2016 calendar and financial year. It was a year when the aberration of our first loss in a decade in 2015 was cast aside and profitability was restored.

Financially, the Company made an operating profit of \$15.2 million, profit before tax of \$10.4 million and after profit tax of almost \$6 million.

Operationally, a record number of tonnes were mined and processed whilst cost of sales fell significantly, even though only low grade ore could be processed via stockpiles during the cessation of mining activity and, upon recommencement of mining, only from residual low grade ore in the higher mine levels.

Notably, gold production reached a new record high of 12,654 ounces in concentrate.

Further good news included the completion of the upgrade on the 28th January 2016 to the mine and processing facilities to a 1.5 million tonne throughput capacity, the addition of a second 35,000 volt grid power line to site, a new safety permit over the lower levels of Zone III and the continuing drive to improve efficiencies with the commissioning of a new, electro hydraulic longhole drill rig.

Non-operationally, almost \$15 million of debt was repaid in 2016.

Although I believe share price is a very poor indicator of a Company's value and performance, it is pleasing to see that the share price has increased over 115% in the past 12 months.

Critically, the fundamental outlook for zinc continues to improve. According to the International Lead and Zinc Study Group, the zinc market continues to

register a supply deficit, short 268,000 tonnes in 2016 and, in January 2017, already short 27,000 tonnes with storage at the London Metal Exchange declining 31,000 tonnes. This is being reflected in lower smelter charges and a higher overall zinc price.

Most pleasing, on the 14th December 2016 and in the presence of the Australian Ambassador to China and senior officials from the Ministry of Land and Resources and Zhangjiakou City, an agreement was signed whereby the Company was granted the right to explore, in particular, the Shitouhulun and Sangongdi areas near the Caijiaying Mine. Both areas share the same geological signatures as the known orebodies at the Caijiaying Mine and high hopes exist for exploration success once work begins on these regions.

It would, of course, be disingenuous of me to hide the fact that our overwhelming, continuing, disappointment lies in the failure to be granted a mining licence over Zone II and thereby increase our throughput to our now expanded processing capacity. It has become a frustrating reality in the mining world that mining licences are taking ever longer to obtain due to administrative labyrinths, constant legislative changes, environmental issues needing over-addressing and native concerns being constantly satisfied. China is no different in this respect. The overwhelming question asked by shareholders is when will the licence be granted? I have made predictions in the past and have been proved horribly wrong. I will merely state I have high hopes for 2017.

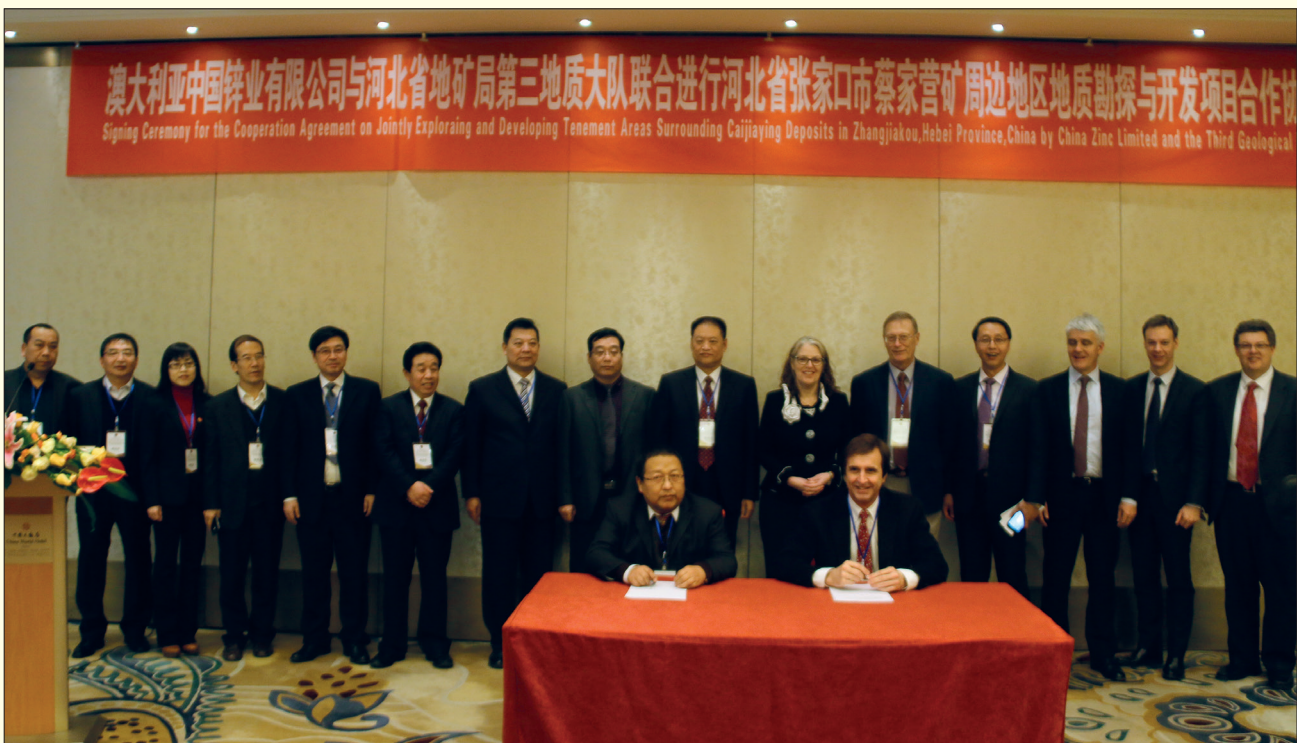
It would be unfair of me not to thank the directors, staff and contractors who continue to strive to make the Company an even greater success than it has already become. Any organization is only as competent and dynamic as the people who work, think and act solely in the best interest of the Company. Ours are some of the best in the industry, and in country, and we thank them for their outstanding efforts.



Finally and traditionally, I wish to thank you, the shareholders and owners of the Company. Contrary to what we may witness in the world around us too often in these troublesome times, faith can be the most amazing of things. It is your faith in your Company which has nurtured the success we have had to date

and which we believe will exponentially and excitingly grow in the coming years. I look forward to delivering that success.

Mladen Ninkov
Chairman
5th April 2017



Mladen Ninkov (Chairman) and He Yuqing (Captain of the Third Geological Brigade of Hebei Province) signing the Co-operation Agreement for the exploration and development of the Shitoubulun and Sangongdi areas, with in attendance from left to right: Sun Huiguang, (Director of the 3rd Brigade); Jin Shengchang, (Deputy Chairman of Hebei Hua Ao); Wu Xiaohong, (Party Secretary of the 3rd Brigade); Zhao Rongsheng, (Division Chief of Hebei Bureau of Geology and Mineral Resources “BGMR”); Li Chunsheng, (Chief Geologist of Hebei BGMR); He Xi, (Deputy Chief of Hebei BGMR); Lu Feng, (Vice Mayor of Zhangjiakou Municipal Government); Zhang Guojun, (Deputy Director of General Hebei Ministry of Land and Resources); Zhang Junjie, (Chief of Hebei BGMR); Australian Ambassador to China the Honorable Jan Adams; Rupert Crowe, (Director of Griffin), Bo Zhou, (Griffin Chief Representative China); Michael Hulmes, (General Manager of Caijiaying); Ben Jarvis, (Counselor at the Australian Embassy Beijing) and a further Australian consular official.



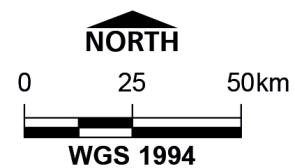
OVERVIEW

Griffin Mining Limited (“Griffin” or “the Company”) is a mining and investment company, incorporated in Bermuda, whose shares are quoted on the Alternative Investment Market of the London Stock Exchange (“AIM”).

The major asset of the Company is an 88.8% interest in Hebei Hua Ao Mining Industry Company Limited (‘Hebei Hua Ao’), which holds 9.9 square kilometres of mining and exploration licences including the mine and processing facilities at Caijiaying in the People’s Republic of China (the “Caijiaying Mine”).

The Company also holds 90% of Hebei Sino Anglo Mining Development Company Limited (“Hebei Anglo”), which holds 27.5 square kilometres of exploration licences immediately surrounding the Hebei Hua Ao Licence Area.

The Company continues to aggressively explore, expand and develop the Caijiaying Mine, whilst also investigating further potential acquisitions of mining projects that are capable of being brought into production and to meet historically preset, economic returns to shareholders.



Caijiaying Mine Location, People’s Republic of China



CAIJIAYING

INTRODUCTION

The Caijiaying Mine is an operating zinc, gold, silver and lead mine, together with a processing plant, camp and supporting facilities, located approximately 300 kilometres by road, north-west of Beijing in Hebei Province in the People's Republic of China. The Caijiaying Mine is easily accessible by freeway from Beijing. The site has significant water supplies, two 35 thousand volt "kv" power lines connected to the electricity grid, full connectivity to fixed and mobile tele-communications systems and broadband access for internet services. It is 63 kilometres from Chongli, the host city of the 2022 Winter Olympic Games to which a high speed train link from Beijing is currently being constructed. Climatic conditions are not severe with warm summers and cold, dry winters, enabling Caijiaying to operate for 365 days a year.

DEVELOPMENT

Hebei Hua Ao is a contractual co-operative joint venture company entity established in 1994. Initially, Griffin held 60% of Hebei Hua Ao (through a wholly owned subsidiary) with the remaining 40% held by the Zhangjiakou Guoxin Enterprise Management and Service Center ("Guoxin"), the previously named Zhangjiakou Caijiaying Lead Zinc Mining Company, the shareholders of which remain the Zhangjiakou City People's Government and the Third Geological Brigade of Hebei Province (the "3rd Brigade").

The initial term of Hebei Hua Ao was 25 years and was due to expire in 2019. In light of the continuing increase in the resources base and production profile of the Caijiaying Mine, the Company, through its wholly owned subsidiary China Zinc Limited, purchased an additional 28.8% interest in Hebei Hua Ao from Guoxin in 2012. Griffin now holds an 88.8% equity interest in Hebei Hua Ao and Guoxin retains an 11.2% residual interest with a fee for services rendered, resulting in Hebei Hua Ao being in the nature of a subsidiary of the Company

with a service contract to Guoxin for accounting purposes. In addition, and as part of this purchase agreement, the term of the Hebei Hua Ao joint venture was extended to October 2037.

In January 2004, a second contractual joint venture company, Hebei Anglo, was formed to hold the mineral rights to the area surrounding the original Hebei Hua Ao licence area and any other areas of interest in Hebei Province. Griffin, through its wholly owned UK subsidiary, Panda Resources Limited, has a 90% interest in Hebei Anglo whilst Guoxin holds 10%. Griffin, through Hebei Hua Ao and Hebei Anglo, has a controlling interest in mining and exploration licences over approximately 37.4 square kilometres at Caijiaying.

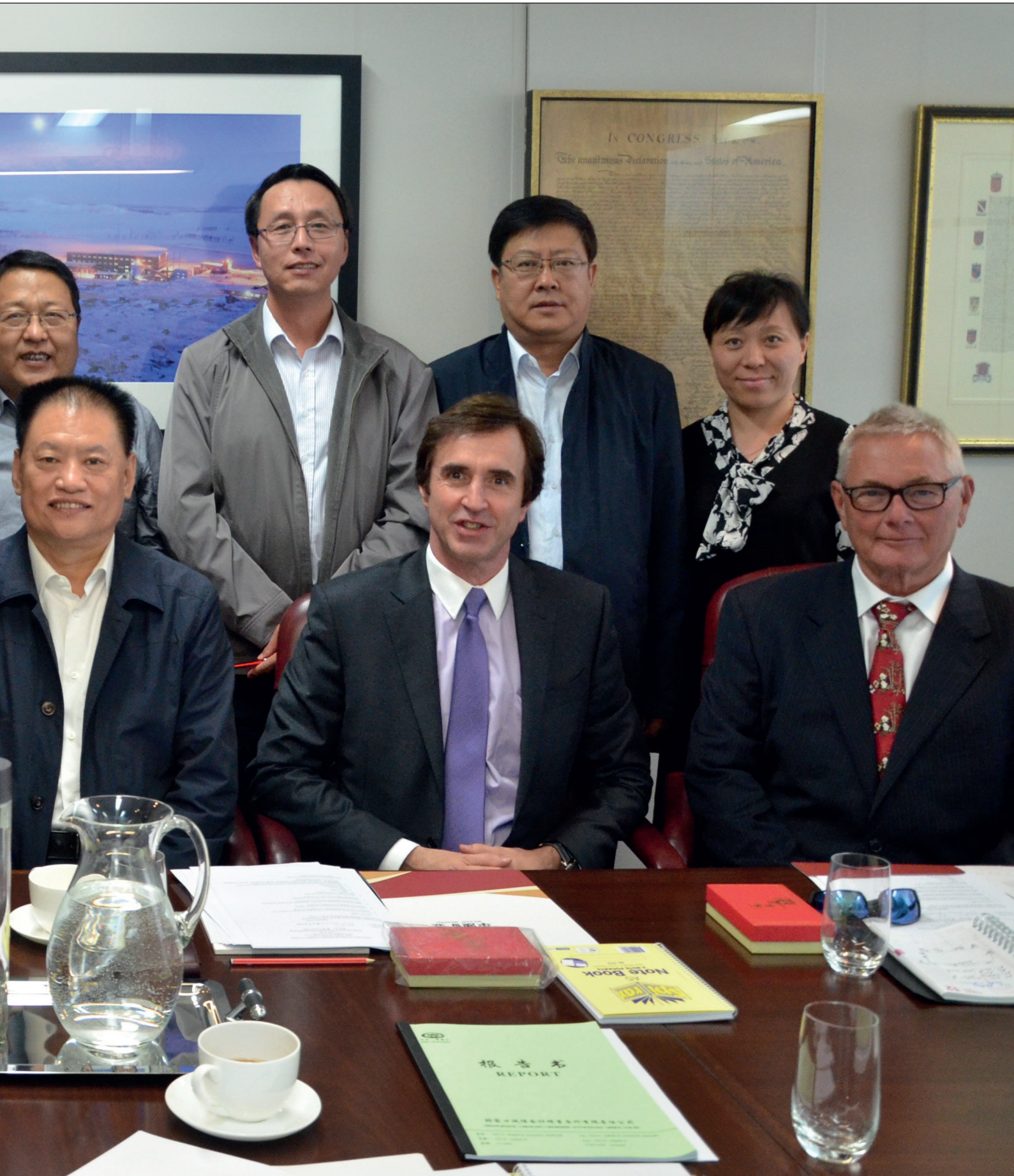
Following extensive exploration, resource delineation drilling, a number of scoping studies, a feasibility study, financing and construction, Griffin successfully commissioned the Caijiaying Mine on time and within budget in 2005 with an initial design production throughput rate of 200,000 tonnes of ore per annum.

Numerous upgrades to the Caijiaying Mine and processing facilities have taken place since commissioning. In January 2016, the Company completed a further upgrade of the processing facilities at the Caijiaying Mine and the construction of two new 35kv power lines connected to the main grid enabling a new third primary ball mill to be commissioned. This latest upgrade has taken name plate mill throughput capacity to 1.5 million tonnes of ore per annum.

Underground development continues with the expansion of the existing mining operations at Zone III. Access to the Zone II area to the south of Zone III has been constructed allowing for underground drilling and further exploration work at Zone II. The mining and development of Zone II is subject to the successful granting of a new mining licence over that area.



Hebei Hua Ao directors and shareholders meeting. Front row from left to right: Li Chunsheng, (Chief Geologist of Hebei Provincial BGMR); Fang Jibin, (Executive Deputy Secretary General of Zhangjiakou Municipal Government); Zhang Junjie, (Chief of Hebei Provincial BGMR);



Back row starting from left to right: Sun Huiguang, (Director of Hebei Hua Ao); Jin Shengchang, (Deputy Chairman of Hebei Hua Ao); He Yuqing, (Captain of the 3rd Brigade of the Hebei Province); Zhou Bo, (Director of Hebei Hua Ao); Gao Feng, (Director of Zhangjiakou State Assets Administration and Monitoring Commission); Sun Xiaoyan, Interpreter.” 9

**MINERAL RESOURCE ESTIMATE**

In June 2013, a Mineral Resource estimate for Caijiaying was reported. The continuing success of the exploration programme in conjunction with infill drilling and on-going development, is anticipated to lead to an upgrade of the Mineral Resource estimate for the Caijiaying Mine in the future. The 2016 Mineral Resource estimate, based on the 2013 estimate at a zinc cut-off grade of 1% and, as amended for mining depletion, is summarised below:

Caijiaying Zone III Remaining Mineral Resources 31 December 2016**Grade Tonnage Reported above a Cut off Grade of 1.0% Zn**

Zone III Category	Tonnes (Mt)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	Zn Metal (t)	Pb Metal (t)	Ag Metal (Oz)	Au Metal (Oz)
Measured	12.3	4.9	0.3	26.1	0.8	598,000	36,000	10,307,000	296,000
Indicated	7.8	4.4	0.2	22.2	0.7	348,000	13,000	5,598,000	167,000
Inferred	7.7	4.2	0.2	18.5	0.5	322,000	12,000	4,551,000	129,000
Sub-Total	27.8	4.6	0.2	22.9	0.7	1,269,000	62,000	20,455,000	591,000

Caijiaying Zone II Remaining Mineral Resources 31 December 2016**Grade Tonnage Reported above a Cut off Grade of 1.0% Zn**

Zone II Category	Tonnes (Mt)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	Zn Metal (t)	Pb Metal (t)	Ag Metal (Oz)	Au Metal (Oz)
Measured	-	-	-	-	-	-	-	-	-
Indicated	4.1	3.0	0.7	24.9	0.3	123,000	27,000	3,242,800	39,300
Inferred	15.6	3.3	0.8	24.5	0.3	516,000	117,000	12,276,700	124,200
Sub-Total	19.6	3.3	0.7	24.6	0.3	638,000	144,000	15,519,600	163,500

Caijiaying Combined Global Remaining Mineral Resources**Grade Tonnage Reported above a Cut off Grade of 1.0% Zn**

Combined Category	Tonnes (Mt)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	Zn Metal (t)	Pb Metal (t)	Ag Metal (Oz)	Au Metal (Oz)
Measured	12.3	4.9	0.3	26.1	0.8	598,000	36,000	10,307,000	296,000
Indicated	11.9	4.0	0.3	23.1	0.5	471,000	40,000	8,841,000	206,000
Inferred	23.2	3.6	0.6	22.5	0.3	838,000	129,000	16,827,000	253,000
Total	47.4	4.0	0.4	23.6	0.5	1,908,000	206,000	35,975,000	755,000

Notes:

Zone II Mineral Resource includes 1.49 million tonnes at 3.09% zinc oxide material.

The Mineral Resource estimate is based on 2,470 underground diamond drill holes and 579 surface drill holes.

The underground drilling was carried out using nominal fan patterns of 20m by 20m, grading to a 40m by 40m pattern at depth. Resource wireframes were interpreted by CSA Global Pty Ltd in consultation with Griffin's geologists. The resource outlines were based on mineralisation envelopes prepared on cross-sections using a nominal 1% Zn cut-off grade. The Mineral Resource has been depleted using a three-dimensional survey "As Built" wireframe which models all of the mined out voids at they stand at 31st December 2016.

The Caijiaying Mineral Resources are based on resource modelling work completed by CSA Global Pty Ltd in 2013 and reported in accordance with JORC 2012 guidelines.

The information in this report that relates to Mineral Resources is based on information compiled by Mr. Steve Rose, who is a Fellow of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr. Rose is a full-time employee of CSA Global Pty Ltd and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr. Rose consents to the inclusion of such information in this report in the form and context in which it appears.



GEOLOGY

Mineralisation at Caijiaying is believed to be related to a Jurassic igneous event that affected the 2.3 billion year old metamorphic basement rocks. Base metal and gold mineralisation associated with Jurassic intrusives have replaced favourable horizons in the metamorphic rocks, most notably calcsilicates and marble. Porphyry sills and dykes intruding along faults have then cut across the sequence.

Ongoing exploration in the area surrounding the Caijiaying Mine and within Hebei Hua Ao's and Hebei Anglo's tenement boundary continues to confirm the area to be highly prospective, indicating significant potential for further base metal and gold deposits.

EXPLORATION

The exploration programme at Caijiaying in 2016 continued to expand existing areas of mineralisation, providing new targets with the aim of ensuring an ongoing supply of ore, and an update to the Mineral Resource estimate. This involved prioritising targets into the following categories:

- In-mine areas between or adjacent to known orebodies;
- Near-mine targets, mainly within reach of underground drilling from existing or planned drives; and
- Regional targets both within and adjacent to existing licences.

Hebei Hua Ao Mining and Exploration Area

Extensive ongoing underground diamond drilling continues to target extensions of known deposits and areas adjacent to known deposits. These near mine targets include extensions of known zinc, lead and gold rich lodes within Zone III. In 2016, 220 underground diamond drill holes were drilled for a total of 30,779 metres, utilising three underground electric drill rigs. These results will be incorporated in the next resource update.

There was no surface exploration drilling activity during 2016, however, previously reported surface

drilling to the north of Zone III shows that the main ore bodies, defined by Zones II and III, extend at least another 300 metres north beneath thickening cover sequences. This recent discovery, named Zone VIII, contains similar rock types and mineralisation styles already seen in Zones II and III. Further drilling from the surface at Zone VIII is planned for the 2017 summer drill season.

Three key geological technical studies were undertaken in 2016:

- On-going geological structural studies to enable an updated 3D geological model and exploration target matrix continued throughout 2016. This work included detailed relogging and multi-element geochemistry of selected underground diamond drill holes combined with detailed geological mapping of underground workings across three key cross sections through the Caijiaying Mine.
- Detailed geochemistry studies aimed to identify hydrothermal breccias that are potentially mineralising plumbing feeders to the Caijiaying ore bodies and to investigate the effectiveness of multi-element geochemistry for lode characterisation and its application for near mine exploration targeting. The geochemistry data accurately maps pathfinder element assemblages, alteration indices and lithology discriminators at the Caijiaying Mine. This, in combination with the geological structural studies, has provided high priority near mine exploration targets that have been successfully targeted throughout 2016 and will continue to be developed and drill tested in 2017.
- Detailed geochemistry, lode characterisation, and geological studies into the gold bearing lodes at the Caijiaying Mine. The aim of these ongoing studies is to improve the overall understanding of the lithological and structural controls to gold mineralisation to provide potential geochemical vectors that can be used to develop specific gold targets.



39,500mN

40,000mN

S

1,500mRL

← ZONE II

ZONE III RESOURCES

250m



12 Long section 3D view of the Zone III Mineral Resource wireframes (blue) and underground development and stopeing (red) looking west.



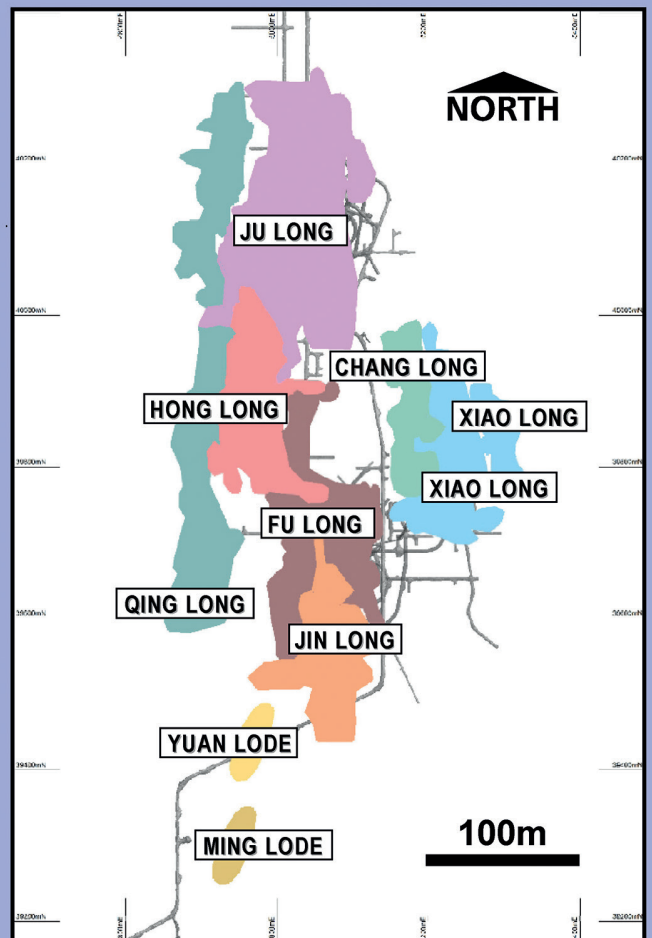
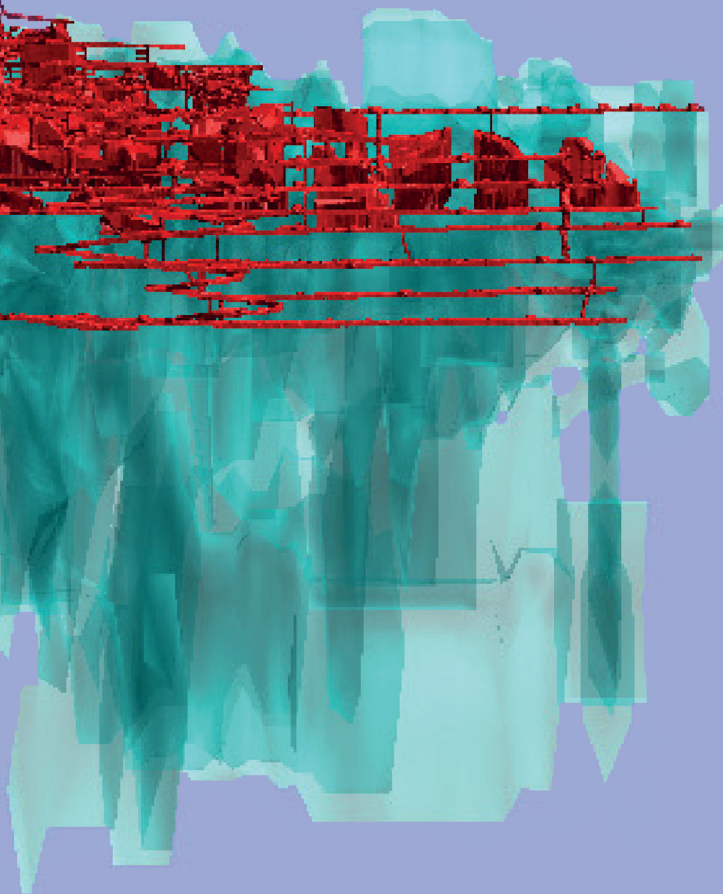
mN

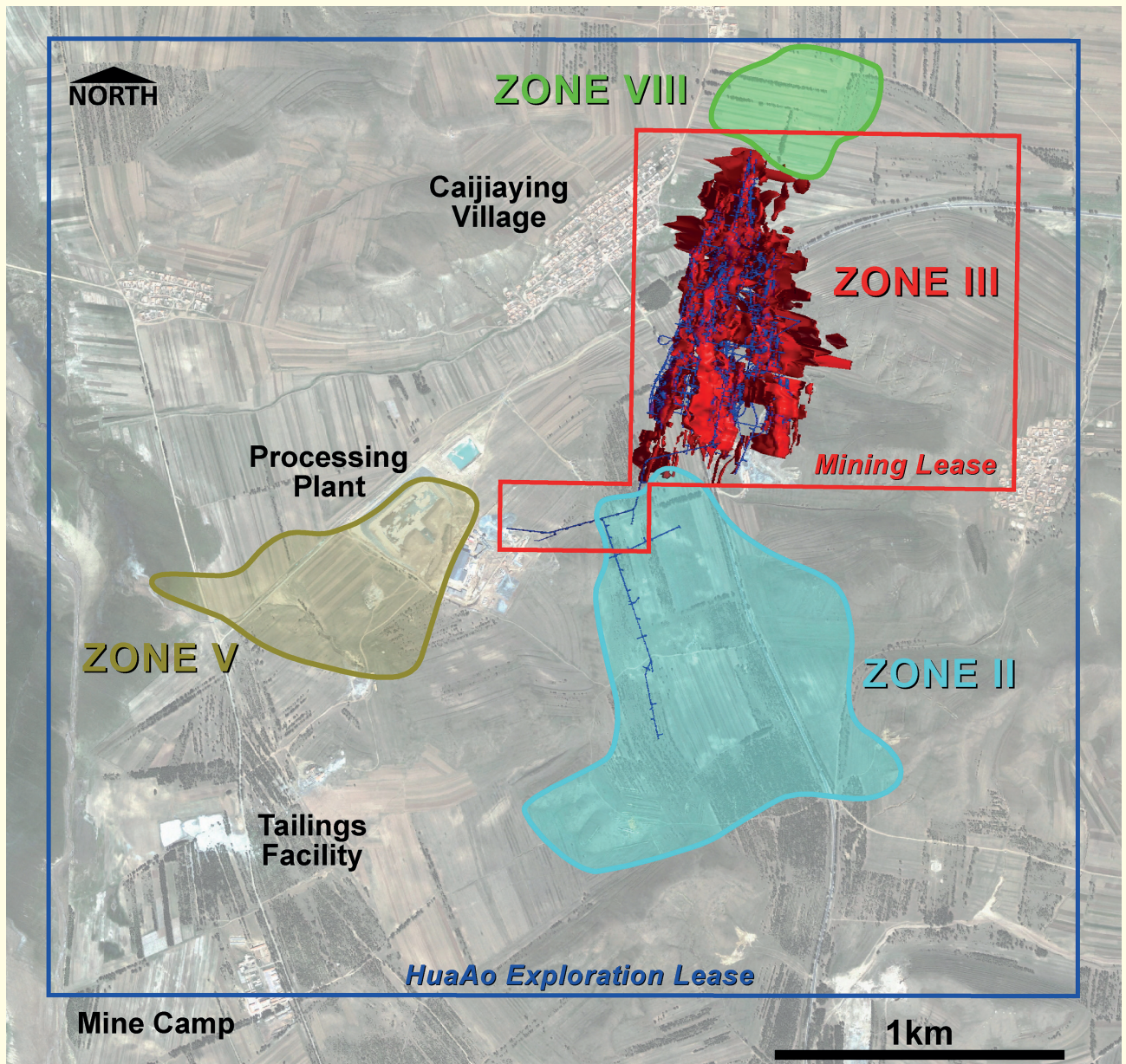
40,500mN

N

Surface

UNDERGROUND DEVELOPMENT





Plan view of Zone II, V and VIII exploration targets, lease boundaries and local infrastructure



Hebei Anglo Exploration Area

During 2016, regional exploration activities included historical data compilation and review, geological mapping and surface geochemical surveys. Regional target generation continued in 2016 with geochemical surveys conducted both within and adjacent to existing licences. The results of these surveys were very encouraging and have resulted in the identification of anomalous areas with geochemical signatures similar to that observed in drill core data from the Caijiaying Mine area. Further sampling and analysis will continue to develop and prioritise targets for future drilling.

Shitouhulun and Sangongdi

On 17th March 2016, an agreement was signed between Griffin's wholly owned subsidiary, China Zinc Limited, and the 3rd Brigade for co-operation in exploration outside the Caijiaying Mine area and regionally throughout Hebei Province. This provides a unique opportunity for the Company to investigate the region's economic mineral potential and unlock areas of interest within Hebei Province.

On the 14th December 2016, a further agreement was signed between the same parties specifically identifying two areas of particular interest, Shitouhulun, approximately 30 kilometres south west of the Caijiaying Mine, and Sangongdi, 11 kilometres to the north west of the Caijiaying Mine. Both share the same geological signatures as the known orebodies at the Caijiaying Mine.

Exploration of both these areas is expected to begin in the northern hemisphere spring with shallow auger drilling.

2017 Exploration

Geochemical analysis will continue within the Caijiaying Mine to increase the understanding of the complexity of the orebody. Regional exploration will continue with surface geochemical sampling and analysis to evaluate

targets for further consideration and drilling. Surface diamond drilling will be carried out at Zone VIII which is located to the north and along strike of Zone III. This drilling follows on from that completed in 2015.

OPERATIONS

The underground mine and surface processing plant operated safely and reliably during 2016. However, two separate fatal accidents in 2015 resulted in the temporary suspension of underground operations from 12th October 2015 to 20th January 2016. During this period, low grade stockpiled ore was treated and this resulted in a reduced head grade with a commensurate impact on metal production.

A third new main 750,000 tonne ball mill was commissioned on the 28th January 2016 following the connection of a new 35kv electrical power line to the Caijiaying Mine. As a result, available grinding capacity increased to 1.5 million tonnes of ore per annum. This enabled a record mill throughput to be achieved in 2016, despite zinc metal production being lower than in 2015 due to the mine shutdown and the consequent inability to undertake capital development to prepare ore for extraction. This led to the milling of available low grade ore and the depletion of stopes above the allowable 1260 metre mining level. Zinc production was augmented by increased gold production which was sourced from the recently discovered Yuan Lode which typically produces higher gold grades than found elsewhere in the Caijiaying Mine.

In October 2016 a new safety permit was received from the regulatory authorities for a fresh panel of higher grade zinc ore to be accessed between the 1175 metre level and the 1260 metre level. Mining of this panel was able to be commenced immediately as all of the associated declines, pump stations, electrical infrastructure and cross cuts were installed during the process of the granting of the new permit.





Griffin Mining Limited directors from left to right Dal Brynelsen, Rupert Crowe, Adam Usdan and Mladen Ninkov (Chairman) at Sangongdi. 17



In summary, production in 2016 was as follows:

- 817,506 tonnes of ore were mined, compared to 571,815 tonnes in 2015;
- 874,983 tonnes of ore were processed, compared to 839,713 tonnes in 2015;
- 31,948 tonnes of zinc metal in concentrate were produced, compared to 38,560 tonnes in 2015;
- A record 12,654 ounces of gold in concentrate were produced, compared to 10,363 ounces in 2015;
- 310,610 ounces of silver in concentrate were produced, compared to 343,575 ounces in 2015; and
- 1,439 tonnes of lead in concentrate were produced, compared to 1,785 tonnes in 2015.

In light of the continuing increasing production profile, a transition has begun to the use of more modern mining equipment. This has led to the adoption of a programme to introduce more mechanisation in the Caijiaying Mine. To this end, two new remote control load, haul, dump units were acquired to improve ore recovery from stopes and improve operator safety. A new electro hydraulic longhole drill was also ordered in 2016 and was commissioned in the first quarter of 2017. This will replace a number of older compressed air units and improve productivity as well as improving operator safety and comfort. This follows the purchase of an electro hydraulic development drill in 2015

Underground development work was significantly increased from previous years, with 5,506 metres of capital development and 5,165 metres of operational development completed in 2016.

Long hole open stoping continues to be the predominant mining method. The resulting voids are then backfilled with cemented hydraulic fill in the case of primary stopes or development waste in secondary stopes.

COMMUNITY INVESTMENT

& PARTNERSHIP

The Company, through Hebei Hua Ao, has invested heavily in the local community and continues to maintain and further implement best practices regarding the protection of the environment. This includes:

- Controls to prevent the discharge of waste into the environment;
- All processed water and water from the mine being recycled;
- Boiler flue gases being treated by a dust and sulphur extraction system to prevent the emission of pollutants into the atmosphere;
- Waste rock and mill tailings being used to the maximum for backfilling underground stope voids. This minimises the mine footprint by reducing the need for larger tailings and waste storages;
- Noise and dust from operations from the Caijiaying Mine being strictly controlled;
- The Company funding the state endorsed “greening” project, including the planting of trees by local villagers in the Caijiaying area;
- Approval from the relevant authorities to increase the capacity of the dry tailings storage without an increase in the footprint of the facility via modern design practices;
- A dedicated rubbish disposal building to store Caijiaying Mine rubbish prior to sorting and collection;
- Provision of coal to the local primary and secondary schools for heating during the winter; and
- Collaboration with local brick manufactures to supply mill tailings for brick manufacturing in Zhangbei.



These environmental best practices have been recognised in the past by the Chinese Government with Hebei Hua Ao being presented with the Environmental Award at the 2010 China Mining Conference and the Mine Development Outstanding Achievement Award at the 2011 China Mining Conference.

In terms of further community interaction, Hebei Hua Ao provides a direct water supply to the local villagers, has constructed sealed roads to the Caijiaying Mine and nearby villages, financed the construction of a local kindergarten, an old peoples rest home and assisted with other infrastructure projects.

In 2013, Griffin, through Hebei Hua Ao, instigated a programme to create a long term industry for the Caijiaying local village, in particular, to provide a more sustainable annual income less reliant on the seasonality of crops grown in the short summer months. To that end, Hebei Hua Ao purchased on behalf of the local community 170 cows, which were already pregnant, creating a sizeable initial herd of 217 cattle for the creation of a dairy and cattle farm. In 2015 Hebei Hua Ao purchased another 183 cows for the local community to bring the total herd size to over 500 head of cattle. The venture has been an outstanding success.

Hebei Hua Ao has also assisted in the upgrade of facilities at the local township school and set up “Project Hope” to provide scholarships to local students for ongoing study at primary, secondary and tertiary levels. Expatriate workers also donate their valuable time every week to teach English at the local township school in their off duty hours.

Griffin estimates that the Caijiaying Mine currently provides direct and indirect employment to over 1,000 Chinese nationals. The employment of expatriate personnel is confined to a small number of five professionals with specialist technical and managerial expertise.

During 2016, Hebei Hua Ao paid Rmb 81 million (\$13 million) in taxes, royalties, social security fees, fines and other duties to Chinese Governmental authorities and agencies.

FINANCIAL

Griffin Mining Limited (the “Company”) and its subsidiaries (together the “Group”) returned to profitability in 2016 with increased turnover and lower cost of sales. The Group recorded;

- Revenues of \$66,270,000 in 2016 (2015 \$59,779,000);
- Operating profit of \$15,201,000 in 2016 (2015 \$4,301,000);
- Profit before tax of \$10,382,000 in 2016 (2015 loss \$940,000); and
- Profit after tax of \$5,914,000 in 2016 (2015 loss \$2,186,000)

Although record throughput was achieved in 2016, lower zinc, lead and silver head grades caused by restricted mine access following the suspension of mining operations, resulted in lower zinc, lead and silver in concentrate being produced and sold than in 2015. However, gold in concentrate production was up 22.1% on 2015 to a record 12,654 ozs.

Metal in concentrate prices received were significantly higher in 2016 than in 2015 with zinc metal in concentrate prices received of \$1,520 per tonne up 27.6% on that received in 2015 of \$1,191; silver of \$13.25 per oz was up 10.9% from that received in 2015 of \$11.95; and gold of \$1,154 per oz up 10.6% on that received in 2015 of \$1,043. This reflects higher market prices and a tightening of concentrate supply in China.







In summary, metal in concentrate sales in 2016 were:

- 31,864 tonnes zinc compared with 38,514 tonnes in 2015;
- 1,439 tonnes lead compared with 1,800 tonnes in 2015;
- 310,611 ozs silver compared with 346,711 ozs in 2015; and
- 12,654 ozs gold compared with 10,406 ozs in 2015.

Cost of sales of \$37,851,000 in 2016 was down on that incurred in 2015 of \$42,948,000. This reflects some economies of scale following the installation of the new ball mill and non-productive costs during the suspension in mining in 2015.

874,983 tonnes of ore were processed in 2016 up 35,270 tonnes (4.2%) from 2015 of 839,983 tonnes. Despite this increase in throughput processing costs fell by 5.8% in 2016 with costs per tonne of ore processed down by 9.6%.

863,077 tonnes of ore were mined in 2016 up 291,262 (50.9%) from 2015 of 571,815. Mining costs rose 4.8% which with increased tonnage resulted in significantly lower costs per tonne of ore mined. Much of this reduction in costs may be attributed to non-productive mine service costs during the suspension in mining activities in the later part of 2015 with no ore extracted.

817,506 tonnes of ore were hauled in 2016 up 220,445 (36.9%) from 2015 of 597,061. Haulage costs rose 26.5%, which again with increased tonnage resulted in significantly lower costs per tonne of ore hauled. Much of this reduction in costs reflects shorter distances hauled from higher mine levels.

Administration expenses (including those of the Caijiaying site) have risen 5.5% from \$12,530,000 in 2015 to \$13,218,000 in 2016. Underlying administration costs have fallen 12.5% with lower share based option charges, a fall in the value of the Renminbi and other cost savings. However, service

fees to Guoxin based upon Hebei Hua Ao's profits have increased from a credit of \$307,000 in 2015 to a charge of \$1,983,000 in 2016.

With a return to profitability, bank loans are being repaid as quickly as possible resulting in finance charges falling from \$5,084,000 in 2015 to \$4,286,000 in 2016.

A fall in the value of the Chinese Renminbi and British Pound in 2016 caused foreign exchange losses of \$532,000 (2015 \$447,000) to be incurred.

Losses on the disposal of plant and equipment of \$224,000 were recorded in 2016 compared to \$48,000 in 2015.

Income taxes of \$4,468,000 (2015 \$1,246,000) have been charged in 2016. This includes a deferred taxation provision of \$151,000 (2015 \$813,000) and a charge of \$573,000 in respect of deductions made in prior years since disallowed by the Chinese tax authorities.

Basic earnings per share in 2016 was 3.30 cents (2015 loss 1.22 cents) and diluted earnings per share was 3.26 cents (2015 loss 1.22).

Bank loans of \$14,891,000 were repaid in 2016 (2015 \$3,171,000 drawn down) whilst cash and cash equivalents fell by \$10,711,000 in 2016 (2015 reduction \$1,520,000) with:

- Net cash inflow from operating activities in 2016 of \$22,544,000 (2015 \$26,139,000); and
- \$11,104,000 invested in mine development and plant upgrades in 2016, (2015 \$16,044,000).

Attributable net assets per share at 31st December 2016 was 80 cents (2015 78 cents).



STRATEGIC REVIEW

In view of the significant potential of the Caijiaying Mine and surrounding areas and given the Company's knowledge and expertise in China, the directors and management have focused on the further development of Caijiaying, investigation of prospective areas near to Caijiaying and other potential projects in China.

CAIJIAYING

Caijiaying's short and long term metal production capability has been augmented with the expansion of the grinding and flotation circuits, ongoing underground infrastructure development and exploration work. Exploration has been focussed on identifying geological targets and evaluating the potential for significant additional resources. Whilst the existing Mineral Resource estimate confirms the availability of extensive resources at the Caijiaying Mine for increased production, further resource additions will also provide an opportunity to further increase production at the Caijiaying Mine. This will require further licences and permits from various Chinese authorities which is proving increasingly complex and time consuming to obtain.

Currently with the 1.5 million tonne upgrade completed, every effort is being made to obtain permits to enhance production and obtain a new mining licence at Zone II. This will allow all the known resources in Zones II and III to be extracted over time. Development work underground from the main Zone III area towards Zone II has enabled further resource definition underground drilling to be undertaken. A new haulage drive was completed during 2016 with the dual purpose of improving ventilation and removing previous bottlenecks caused by having only a single haulage decline to surface. Development work at Zone II is planned to begin as soon as the new mining licence is received. It is expected that this work will be completed in 2017 and that this will enable significant production increases from 2018 onwards.

The two declines accessing the lower sections of Zone III terminate on the 1175 metre level. These declines will be extended to the 1000 metre level during 2017 and 2018 in order to access the Mineral Resource between the 1175 metres and 1000 metre horizons to provide long term mill feed. Work is expected to commence on these declines in the second quarter of 2017.

ACQUISITIONS AND FURTHER PROJECTS

Whilst the Company continues to develop the Caijiaying Mine and explore the surrounding area, the directors and management continue to search for, and investigate, the potential acquisition of base metals projects that may be brought into long term, economic production for a capital cost that provides a substantial and justifiable return on equity to shareholders, particularly in a rising commodity price market.

A new master agreement was signed on the 17th March 2016 between the 3rd Brigade and Hebei Hua Ao, to examine their extensive database for existing known deposits and prospective mining areas and enter into commercial arrangements on those projects. The Company entered into a further agreement with the 3rd Geological Brigade to specifically investigate and explore the Shitouhulun licence area (held by the 3rd Brigade) and the Sangongdi area on the 19th December 2016. Both of these areas have considerable potential for mineralisation and are proximal to the Caijiaying Mine.

Furthermore a large number of potential projects have been analysed worldwide. None have been successfully consummated for many reasons including; negative findings during due diligence; an insufficient return calculated for the risk shareholders would need to accept in funding the project to production; overall risk profile; and various other deficiencies in grade, tonnes, metallurgy, depth and difficulty in mining.



DIRECTORS

Mladen Ninkov, Chairman, Australian, aged 55, holds a Master of Law Degree from Trinity Hall, Cambridge University and Bachelor of Laws (with Honours) and Bachelor of Jurisprudence Degrees from the University of Western Australia. He is the principal of Keynes Capital. He has a mining, legal, fund management and investment banking background and is admitted as a barrister and solicitor of the Supreme Court of Western Australia. He was the Chairman and Managing Director of the Dragon Capital Funds management group, a director and Head of International Corporate Finance at ANZ Grindlays Bank Plc in London and a Vice President of Prudential-Bache Securities Inc. in New York. He also worked at Skadden Arps Slate Meagher & Flom in New York and Freehill Hollingdale & Page in Australia. He has been chairman and director of a number of both public and private mining and oil and gas companies.

Roger Goodwin, Finance Director, British, aged 61, is a Chartered Accountant. He has been with the Company since 1996 having previously held senior positions in a number of public and private companies within the natural resources sector. He has a strong professional background, including that as a manager with KPMG, with considerable public company and corporate finance experience and experience of emerging markets.

Dal Brynelsen, Director, Canadian, aged 70, is a graduate of the University of British Columbia in Urban Land Economics. Mr. Brynelsen has been involved in the resource industry for over 30 years. He has been responsible for the discovery, development and operation of several underground gold mines during his career. Mr. Brynelsen is the President and a director of Vangold Resources Limited.

Rupert Crowe, Director, Australian, aged 68, is a graduate geologist from Trinity College, Dublin. He was the founding chairman and managing director of CSA Global Pty Ltd, a mining consultancy company founded in Ireland in 1983 and now headquartered in Australia. He is a specialist in zinc-lead exploration and was involved as a principal in the discovery and development of several notable mines. He has served on the board of four public companies listed in Dublin, London, Vancouver and Australia.

Adam Usdan, Director, USA, aged 55, holds an MBA from the Kellogg Graduate School of Management at Northwestern University with majors in Finance, Marketing and Accounting, and a BA in English from Wesleyan University. He is the President of Trellus Management Company LLC, an equity hedge fund based in the USA. Mr Usdan founded Trellus Management in January 1994 and has been in the investment advisory industry for over 25 years. Mr Usdan began his investment career in 1987 at Odyssey Partners, where he was responsible for managing long/short U.S. equity (small to mid-cap) pools of capital.



SENIOR EXECUTIVES

Mark Hine, Chief Operating Officer, Australian, aged 58, is a mining engineer having graduated from the Western Australia School of Mines. He is a member of the Australian Institute of Company Directors and a member of the Australian Institute of Mining and Metallurgy. He has extensive mining experience with over 25 years of senior management roles in both surface and underground mining operations. He has held a number of senior positions in the mining industry including Chief Operating Officer of Focus Minerals Ltd, Chief Executive Officer of Golden West Resources Ltd, Executive General Manager of Mining Macmahon Contractors Pty Ltd, Chief Executive Officer of Queensland Industrial Minerals Ltd, Chief Executive Officer of Consolidated Rutile Ltd and General Manager Pasmenco of Broken Hill / Elura Mines.

Wendy Zhang, Chief Financial Officer, Hebei Hua Ao, aged 43, holds a Master of Accounting degree from Macquarie University. She is a Certified Practising Accountant of Australia and a qualified member of the Chinese Institute of Certified Public Accountants for 11 years. Prior to joining Griffin, she spent the previous 4 years as Financial Controller of Golden Tiger Mining's joint venture operations in China. Previously she was Chief Accountant for Shanghai Silk Group and subsequently Ann Taylor Shanghai

Dr Bo Zhou, General Manager China, Australian, aged 54, holds a PhD in exploration geology from Sydney University and a BSc in economic geology from Peking University. He was Managing Director of Sinovus Mining Ltd, an ASX listed company with mineral interests in China. Prior to that he was the General Manager for Guangxi Golden Tiger Mining, a Sino-Australian JV gold company focussed on Guangxi, China, controlled by Golden Tiger Mining NL, an ASX listed company. He has also worked as the Senior Geologist for Silk Road Resources (A Toronto listed company), responsible for evaluating various gold properties in Gansu Province in central western China. Dr Zhou has considerable experience in the Chinese resources sector.

Michael Hulmes, General Manager of the Caijiaying Mine, Australian, has an engineering degree from the Royal School of Mines in London and an MBA from Deakin University. He has over 30 years' experience in the mining industry having held senior management roles in Australia, Portugal, Papua New Guinea and Saudi Arabia including General Manager of Lundin Mining in Portugal, General Manager of Ok Tedi Mining in Papua New Guinea and Chief Operating Officer of Citadel Resources in Australia. He has extensive experience in zinc, copper, gold and nickel mining operations.



Back row left to right: Wendy Zhang (Chief Financial Officer - Hebei Hua Ao), Mark Hine (Chief Operating Officer),
26 Michael Hulmes (Operations Manager - Caijiaying), Bo Zhou (General Manager - China).



Front row left to right: Roger Goodwin (Finance Director), Adam Usdan (Director), Mladen Ninkov (Chairman), Rupert Crowe (Director), Dal Brynelsen (Director). 27



DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of Griffin Mining Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2016.

FINANCIAL RESULTS

The Group profit before taxation for 2016 amounted to US\$10,382,000 (2015 loss US\$940,000). Taxation of US\$4,468,000 (2015 US\$1,246,000) has been provided. No dividend was paid in 2016 (2015 nil). US\$5,914,000 has been credited to reserves (2015 debited US\$2,186,000).

The basic earnings per share amounted to 3.30 cents (2015 loss 1.22 cents). The attributable net asset value per share at 31 December 2016 amounted to 80 cents (2015 78 cents).

With cash flows from operations directed to repaying Chinese banking facilities, the directors do not recommend the payment of a dividend at this time.

PRINCIPAL ACTIVITIES

The principal activity of the Group is that of mining and exploration. A review of the Group's operations for the year ended 31 December 2016 and the indication of likely future developments are set out on pages 6 to 23.

DIRECTORS

The Directors of the Company during the year were:

Mladen Ninkov – *Australian – Chairman*

Roger Goodwin – *British – Finance Director*

Dal Brynelsen – *Canadian*

Rupert Crowe – *Australian/Irish*

Adam Usdan – *American (USA)*

Under the bye laws of the Company, the Directors serve until re-elected at the next Annual General Meeting of the Company. Being eligible all the Directors currently in office offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

The beneficial interests of the Directors holding office at 31 December 2016 and their immediate families in the share capital of the Company were as follows:

Name	At 31 December 2016			At 1 January 2016		
	Ordinary shares, number	Options over ordinary shares, number exercisable at		Ordinary shares, number	Options over ordinary shares, number exercisable at	
		30 pence	40 pence		30 pence	40 pence
Mladen Ninkov	33,001	-	3,500,000	33,001	12,000,000	3,500,000
Dal Brynelsen	382,001	900,000	-	382,001	900,000	-
Rupert Crowe	1	900,000	-	1	900,000	-
Roger Goodwin	877,830	1,500,000	500,000	877,830	1,500,000	500,000
Adam Usdan	30,584,556	3,500,000	-	30,574,556	3,500,000	-

All of the Directors' interests detailed are beneficial.

On 6th May 2016 vested options over 4,000,000 shares in the Company together with unvested options over 8,000,000 shares in the company both exercisable at 30 pence per share, were sold by Mladen Ninkov for a consideration of 0.5 pence per option.



DIRECTORS' REPORT

On 13 February 2014 options (the “40 pence options”) over 5,000,000 new ordinary shares were granted to directors and key employees of the Company in order to retain and incentivise key personnel with managerial and operating experience in non-standard jurisdictions in a tight mining employment market.

Each 40 pence option will entitle the holder to subscribe for new ordinary shares in the Company at an exercise price of £0.40 per share on or before 31 December 2018. One third of these options vested on 31 December 2014, one third vesting on 31 December 2015, and one third on 31 December 2016.

On 6 February 2015 the Board resolved to adopt a new share option scheme (the “30 pence options”) over a total of 20,000,000 new ordinary shares in the Company in order to retain and incentivise the Company’s directors and management.

Each 30 pence option will entitle the holder to subscribe for new ordinary shares in the Company at an exercise price of 30 pence per new ordinary share on or before 31 December 2020. One third of these options vested immediately upon being granted, one third of these options vested on 31st December 2016, and a further third of each holder’s options will vest on the granting of a new mining licence over Zone II at the Caijiaying mine.

The 30 pence options will not vest if an employee or a director resigns or leaves the Company for cause prior to the vesting event taking place.

All the 30 pence options will vest immediately upon a takeover offer being made; or a substantial change in the business of the Company or its subsidiaries; or the sale of a substantial asset of the Company or by its subsidiaries; or a change in substantial control of the Company taking place prior to the options expiring.

REMUNERATION POLICY

The remuneration of all executive and non-executive directors, officers and senior employees of the Group is determined by the board of directors.

The Company is committed to remunerating senior executives in a manner that is market-competitive and consistent with “Best Practice” including the interests of shareholders. Remuneration packages are based on fixed and variable components, determined by the executives’ position, experience and performance, and may be satisfied via cash or equity.

Non-executive directors are remunerated at a level that is consistent with market and industry standards. The cash remuneration of non-executive directors consists only of directors’ fees and no retirement benefits are payable.

The Group’s remuneration policy has been based on industry practice rather than Group performance and takes into account the risk and liabilities assumed by the directors and executives as a result of their involvement in the speculative activities undertaken by the Group. Directors and executives are fairly compensated for the extensive work they undertake.

No performance based bonuses were issued during the reporting year.



DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group are set out below, together with details of how these are currently mitigated. Further information on how the Group manages risk is given on page 55 to 58.

Risk	Comment	Business Impact	Mitigation
Economic Risk			
Exposure to a fall in zinc, gold and to a lesser extent silver and lead metal prices.	Revenue is dependent upon metal prices.	High	In common with other mining companies operating in China the Group sells its products by auction to local smelters and agents, however, Griffin continues to review the appropriateness of hedging and indicative cost of put options.
Exposure to fluctuations in the Renminbi / US dollar exchange rate.	A fall in the value of the Renminbi would reduce the US dollar value of revenues, whilst an increase in the value of the Renminbi would increase operating cost.	Moderate	The Renminbi is loosely pegged to the US dollar.
Exposure to increases in the market prices of materials, equipment and services the Group uses.	The Group is subject to increases in the market prices for materials, services and equipment.	Moderate	The Group seeks to agree long term contracts for all major services and goods supplied.
Country risks			
Exposure to political and social risks in the Peoples Republic of China ("the PRC").	Griffin's assets are located in the PRC and therefore exposed to any adverse changes in the political and social situations there.	Low	The Group has operated in the PRC for 19 years in which time the country has been relatively stable.
Exposure to changes in fiscal and regulatory regime.	In addition to political/social risks, the Group is exposed to changes in permitting, environmental, health and safety, and tax regulations in the PRC which may result in a more challenging, or costly, operating environment.	High	Griffin actively engages with the local PRC authorities and agencies to identify and minimise the impact of changes in PRC regulations.
Operational risk			
Reliance on Third Party Contractors	Griffin uses a number of unrelated contractors, particularly for its mining, haulage and drilling activities. Each of these activities has inherent risk, including injury or death to the contractor's employees. Such events cause a total shutdown of all operational activities which may take a substantial time to recommence.	Moderate	Griffin has an extensive Occupational Health and Safety Department in conjunction with a Mining Manager and his team of underground foreman who constantly oversee all contractors' activities.



DIRECTORS' REPORT

Risk	Comment	Business Impact	Mitigation
Operational risk continued			
Exposure to mining hazards	The Group is exposed to a number of risks and hazards typically associated with mining for example rock falls, flooding and mechanical breakdowns.	Moderate	Griffin's operational teams continually monitor mining and other risks, and report to senior management who report to the Board of directors, taking immediate and appropriate measures to minimise any such risks and hazards identified. In addition, the Group's operations are regularly monitored by the PRC Safety Bureaus.
Reliability of Mineral Resources and Ore Reserves	The calculation of Mineral Resources and Ore Reserves involves significant assumptions and estimates that may prove inaccurate.	Low	Griffin's Mineral Resources and Ore Reserve estimates are prepared by third party consultants, based in Australia, who are deemed "experts" under the JORC Code.
Other			
Exposure to a single operation	Griffin is reliant upon a single operation, being the Caijiaying zinc gold mine in the PRC. Factors affecting operations at Caijiaying have an impact upon the Group.	Moderate	It is the Company's policy to pursue growth opportunities through expansion in the Caijiaying area, as well as reviewing acquisition opportunities which can be shown to be value accretive.
Licence administration	Griffin, through its subsidiary companies, holds a number of mining, exploration and other licenses and permits to operate. These normally include conditions for ongoing operation and require periodic renewal. Renewals are not guaranteed.	High	All licensing requirements are kept under review with operational staff liaising with local PRC authorities to ensure conditions are adhered to and applications made timely and in good order.
Finance	The Group has through its local subsidiary drawn down bank loans which in common with general banking practice in the PRC are for one year. The renewal / rolling over of these loans each year is not guaranteed.	Moderate	The Group seeks to comply with all loan requirements, including the prompt payment of interest, and maintains good relations with the banks providing facilities to the Group.
Key management	The management of Caijiaying is reliant on a small number of key executives, both inside and outside of China. Their death, retirement or departure may have a significant effect on the operations of the Company.	Moderate	Griffin has contractual arrangements with all key employees which are renewed on a regular basis.
Geological and Historical Information	The loss of historical and/or geological information would have a very significant impact on the operations of the Company,	Low	Griffin has instituted a complete back up system relating to all geological and operational data in Perth with CSA Global. It is updated on a daily basis.



DIRECTORS' REPORT

CORPORATE GOVERNANCE

Although the Company is not required to comply with the UK Corporate Governance Code, it attempts to follow best practice as far as possible within the limitations of the Company's size. In particular, in view of the Company's size and the limited number of directors, the Company has not formally established: an audit committee; a remuneration committee; and a nominations committee. However, the non-executive directors informally fulfil the roles and responsibilities normally expected of such committees.

The board of directors includes a number of non-executive directors who, with the exception of Adam Usdan, other than their shareholding, are considered to be independent as their shareholdings are less than 0.2% of the Company's issued share capital and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board meets regularly and is responsible for the overall strategy of the Group, its performance, management and major financial matters. All directors are subject to re-appointment annually at each annual general meeting of the Company's shareholders.

Various safeguards and checks have been instigated as part of the Company's system of financial control. These include:

- preparation of regular financial reports and management accounts
- preparation and review of capital and operational budgets
- preparation of regular operational reports
- prior approval of capital and other significant expenditure
- regular review and assessment of foreign exchange risk and requirements
- regular review of commodity prices and assessment of hedging requirements

AUDITOR

Grant Thornton UK LLP have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their appointment will be put to the forthcoming Annual General Meeting.



DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Bermudan company law and generally accepted best practice requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Bermuda Companies Act 1981 as amended. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

This report was approved by the Board and signed on its behalf by:

Roger Goodwin

Finance Director and Company Secretary

5th April 2017



REPORT OF THE INDEPENDENT AUDITOR

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GRIFFIN MINING LIMITED

We have audited the Group financial statements (the 'financial statements') of Griffin Mining Limited for the year ended 31st December 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and the related notes. 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.

This report is made solely to the Company's members, as a body, in accordance with section 90(2) of the Bermuda Companies Act 1981. 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 Statement of Directors' Responsibilities in respect of the accounts set out on page 33, the directors are responsible for the preparation of the financial statements which 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 Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit for the year then ended in accordance with IFRSs as adopted by the European Union.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
5th April 2017



CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(expressed in thousands US dollars)

	Notes	2016 \$000	2015 \$000
Revenue	1	66,270	59,779
Cost of sales	1	<u>(37,851)</u>	<u>(42,948)</u>
Gross profit		28,419	16,831
Administration expenses	1	<u>(13,218)</u>	<u>(12,530)</u>
Profit from operations	2	15,201	4,301
Losses on disposal of plant and equipment	4	(224)	(48)
Foreign exchange (losses)		(532)	(447)
Finance income	5	178	202
Finance costs	6	(4,286)	(5,084)
Other income	7	<u>45</u>	<u>136</u>
Profit / (loss) before tax		10,382	(940)
Income tax expense	8	<u>(4,468)</u>	<u>(1,246)</u>
Profit / (loss) after tax		<u>5,914</u>	<u>(2,186)</u>
Basic earnings / (loss) per share (cents)	9	<u>3.30</u>	<u>(1.22)</u>
Diluted earnings / (loss) per share (cents)	9	<u>3.26</u>	<u>(1.22)</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

(expressed in thousands US dollars)

	2016	2015
	\$000	\$000
Profit / (loss) for the year	<u>5,914</u>	<u>(2,186)</u>
Other comprehensive income that will be reclassified to profit or loss		
Exchange differences on translating foreign operations	<u>(3,299)</u>	<u>(2,967)</u>
Other comprehensive income for the period, net of tax	<u>(3,299)</u>	<u>(2,967)</u>
Total comprehensive income for the period	<u><u>2,615</u></u>	<u><u>(5,153)</u></u>



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016
(expressed in thousands US dollars)

	Notes	2016 \$000	2015 \$000
ASSETS			
Non-current assets			
Property, plant and equipment	10	204,491	210,252
Intangible assets – Exploration interests	11	1,792	1,870
		<u>206,283</u>	<u>212,122</u>
Current assets			
Inventories	12	6,148	7,182
Receivables and other current assets	13	8,232	3,194
Cash and cash equivalents		13,218	24,062
		<u>27,598</u>	<u>34,438</u>
Total assets		<u><u>233,881</u></u>	<u><u>246,560</u></u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	14	1,790	1,790
Share premium		71,310	71,310
Contributing surplus		3,690	3,690
Share based payments		2,072	1,363
Shares held in treasury	15	(3,875)	(3,875)
Chinese statutory re-investment reserve		1,583	1,595
Other reserve on acquisition of non controlling interests		(29,346)	(29,346)
Foreign exchange reserve		4,871	8,068
Profit and loss reserve		91,174	85,350
Total equity attributable to equity holders of the parent		<u>143,269</u>	<u>139,945</u>
Non-current liabilities			
Long-term provisions	18	2,277	2,433
Deferred taxation	19	2,607	2,630
Finance lease	20	3,791	7,454
		<u>8,675</u>	<u>12,517</u>
Current liabilities			
Trade and other payables	21	34,466	28,977
Finance lease	20	2,783	1,982
Bank loans	22	44,688	63,139
Total current liabilities		<u>81,937</u>	<u>94,098</u>
Total equities and liabilities		<u><u>233,881</u></u>	<u><u>246,560</u></u>
Attributable net asset value per share to equity holders of parent	23	\$0.80	\$0.78

The accounts on pages 35 to 59 were approved by the Board of Directors and signed on its behalf by:

Mladen Ninkov
Chairman

Roger Goodwin
Finance Director

5th April 2017



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(expressed in thousands US dollars)

	Share capital	Share premium	Share based payments	Share Treasury	Shares held in re-investment	Chinese reserve	Other reserve on acquisition of non-controlling interests	Foreign exchange reserve	Profit and loss reserve	Total attributable to equity holders of parent
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 31 December 2014	1,790	71,310	3,690	3,064	-	1,686	(29,365)	10,957	84,794	147,926
Regulatory transfer for future investment	-	-	-	-	-	6	-	-	(6)	-
Purchase of shares for treasury	-	-	-	(3,875)	-	-	-	-	-	(3,875)
Transfer of share based payments on expiry	-	-	(2,748)	-	-	-	-	-	2,748	-
Cost of share based payments	-	-	1,047	-	-	-	-	-	-	1,047
Transaction with owners	-	-	(1,701)	(3,875)	6	-	-	-	2,742	(2,828)
Loss for the year	-	-	-	-	-	-	-	-	(2,186)	(2,186)
Other comprehensive income:	-	-	-	-	-	-	-	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	(97)	(97)	19	(2,889)	-	(2,967)
Total comprehensive income	-	-	-	-	(97)	(97)	19	(2,889)	(2,186)	(5,153)
At 31 December 2015	1,790	71,310	3,690	1,363	(3,875)	1,595	(29,346)	8,068	85,350	139,945
Regulatory transfer for future investment	-	-	-	-	-	90	-	-	(90)	-
Cost of share based payments	-	-	709	-	-	-	-	-	-	709
Transaction with owners	-	-	709	-	-	90	-	-	(90)	709
Profit for the year	-	-	-	-	-	-	-	-	5,914	5,914
Other comprehensive income:	-	-	-	-	-	-	-	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	-	(102)	-	(3,197)	-	(3,299)
Total comprehensive income	-	-	-	-	-	(102)	-	(3,197)	5,914	2,615
At 31 December 2016	1,790	71,310	3,690	2,072	(3,875)	1,583	(29,346)	4,871	91,174	143,269



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016
(expressed in thousands US dollars)

	Notes	2016 \$000	2015 \$000
Net cash flows from operating activities			
Profit / (loss) before taxation		10,382	(940)
Foreign exchange losses		532	447
Finance income	5	(178)	(202)
Finance costs	6	4,286	5,084
Adjustment in respect of share based payments	16	709	1,047
Depreciation, depletion and amortisation	10	8,526	6,808
Losses on disposal of equipment		224	48
Decrease in inventories		1,034	10,295
(Increase) / decrease in receivables and other current assets		(6,251)	804
Increase in trade and other payables		3,280	2,748
Taxation paid		(641)	(974)
Net cash inflow from operating activities		21,903	25,165
Cash flows from investing activities			
Interest received	5	178	202
Payments to acquire – mineral interests	10	(7,361)	(8,960)
Payments to acquire – plant and equipment	10	(3,776)	(7,215)
Payments to acquire – office equipment	10	(102)	(3)
Payments to acquire intangible fixed assets – exploration interests	11	(43)	(68)
Net cash outflow from investing activities		(11,104)	(16,044)
Cash flows from financing activities			
Purchase of shares for treasury		-	(3,875)
Interest paid		(3,684)	(4,324)
Finance lease repayments		(2,935)	(2,573)
Proceeds from bank loans		-	3,171
Repayment of bank loans		(14,891)	-
Net cash outflow from financing activities		(21,510)	(7,601)
(Decrease) / increase in cash and cash equivalents		(10,711)	1,520
Cash and cash equivalents at the beginning of the year		24,062	23,371
Effects of exchange rates		(133)	(829)
Cash and cash equivalents at the end of the year		13,218	24,062
Cash and cash equivalents comprise bank deposits			
Bank deposits		13,218	24,062

Included within net cash flows of \$10,711,000 (2015 \$1,520,000) are foreign exchange losses of \$532,000 (2015 losses \$447,000) which have been treated as realised.



ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union. The significant accounting policies adopted are detailed below:

ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention, except for certain financial assets which are measured at fair value.

NEW AND REVISED STANDARDS THAT ARE EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2016

The Group has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position. The amendments to IFRS11 'Accounting for Acquisitions of Interests in Joint Operations' have not had any impact on the Group.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

IFRS 9 'Financial Instruments'

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Although this is not expected to have a significant impact on the Group's financial statements, management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Group's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed.
- if the Group continues to elect the fair value option for certain financial liabilities (see Note 20), fair value movements will be presented in other comprehensive income to the extent those changes relate to the Group's own credit risk.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

Management do not consider that this will have a significant impact on the Group's financial statements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.



ACCOUNTING POLICIES

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP (CONTINUED)

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information.

However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition.
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices.
- assessing their current disclosures for finance leases and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets.
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions.
- assessing the additional disclosures that will be required.

IFRS 16 is effective from periods beginning on or after 1 January 2019.

GOING CONCERN

The financial statements have been prepared on a going concern basis. As at 31 December 2016, Hebei Hua Ao (a subsidiary of the Company) had bank loans outstanding of \$44,688,000. Having previously rolled over each of the bank facilities, Hebei Hua Ao expects to roll over the existing facilities for a further 12 months and since 31 December 2016 has demonstrated its ability to service these by paying all interest when falling due and rolling over loans of Rmb 195m (\$28m) since 31st December 2016. Having considered the cash resources, banking facilities and forecasts for the remainder of the Hebei Hua Ao contract term, the directors do not expect any going concern issues to arise.

CONSOLIDATION BASIS

The Group accounts consolidate the accounts of the Company and all its subsidiary undertakings drawn up to 31 December each year. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Management has reassessed its involvement in Hebei Hua Ao and Hebei Sino Anglo in accordance with IFRS 10's revised control definition and guidance. It has concluded that it has significant influence but not outright control. In making its judgement, management considered the Group's voting rights, the relative size and dispersion of the voting rights held by other shareholders and the extent of recent participation by those shareholders in general meetings.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets.

Non controlling interests, presented as part of equity, represent the excess of the purchase price paid to acquire rights over the non-controlling interests in subsidiary companies.



ACCOUNTING POLICIES

REVENUE

Revenue is measured by reference to the fair value of consideration received or receivable by the Group and comprises amounts received, net of VAT and production royalties, from sales of metal concentrates to third party customers. Sales are made on a delivery / collection basis and are recognised on agreement following open auction of metals in concentrate and where delivery is delayed the Group ensures it is compliant with IAS18 under the bill and hold arrangement.

NON CURRENT ASSETS

Intangible assets – exploration cost

Expenditure on licences, concessions and exploration incurred on areas of interest by subsidiary undertakings are carried as intangible assets until such time as it is determined that there are both technically feasible and commercially viable reserves within each area of interest and the necessary finance in place, at which time such costs are transferred to property, plant and equipment to be amortised over the expected productive life of the asset. The Group's intangible assets are subject to periodic review at least annually by the directors for impairment. Exploration, appraisal and development costs incurred in respect of each area of interest which are determined as unsuccessful are written off to the income statement.

Property, plant and equipment

Mine development expenditure for the initial establishment of access to mineral reserves, together with capitalised exploration, evaluation and commissioning expenditure, and costs directly attributable to bringing the mine into commercial production are capitalised to the extent that the expenditure results in significant future benefits. Property, plant and equipment are shown at cost less depreciation and provisions for the impairment of value (see note 10).

Residual values

Material residual value estimates are updated as required, but at least annually whether or not the asset is re-valued.

Depreciation

On 21 May 2012 the term of Hebei Hua Ao's business licence was extended to 12 October 2037 effective from 25 June 2012. The pre existing business licence terminated in 2019. Prior to 25 June 2012, all costs capitalised (mineral interests, mill and mine equipment) within an area of interest, were amortised over the current estimated economic reserve of the area of interest on a unit of production basis.

In view of the extension of Hebei Hua Ao's business licence, thereby increasing the term of Hebei Hua Ao, the economic lives of all non current tangible assets have been reassessed and depreciation rates have been revised with effect from 25 June 2012 to reflect the increased term of operations, extractable resource, and economic lives of the assets as follows:

1. Mine acquisition, development, licence, pre production and land use rights - on a unit of production
2. Plant and buildings - over 25 years on a straight line basis with a 10% residual value
3. Dry tailings facility held under finance lease- over 15 years on a straight line basis with no residual value
4. Mechanical equipment - over 10 years on a straight line basis with a 10% residual value
5. All other equipment, including vehicles - over 5 years on a straight line basis with a 10% residual value

Impairment

A review for impairment indicators at each reporting date is undertaken. In the event of impairment indicators being identified, an impairment test is carried out to assess whether the net book value of the capitalised costs in each area of interest is covered by the discounted future cash flows from reserves within that area of interest. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Estimate and assumptions used in the determining whether an asset has become impaired are set out overleaf.



ACCOUNTING POLICIES

NON CURRENT ASSETS (CONTINUED)

Impairment assessments are based upon a range of estimates and assumptions:

ESTIMATES / ASSUMPTIONS	BASIS
Future production	Proven and probable reserves and resource estimates together with processing capacity
Commodity prices	Forward market and longer term price estimates
Exchange rates	Current market exchange rates
Discount rates	Cost of capital risk

MINE CLOSURE COSTS

Mining operations are generally required to restore mine and processing sites at the end of their lives to a condition acceptable to the relevant authorities and consistent with the Group's environmental policies. Whilst the Group strives to maintain, and where possible, enhance the environment of the Group's processing sites, provision is made for site restoration costs in the accounts in accordance with local requirements.

INVENTORIES

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

1. Consumable stores and spares, at purchase cost on a first in first out basis
2. Concentrate stockpiles at cost of direct materials, power, labour, and a proportion of site overhead
3. Ore stockpiles at cost of direct material, power, labour contractor charges and a proportion of site overhead

FINANCIAL ASSETS

Financial assets held by the Group are loans and receivables.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in profit or loss or in other comprehensive income.

Financial assets are reviewed by management individually and an assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income" respectively.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are classified as either 'trade and other receivables', 'cash', or 'other financial assets' in the statement of financial position. On initial recognition loans and receivables are recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's other receivables fall into this category of financial instruments.

FINANCIAL LIABILITIES

The Group's financial liabilities include bank loans, trade and other payables, which are measured at amortised cost using the effective interest rate method. On initial recognition financial liabilities are recognised at fair value net of transaction costs.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument.

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income".



ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSACTIONS

The accounts have been prepared in United States dollars being the local currency of Bermuda. Whilst registered in Bermuda the Company, together with its subsidiaries and associates, operate in China, the United Kingdom, and Australia. The functional and presentation currency of the parent is US dollars.

Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities have been translated at rates in effect at the statement of financial position date. Any realised or unrealised exchange adjustments have been charged or credited to profit or loss. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

On consolidation the accounts of overseas subsidiary undertakings are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and income statement items are translated at the average rate for the year. The exchange difference arising on the retranslation of opening net assets is recognised in other comprehensive income and accumulated in the foreign exchange reserve. All other translation differences are taken to profit or loss.

The balance of the foreign currency translation reserve relating to an operation that is disposed of is reclassified from equity to profit or loss at the time of the disposal.

EQUITY

Equity comprises the following:

1. “Share capital” represents the nominal value of equity shares.
2. “Share premium” represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
3. “Contributing surplus” is a statutory reserve for the maintenance of capital under Bermuda company law and was created on a reduction in the par value of the Company’s ordinary shares on 15 March 2001.
4. “Share based payments” represents equity-settled share-based remuneration until such share options are exercised.
5. “Foreign exchange reserve” represents the differences arising from translation of investments in overseas subsidiaries.
6. “Chinese statutory re-investment reserve” represents a statutory retained earnings reserve under PRC law for future investment by Hebei Hua-Ao.
7. “other reserves on acquisition of non controlling interests” represents the excess of the purchase price paid to acquire non controlling interest rights over the non controlling interests in subsidiary companies.
8. “Profit and loss reserve” represents retained profits and losses.

EQUITY SETTLED SHARE BASED PAYMENTS

All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, production upgrades).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to “Share based payments” in the statement of financial position.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.



ACCOUNTING POLICIES

EQUITY SETTLED SHARE BASED PAYMENTS (CONTINUED)

Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital.

For the financial year ended 31 December 2016 the total expense recognised in profit or loss arising from share based transactions was \$709,000 (2015: \$1,047,000).

SIGNIFICANT JUDGEMENTS AND ESTIMATES

In formulating accounting policies the directors are required to apply their judgement, and where necessary engage professional advisors, with regard to the following significant areas:

- Impairment review assumptions, property, plant and equipment (note 10). Impairments are assessed by comparison of the cash generating unit (the Caijiaying Mine) carrying amounts against the value of future discounted cash flows expected to be derived from this unit. The value of the cash flows are estimated by direct reference to the current prevailing value of the commodities extracted. Based on current production and costs the directors have determined that the Group requires the market price of zinc to be above \$2,080 per tonne with gold, silver and lead prices remaining at current prevailing levels, to avoid an impairment charge. Non-impairment of all assets is conditional upon continued mining licences and permits which the directors consider will be maintained or obtained as appropriate.
- Impairment review assumptions, exploration interests (note 11). Impairments are assessed by reference to exploration results carried out in an area of interest. Where such exploration indicates that there are no indications of mineralisation within the area of interest, provision is made for impairment in value. There were no indicators of impairment in the Group's areas of interest.
- Provision for mine closure costs (note 18) have been made in accordance with the rules and regulations of the Peoples Republic of China at a rate of Rmb0.5 per tonne of estimated resources. The expected amount of resource due to be extracted during the life of the mine is based on estimated rates of extraction which take into account reported measured, indicated and inferred levels of resource, the term of the Hebei Hua Ao business licence and current capability of the extractive machinery currently in use at the mine.
- The determination of the value of Finance Leased Asset (note 10), and attributable Finance Lease Interest (note 20) is assessed from future expected utilisation of the asset, assuming half of all tailings will be treated by the asset and the Group's inherent rate of interest on bank loans in China.
- Non-controlling interests (note 28) are determined by reference to the underlying agreements and practice, with the allocation of the purchase consideration on acquisition of non-controlling interests and extension of the Hebei Hua Ao business licence between that capitalised to mineral interests and that charged to reserves by reference to the impact of future cashflows. Following the acquisition of Griffin's Chinese partner's equity interests in the Hebei Hua Ao Joint Venture in 2012 and a reappraisal of the arrangements with the Chinese partners, the relationship with them is now in the nature of a service provider facilitating Hebei Hua Ao's operations in China rather than that of non-controlling interests. In line with this new arrangement an annual service charge is paid to the Chinese partners, however, due to the potential variables the Directors are unable to estimate what, if any, this will be in any future year.

The directors continually monitor the basis on which their judgements are formulated. Where required they will make amendments to these judgements. Where judgements and estimates are amended between accounting periods, full disclosure of the financial implications are given within the relevant notes to the Group accounts.



ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

DIVIDENDS

Dividend distributions payable to equity shareholders are included in “other short term financial liabilities” when the dividends are approved in a directors meeting prior to the reporting date.

TAXATION

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries, associates and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of the tax expense in the income statement, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity.

SEGMENT REPORTING

In identifying its operating segments, management generally follows the Group’s service lines, which represent the main products produced by the Group. Management consider there to be only one operating segment being the operations at the Caijiaying Mine based in China with production of zinc concentrate, and lead concentrate with associated precious metals credits. All activities of the Group are reported through management and the executive directors to the Board of directors of the Company. The measurement policies the Group uses for Segment reporting under IFRS 8 are the same as those used in its financial statements.

Corporate assets which are not directly attributable to the business activities of Caijiaying Mine are not allocated to the Chinese segment but are reviewed in light of operating expenses by the region in which they occur. In the financial periods under review, this primarily applies to the Group’s head office and intermediary holding companies within the Group.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

LEASED ASSETS

Finance leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability.

See accounting policy on non-current assets and depreciation and note 10 for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.



NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENTAL REPORTING

The Group has one business segment, the Caijiaying zinc gold mine in the People's Republic of China. All sales and costs of sales in 2016 and 2015 were derived from the Caijiaying zinc gold mine.

	2016 \$000	2015 \$000
REVENUES		
China	<u>66,270</u>	<u>59,779</u>
Zinc concentrate sales	48,430	45,727
Lead and precious metals concentrate sales	21,116	17,487
Royalties and resource taxes	<u>(3,276)</u>	<u>(3,435)</u>
	<u>66,270</u>	<u>59,779</u>
COST OF SALES		
China	<u>(37,851)</u>	<u>(42,948)</u>
ADMINISTRATION EXPENSES		
China	(8,410)	(7,433)
Australia	(474)	(320)
European Union	<u>(4,334)</u>	<u>(4,777)</u>
	<u>(13,218)</u>	<u>(12,530)</u>

All revenues, cost of sales and operating expenses charged to profit and loss relate to continuing operations.

	2016 \$000	2015 \$000
TOTAL ASSETS		
China	231,894	244,496
Australia	499	340
European Union	<u>1,488</u>	<u>1,724</u>
	<u>233,881</u>	<u>246,560</u>
CAPITAL EXPENDITURE		
China	11,137	16,243
European Union	<u>102</u>	<u>3</u>
	<u>11,239</u>	<u>16,246</u>

2. PROFIT FROM OPERATIONS

Profit from operations is stated after charging

	2016 \$000	2015 \$000
Fees for audit of the Company	64	59
Fees for the audit of the subsidiaries	55	55
Tax compliance	2	2
Other non-audit fees	8	2
Staff costs	6,444	6,478
Fair values of options granted to directors and management	<u>709</u>	<u>1,047</u>
	<u>No.</u>	<u>No.</u>
Average number of persons employed by the Group in the year	<u>385</u>	<u>371</u>



NOTES TO THE FINANCIAL STATEMENTS

3. DIRECTORS' AND KEY PERSONNEL REMUNERATION

The following fees and remuneration were receivable by the Directors holding office and key personnel engaged during the year:

	Fees	Salary	Pension & social security costs	Share based payments	Total 2016	Fees	Salary	Pension & social security costs	Share based payments	Total 2015
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Mladen Ninkov*	105	-	-	430	535	112	-	-	642	754
Dal Brynelsen	186	-	-	30	216	198	-	-	41	239
Rupert Crowe	82	-	-	30	112	102	-	-	41	143
Roger Goodwin	105	440	100	54	699	112	474	109	82	777
Adam Usdan	82	-	-	116	198	87	-	-	158	245
	560	440	100	660	1,760	611	474	109	964	2,158
Key personnel	-	1,248	11	49	1,308	-	1,298	14	83	1,395
	560	1,688	111	709	3,068	611	1,772	123	1,047	3,553

*Keynes Capital, the registered business name of Keynes Investments Pty Limited as trustee for the Keynes Trust, received fees under a consultancy agreement of \$1,868,000 (2015 \$1,878,000), for the provision of advisory and support services to Griffin Mining Limited and its subsidiaries during the year. Mladen Ninkov is a director and employee of Keynes Investments Pty Limited.

No share options were exercised by the directors in 2016 or 2015

4. LOSS ON DISPOSAL OF PLANT AND EQUIPMENT

	2016	2015
	\$000	\$000
Loss on disposal of plant and equipment	<u>224</u>	<u>48</u>

5. FINANCE INCOME

	2016	2015
	\$000	\$000
Interest on bank deposits	<u>178</u>	<u>202</u>

6. FINANCE COSTS

	2016	2015
	\$000	\$000
Interest payable on short term bank loans	3,684	4,324
Finance lease interest	<u>602</u>	<u>760</u>
	<u>4,286</u>	<u>5,084</u>

7. OTHER INCOME

	2016	2015
	\$000	\$000
Scrap and sundry other sales	<u>45</u>	<u>136</u>



NOTES TO THE FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE

	2016 \$000	2015 \$000
Profit / (loss) for the year before tax	<u>10,382</u>	<u>(940)</u>
Expected tax expense at a standard rate of PRC income tax of 25% (2015 25%)	2,596	(235)
<i>Adjustment for tax exempt items:</i>		
- Income and expenses outside the PRC not subject to tax	843	662
<i>Adjustments for short term timing differences:</i>		
- In respect of accounting differences	(545)	(202)
- Other	135	78
Adjustments for permanent timing differences re prior year costs disallowed	573	-
Adjustments for permanent timing differences other	695	113
Withholding tax on intercompany dividends and charges	20	17
Current taxation expense	<u>4,317</u>	<u>433</u>
Deferred taxation expense		
Origination and reversal of short term timing differences	<u>151</u>	<u>813</u>
	<u>151</u>	<u>813</u>
Total tax expense	<u>4,468</u>	<u>1,246</u>

The parent company is not resident in the United Kingdom for taxation purposes. Hebei Hua-Ao paid income tax in the PRC at a rate of 25% in 2016 (25% in 2015) based upon the profits calculated under Chinese generally accepted accounting principals (Chinese "GAAP").

9. EARNINGS / LOSS PER SHARE

The calculation of the basic earnings / loss per share is based upon the earnings / losses attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the basic earnings per share on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliation of the earnings and weighted average number of shares used in the calculations are set out below:

	2016			2015		
	Earnings \$000	Weighted Average number of shares	Per share amount (cents)	Loss \$000	Weighted Average number of shares	Per share amount (cents)
Basic earnings per share						
Earnings attributable to ordinary shareholders	5,914	179,091,830	3.30	(2,186)	179,091,830	(1.22)
Dilutive effect of securities						
Options	-	2,248,862	(0.04)	-	-	-
Diluted earnings per share	<u>5,914</u>	<u>181,340,692</u>	<u>3.26</u>	<u>(2,186)</u>	<u>179,091,830</u>	<u>(1.22)</u>



NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral interests	Mill and mobile mine equipment	Office furniture & equipment	Total
	\$000	\$000	\$000	\$000
At 31 December 2014	159,851	48,476	12	208,339
Foreign exchange adjustments	(4,528)	(2,913)	-	(7,441)
Additions during the year	8,960	7,215	3	16,178
Transfer rehabilitation deposit	32	-	-	32
Disposals	-	(48)	-	(48)
Depreciation charge for the year	(3,696)	(3,108)	(4)	(6,808)
At 31 December 2015	<u>160,619</u>	<u>49,622</u>	<u>11</u>	<u>210,252</u>
Foreign exchange adjustments	(5,113)	(3,164)	-	(8,277)
Additions during the year	7,361	3,776	102	11,239
Transfer rehabilitation deposit	27	-	-	27
Disposals	-	(224)	-	(224)
Depreciation charge for the year	(4,750)	(3,772)	(4)	(8,526)
At 31 December 2016	<u>158,144</u>	<u>46,238</u>	<u>109</u>	<u>204,491</u>
At 31 December 2014				
Cost	180,536	64,558	98	245,192
Accumulated depreciation	<u>(20,685)</u>	<u>(16,082)</u>	<u>(86)</u>	<u>(36,853)</u>
Net carrying amount	<u>159,851</u>	<u>48,476</u>	<u>12</u>	<u>208,339</u>
At 31 December 2015				
Cost	184,078	67,676	101	251,855
Accumulated depreciation	<u>(23,459)</u>	<u>(18,054)</u>	<u>(90)</u>	<u>(41,603)</u>
Net carrying amount	<u>160,619</u>	<u>49,622</u>	<u>11</u>	<u>210,252</u>
At 31 December 2016				
Cost	185,252	67,009	133	252,394
Accumulated depreciation	<u>(27,108)</u>	<u>(20,771)</u>	<u>(24)</u>	<u>(47,903)</u>
Net carrying amount	<u>158,144</u>	<u>46,238</u>	<u>109</u>	<u>204,491</u>

Mineral interests comprise the Group's interest in the Caijiaying ore bodies including cost on acquisition, plus subsequent expenditure on licences, concessions, exploration, appraisal and construction of the Caijiaying mine including expenditure for the initial establishment of access to mineral reserves, commissioning expenditure, and direct overhead expenses prior to commencement of commercial production and together with the end of life restoration costs.

The office furniture and equipment disclosed above relates solely to the fixed assets of the Company and China Zinc Pty Limited.

During 2013 plant and equipment with a deemed value of \$12,880,000 were acquired under a finance lease, upon which depreciation of \$2,466,000 (2015 \$1,820,000) has been provided. At 31 December 2016 the net carrying amount of this equipment was \$8,980,000 (2015 \$10,408,000).

The Group assesses the carrying value of the mineral interests, mill and mobile mine equipment at least annually, and more frequently in the event of any indications of impairment, by reference to discounted cash flow forecasts of future revenue and expenditure for each business segment. These forecasts are based upon both past and expected future performance, available resources and expectations for future markets. The directors have reassessed the net carrying value of capitalised costs at 31st



NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

December 2016 and in estimating the discounted future cash flows from the continuing operations at the Caijiaying mine the following principal assumptions were made:

- Future market prices for zinc of \$2,500 per tonne and gold of \$1,150 per troy ounce.
- Mine life to end of the business licence in 2037 with ore mined and processed with grades based upon the 2015 depleted mineral resource estimate summarised on page 10.
- Costs based upon past performance and that budgeted for 2017.
- Discount interest rate of 6.14%.
- Continued maintenance and grant of applicable licences and permits.

11. INTANGIBLE ASSETS

China – Zinc / gold exploration interests	\$000
At 1 January 2015	1,914
Foreign exchange adjustments	(112)
Additions during the year	68
At 31 December 2015	<u>1,870</u>
Foreign exchange adjustments	(121)
Additions during the year	43
At 31 December 2016	<u><u>1,792</u></u>

Intangible assets represent cost on acquisition, plus subsequent expenditure on licences, concessions, exploration, appraisal and development work. Where expenditure on an area of interest is determined as unsuccessful such expenditure is written off to profit or loss. The recoverability of these assets depends, initially, on successful appraisal activities, details of which are given in the report on operations. The outcome of such appraisal activity is uncertain. Upon economically exploitable mineral deposits being established, sufficient finance and necessary licences and permits will be required to bring such discoveries into production. At 31 December 2016 \$nil (2015 \$nil) had been provided and charged to the income statement in respect of the above exploration costs.

12. INVENTORIES

	2016	2015
	\$000	\$000
Underground ore stocks	3,192	2,381
Surface ore stocks	236	2,340
Concentrate ore stocks	188	82
Spare parts and consumables.	<u>2,532</u>	<u>2,379</u>
	<u><u>6,148</u></u>	<u><u>7,182</u></u>

All inventories are expected to be sold, used or consumed within one year of the balance sheet date.

13. RECEIVABLES AND OTHER CURRENT ASSETS

	2016	2015
	\$000	\$000
Receivables	3,677	-
Advance to Zhangjiakou Guoxin Enterprise Management and Service Center	2,461	1,343
Other receivables	343	150
Taxation	-	1,127
Prepayments	<u>1,751</u>	<u>574</u>
	<u><u>8,232</u></u>	<u><u>3,194</u></u>

During the year \$1,983,000 was incurred (2015 \$307,000 credited) in service charges with Zhangjiakou Guoxin Enterprise Management and Service Center.



NOTES TO THE FINANCIAL STATEMENTS

14. SHARE CAPITAL

	2016		2015	
	Number	\$000	Number	\$000
AUTHORISED:				
Ordinary shares of US\$0.01 each	<u>1,000,000,000</u>	<u>10,000</u>	<u>1,000,000,000</u>	<u>10,000</u>
CALLED UP ALLOTTED AND FULLY PAID:				
Ordinary shares of US\$0.01 each				
At 1 January and 31 December	<u>179,041,830</u>	<u>1,790</u>	<u>179,041,830</u>	<u>1,790</u>

15. SHARES HELD IN TREASURY

	2016		2015	
	Number	\$000	Number	\$000
At 1 January	8,703,103	3,875	-	-
Bought back in during the period	-	-	8,703,103	3,875
At 31 December	<u>8,703,103</u>	<u>3,875</u>	<u>8,703,103</u>	<u>3,875</u>

On 11 February 2015 3,000,000 of the Company's ordinary shares were purchased at a price of 26.5p per share.

On 13 February 2015 4,203,103 of the Company's ordinary shares were purchased at a price of 26.5p per share.

On 1 May 2015 1,500,000 of the Company's ordinary shares were purchased at a price of 40.0p per share.

16. SHARE OPTIONS AND WARRANTS

	At 1 January 2016	Granted/ (Exercised) / (lapsed)	At 31 December 2016
	Number	Number	Number
Options exercisable at 30 pence per share to 31 December 2020	20,000,000	-	20,000,000
Options exercisable at 40 pence per share to 31 December 2018	5,000,000	-	5,000,000
	<u>25,000,000</u>	<u>-</u>	<u>25,000,000</u>

The following table shows the number and weighted average exercise price of all the unexercised share options and warrants at the year end:

	2016		2015	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at 1 January	25,000,000	32.2	15,000,000	43.3
Lapsed during the year	-	-	(10,000,000)	45.0
Granted during the year	-	-	20,000,000	30.0
Outstanding at 31 December	<u>25,000,000</u>	<u>32.2</u>	<u>25,000,000</u>	<u>32.2</u>

The estimated value of the options exercisable at 40p up to 31 December 2018, which vested in 3 tranches of 1,666,667 each, were 7.4p, 7.9p and 8.4p.

The estimated value of the options exercisable at 30p up to 31 December 2020, which vested in 3 tranches of 6,666,666 each, were 6.2p, 7.2p and 6.8p.



NOTES TO THE FINANCIAL STATEMENTS

16. SHARE OPTIONS AND WARRANTS (CONTINUED)

Inputs into the Binomial valuation model were as follows:

	Options expiring 31 December 2020	Options expiring 31 December 2018
Share price	26.5p	33.0p
Exercise price	30.0p	40.0p
Expected volatility	35%	36%
Risk free yield	0.9%	1.3%
Dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price with reference to the correlation with the zinc price and zinc price volatility over the same period. The Binomial model used assumes that the options will be exercised early when the share price exceeds the exercise price by a multiple of two.

The Group recognised a total expense of \$709,000 (2015 \$1,047,000) during the year ended 31 December relating to equity settled share option scheme transactions.

17. DIVIDENDS

No dividends were paid in 2016 (2015 nil).

18. LONG-TERM PROVISIONS

PROVISIONS FOR MINE CLOSURE COSTS	2016	2015
	\$000	\$000
At 1 January	2,433	2,582
Transfer property plant and equipment (note 10)	27	32
Foreign exchange adjustments	(183)	(181)
At 31st December	<u>2,277</u>	<u>2,433</u>

Provision for mine closure and rehabilitation costs have been made in accordance with the laws and regulations of China at a rate of Rmb 0.5 per tonne of estimated resources.

19. DEFERRED TAXATION

	2016	2017
	\$000	\$000
At 1 January	2,630	1,953
Foreign exchange adjustments	(174)	(136)
Charge for the year	151	813
At 31 December	<u>2,607</u>	<u>2,630</u>

Deferred taxation is provided in full on temporary timing differences under the liability method using a tax rate of 25%. The deferred taxation provision arises on accelerated depreciation in the PRC deductible for taxation purposes.



NOTES TO THE FINANCIAL STATEMENTS

20. FINANCE LEASE

	2016	2015
	\$000	\$000
Amounts falling due in more than one year	3,791	7,454
Amounts falling due within one year	2,783	1,982
	<u>6,574</u>	<u>9,436</u>

Under the terms of an agreement Hebei Hua Ao pays Rmb21.32 per wet tonne treated by a dry tailings facility at Caijiaying. At the end of the agreement term in February 2021, this facility becomes the property of Hebei Hua Ao with no further payment. In determining the total liability it is assumed that one half of future production over the term of the agreement will be treated by the dry tailings facility. In determining the value of the dry tailings facility and applicable interest a deemed interest rate of 6.6% has been applied.

21. TRADE AND OTHER PAYABLES

	2016	2015
	\$000	\$000
Trade creditors	14,946	16,715
Other creditors	4,527	6,739
Taxation payable	2,549	-
Amounts due to Zhangjiakou Guoxin Enterprise Management and Service Centre	5,968	4,325
Accruals	6,476	1,198
	<u>34,466</u>	<u>28,977</u>

All amounts are short term. The carrying values of all trade and other payables are considered to be a reasonable approximation of fair value.

22. BANK LOANS

	2016	2015
	\$000	\$000
Bank loans falling due within one year	<u>44,688</u>	<u>63,139</u>

The bank loans are repayable within one year under revolving facilities and are unsecured. The bank loans carried interest as follows:

	2016		2015	
	\$000	%	\$000	%
Zhangjiakou Commercial Bank	8,649	8.7	15,400	8.7
Bank of Communications	15,857	4.785	23,100	4.785
Bank of China	20,182	5.22	24,639	5.82
	<u>44,688</u>		<u>63,139</u>	

23. ATTRIBUTABLE NET ASSET VALUE / TOTAL EQUITY PER SHARE

The attributable net asset value / total equity per share has been calculated from the consolidated net assets / total equity of the Group at 31 December 2016 of \$143,269,000 (\$139,945,000 at 31 December 2015) divided by the number of ordinary shares in issue at 31 December 2016 of 179,041,830 (179,041,830 at 31 December 2015).



NOTES TO THE FINANCIAL STATEMENTS

24. RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The Group's risk management is coordinated by its senior management and executive directors and focuses on actively securing the Group's short to medium term cash flows.

Foreign Currency Risk

The majority of the Group's operational and financial cash flows are denominated in Chinese Renminbi and United States Dollars with sterling bank deposits held to cover future sterling expenditure estimates.

Currently the Group does not carry out any significant operations in currencies outside the above.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. In addition, the conversion of Renminbi into foreign currencies is restricted and subject to the rules and regulations of foreign exchange control promulgated by the government of the Peoples Republic of China.

Sterling bank deposits translated into United States Dollars at the closing rate are as follows:

	2016	2015
	\$000	\$000
Short term bank deposits	<u>168</u>	<u>571</u>

The following table illustrates the sensitivity of the net results for the year and equity in regards to the Group's sterling deposits and the sterling US Dollar exchange rate. It assumes a + / - 15% (2015 10%) change in the sterling exchange rate for the year ended 31 December 2016. These changes are considered to be reasonable based on observation of current market conditions for the year ended 31 December 2016. The sensitivity analysis is based upon the Group's sterling deposits at each reporting date.

If sterling had strengthened against the US Dollar by 15% (2015 10%) this would have had the following impact:

	2016	2015
	\$000	\$000
Net result for the year and on equity	<u>30</u>	<u>63</u>

If sterling had weakened against the US Dollar by 15% (2014 10%) this would have the following impact:

	2016	2015
	\$000	\$000
Net result for the year and on equity	<u>(22)</u>	<u>(52)</u>

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be indicative of the Group's exposure to currency risk.

With the Renminbi exchange rate linked to the value of the US dollar and with relatively small amounts held in Australian dollars, the effect on the net results and equity of changes in Renminbi and Australian dollar exchange rates are not expected to be significant.



NOTES TO THE FINANCIAL STATEMENTS

24. RISK MANAGEMENT (CONTINUED)

Foreign Currency Risk (continued)

Foreign currency denominated financial assets and liabilities, translated into US Dollars at the closing rate, are as follows:

	2016			2015		
	GBP	Rmb	AusD	GBP	Rmb	AusD
	\$000	\$000	\$000	\$000	\$000	\$000
Financial assets	885	15,065	501	896	32,385	338
Financial liabilities	(213)	(79,493)	(54)	(250)	(96,965)	(11)
Short term exposure	<u>672</u>	<u>(64,428)</u>	<u>447</u>	<u>646</u>	<u>(64,580)</u>	<u>327</u>

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits with floating interest rates. The Group currently does not have an interest rate hedging policy.

The following table illustrates the sensitivity of the net results for the year and equity to a reasonably possible change in interest rates of + 300% and - 100% (2015 + 300% - 100%), with effect from the beginning of the year. These changes are considered to be reasonable based on observation of current market conditions within which the Group operates.

The sensitivity analysis is based upon the Group's deposits at each balance sheet date:

	2016		2015	
	Plus 300%	Minus 100%	Plus 300%	Minus 100%
	\$000	\$000	\$000	\$000
Net result for the year	<u>313</u>	<u>(178)</u>	<u>620</u>	<u>(202)</u>

Fixed and non interest bearing financial assets and liabilities are as follows:

	2016			2015		
	Floating interest rate	Non interest bearing	Total	Floating interest rate	Non interest bearing	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Financial Assets						
Cash at bank	13,218	-	13,218	24,062	-	24,062
Other receivables	-	8,322	8,322	-	3,194	3,194
Total Financial Assets	<u>13,218</u>	<u>8,322</u>	<u>21,540</u>	<u>24,062</u>	<u>3,194</u>	<u>27,256</u>
Bank loans	(44,688)	-	(44,688)	(63,139)	-	(63,139)
Finance lease liabilities	(6,574)	-	(6,574)	(9,436)	-	(9,436)
Trade and other payables	-	(34,466)	(34,466)	-	(28,977)	(28,977)
Total Financial Liabilities	<u>(51,262)</u>	<u>(34,466)</u>	<u>(85,728)</u>	<u>(72,575)</u>	<u>(28,977)</u>	<u>(101,552)</u>
Net Financial (liabilities)	<u>(38,044)</u>	<u>(26,144)</u>	<u>(64,188)</u>	<u>(48,513)</u>	<u>(25,783)</u>	<u>(74,296)</u>



NOTES TO THE FINANCIAL STATEMENTS

24. RISK MANAGEMENT (CONTINUED)

Commodity risk

The Group is exposed to the risk of changes in commodity prices and in particular that for zinc, gold and to a lesser extent silver and lead. The Group currently sells its metal concentrate production by way of open auctions in China. The Group did not hedge its metal production in 2016 or in 2015.

The following table illustrates the sensitivity of the net results for the year and equity to a reasonably possible change in the market price of zinc, gold and silver of plus 20% and minus 20% (2015 plus 20% and minus 20%), with effect from the beginning of the year. These changes are considered reasonable based upon observation of current market conditions within which the Group operates. This sensitivity analysis is based upon the Group's sales in each year.

	2016		2015	
	Plus 20% \$000	Minus 20% \$000	Plus 20% \$000	Minus 20% \$000
Net result for the year - zinc	7,120	(7,120)	6,742	(6,742)
Net result for year - gold	2,190	(2,190)	1,656	(1,656)
Net result for year - silver	617	(617)	632	(632)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group does not normally have trade receivables and does not hold collateral as security.

Credit risk from balances with banks and financial institutions is managed by the Board. Investment of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Griffin Board on a regular basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments.

25. CAPITAL MANAGEMENT AND PROCEDURES

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern;
- To increase the value of the assets of the Group; and
- To enhance shareholder value in the Company and returns to shareholders.

The achievement of these objectives is undertaken by developing existing ventures and identifying new ventures for future development. The Company will also undertake other transactions where these are deemed financially beneficial to the Company.

The directors continue to monitor the capital requirements of the Group by reference to expected future cash flows. Capital for the reporting periods under review is summarised in the consolidated statement of changes in equity. The directors consider the capital of the Group to be the total equity attributable to the equity holders of the parent of \$143,269,000 at 31st December 2016.



NOTES TO THE FINANCIAL STATEMENTS

26. FINANCIAL INSTRUMENTS

The Group does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts. Funds in excess of immediate requirements are placed in US dollar, Chinese Renminbi, and sterling short term fixed and floating rate deposits. The Group has overseas subsidiaries operating in China and Australia, whose costs are denominated in local currencies.

In the normal course of its operations the Group is exposed to commodity price, foreign currency and interest rate risks.

The Group places funds in excess of immediate requirements in US dollar, Chinese Renminbi, and sterling deposits with a number of banks to spread currency, interest rate and bank risk. These deposits are kept under regular review to maximise interest receivable and with reference to future expenditure and future currency requirements.

Commodity prices are monitored on a regular basis to ensure the Group receives fair value for its products.

The Group held the following investments in financial assets and financial liabilities:

	2016	2015
	\$000	\$000
FINANCIAL ASSETS		
Loans and receivables	8,232	3,194
Cash and cash equivalents	<u>13,218</u>	<u>24,062</u>
	<u>21,450</u>	<u>27,256</u>
FINANCIAL LIABILITIES		
Loans	51,262	72,575
Trade and other payables	<u>34,466</u>	<u>28,977</u>
	<u>85,728</u>	<u>101,552</u>

27. LIQUIDITY RISK ANALYSIS

Liquidity risk is that the Group might not be able to meet its obligations. The Group manages its liquidity needs by monitoring forecast cash inflows and outflows on a weekly and monthly basis for the year ahead and by reference to scheduled debt servicing payments and other commitments. Forecast net cash balances and requirements are compared with available borrowing facilities to determine any headroom for repayment of debt or shortfall for additional facilities. This analysis shows that with management expecting to roll over short term banking facilities (see note 22) available banking facilities are expected to be sufficient over the lookout period.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for the year ahead. This objective has been met for the reporting periods. The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables which are receivable from customers on sale and collection of concentrates.

At 31st December 2016, the Group's non-derivative financial liabilities have contractual maturities, including interest payments where applicable) as follows:

	Current	Non-current
	within one year	
	\$000	\$000
Bank borrowings	44,688	-
Finance lease obligations	2,783	3,791
Trade and other payables	34,466	-
Total	<u>81,937</u>	<u>3,791</u>



NOTES TO THE FINANCIAL STATEMENTS

28. SUBSIDIARY COMPANIES

At 31 December 2016, Griffin Mining Limited had interests in the share capital of the following principal subsidiary companies.

<i>Name</i>	<i>Class of Share held</i>	<i>Proportion of shares held</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
China Zinc Pty Ltd	Ordinary	100%	Service company	Australia
China Zinc Limited	Ordinary	100%	Holding company	Hong Kong
Hebei Hua' Ao Mining Industry Company Ltd*		88.8% **	Base and precious metals mining and development	China
Panda Resources Ltd	Ordinary	100%	Holding company	England
Hebei Sino Anglo Mining Development Company Ltd*		90%	Mineral exploration and development	China

* China Zinc Ltd, China Zinc Pty Ltd and Panda Resources Ltd are directly owned by the Company. China Zinc Ltd has a controlling interest in Hebei Hua' Ao Mining Industry Company Ltd, see below, and Panda Resources Ltd has a 90% controlling interest in Hebei Sino Anglo Mining Development Company Ltd.

** The contract establishing the Hebei Hua' Ao Mining Industry Company Ltd originally provided that the foreign party (China Zinc) received 60% of the cash flows, in accordance with its share in the equity interest in the joint venture. With effect from 25 June 2012, the Chinese party receives a minimum fee of Rmb 25m subject to various force majeure provisions and a maximum 11.2% of profits and cashflows of Hebei Hua Ao. On 21 May 2012 the term of the Hebei Hua Ao's business licence extended to 12 October 2037.

Under the terms of the agreement dated 21 May 2012, Griffin's Chinese Partners are obliged to provide various services to facilitate Hebei Hua Ao's operations in China and as such the amounts payable of \$1,983,000 (2015 credited \$307,000) are included in net operating costs rather than attributable to non-controlling interests. Likewise the amounts due at 31st December 2016 of \$5,968,000 (2015 \$4,325,000) are included in other payables rather than due to non-controlling interests within equity within the Consolidated Statement of Financial Position.

29. COMMITMENTS

At 31 December 2016 the Group had capital commitments of \$556,000 (31 December 2015 \$4,029,000).



CORPORATE INFORMATION

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Directors:	Mladen Ninkov (Chairman) Roger Goodwin (Finance Director) Dal Brynelsen Rupert Crowe Adam Usdan
Company Secretary:	Roger Goodwin
Nominated Adviser And Broker for AIM:	Panmure Gordon (UK) Limited One New Change, London, EC4M 9AF, UK.
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