Baiken-U LLP

Financial Statements
For the year ended 31 December 2017

Contents

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Independent Auditors' Report

To Management of Baiken-U LLP

Opinion

We have audited the financial statements of Baiken-U LLP (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

Sergey Dementyev
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MФ-0000086 of 27 August 2012

KPMG Audit LLC

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

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

31 January 2018

'000 KZT	**Note**	**2017**	**2016**
ASSETS			
Non-current assets			
Property, plant and equipment	13	12,350,727	13,026,822
Intangible assets		194,101	175,357
Mineral rights	14	363,494	397,760
Exploration and evaluation assets	15	2,862,061	1,684,302
Mine development costs	16	15,039,552	14,743,150
Equity-accounted investees	17	174,778	220,556
Other investments	18	106,172	210,705
Advances paid for long-term assets		-	29,094
Restricted cash	19	933,417	700,718
VAT receivable	21	1,053,012	1,736,160
Deferred tax assets	12	-	530,360
Other non-current assets		16,466	39,820
Total non-current assets		**33,093,780**	**33,494,804**
Current assets			
Inventories	20	2,162,487	3,469,463
Current tax prepaid		1,347,039	126,938
Trade and other receivables	21	24,574,125	8,730,190
Bank deposits	22	332,330	333,290
Cash and cash equivalents	23	7,023,288	9,492,844
Total current assets		**35,439,269**	**22,152,725**
Total assets		**68,533,049**	**55,647,529**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 48.

'000 KZT	Note	2017	2016
EQUITY AND LIABILITIES			
Equity			
Charter capital	24	20,431,800	20,431,800
Retained earnings		37,119,174	29,885,312
Total equity		**57,550,974**	**50,317,112**
Non-current liabilities			
Deferred tax liabilities	12	83,830	-
Historical cost liabilities		151,076	301,333
Provisions	25	376,827	625,746
Trade and other payables	26	1,482	103,342
Total non-current liabilities		**613,215**	**1,030,421**
Current liabilities			
Trade and other payables	26	10,368,860	4,299,996
Total current liabilities		**10,368,860**	**4,299,996**
Total liabilities		**10,982,075**	**5,330,417**
Total equity and liabilities		**68,533,049**	**55,647,529**

These financial statements were approved by management on 31 January 2018 and were signed on its behalf by:

Zh.M. Yeralin
General Director

Z.A. Jakubaliyeva
Chief Accountant

BAIKEN-U

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 48.

'000 KZT	**Note**	**2017**	**2016**
Revenue	5	32,480,519	50,527,390
Cost of sales	6	(19,862,131)	(19,245,321)
Gross profit		**12,618,388**	**31,282,069**
Other income		121,970	24,820
Distribution expenses	7	(1,226,500)	(1,093,018)
Administrative expenses	8	(1,163,732)	(1,173,158)
Other expenses	9	(638,721)	(776,533)
Results from operating activities		**9,711,405**	**28,264,180**
Finance income	11	248,034	726,901
Finance costs	11	(484,639)	(1,800,930)
Net finance costs		**(236,605)**	**(1,074,029)**
Share of (loss)/profit of equity-accounted investees (net of income tax)	17	(45,778)	7,935
Profit before income tax		**9,429,022**	**27,198,086**
Income tax expense	12	(2,195,160)	(5,678,318)
Profit and total comprehensive income for the year		**7,233,862**	**21,519,768**

These financial statements were approved by management on 31 January 2018 and were signed on its behalf by:

Zh.M. Yeralin
General Director

Z.A. Jakubaliyeva
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 48.

'000 KZT	**Share capital**	**Retained earnings**	**Total equity**
Balance at 1 January 2016	20,431,800	8,365,544	28,797,344
Profit and total comprehensive income for the year	-	21,519,768	21,519,768
Balance at 31 December 2016	**20,431,800**	**29,885,312**	**50,317,112**
Balance at 1 January 2017	20,431,800	29,885,312	50,317,112
Profit and total comprehensive income for the year	-	7,233,862	7,233,862
Balance at 31 December 2017	**20,431,800**	**37,119,174**	**57,550,974**

These financial statements were approved by management on 31 January 2018 and were signed on its behalf by:

Zh.M. Yeralin
General Director

Z.A. Jakubaliyeva
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 48.

'000 KZT	2017	2016
Cash flows from operating activities		
Cash receipts from customers	38,942,113	46,230,423
Interest received	248,034	663,613
Other receipts	139,755	97,714
Withholding tax	-	(27,220)
Mineral extraction tax paid	(3,100,627)	(1,707,856)
Cash paid to employees	(1,947,826)	(1,873,125)
Other payments	(475,129)	(402,071)
Cash paid to suppliers for goods and services	(25,303,723)	(9,524,175)
Payments to the budget	(855,773)	(1,057,488)
Cash from operating activities before income taxes and interest paid	**7,646,824**	**32,399,815**
Income tax paid	(2,162,356)	(4,262,838)
Interest paid	-	(3,314,273)
Net cash from operating activities	**5,484,468**	**24,822,704**
Cash flows from investing activities		
Disposal of property, plant and equipment	331	605
Acquisition of property, plant and equipment	(288,591)	(745,634)
Acquisition of intangible assets	(64,852)	(167,269)
Acquisition of exploration and evaluation assets	(1,177,759)	(262,029)
Acquisition of development costs	(5,837,825)	(4,569,144)
Acquisition of other long-term inventories	-	(875,553)
Allocations to the liquidation fund	(218,967)	(216,041)
Repayment of bank deposits	-	42,494,742
Placement of bank deposits	-	(15,867,760)
Net cash used in investing activities	**(7,587,663)**	**19,791,917**
Cash flows from financing activities		
Loan repayment	-	(35,655,192)
Net cash used in financing activities	**-**	**(35,655,192)**
Net (decrease)/increase in cash and cash equivalents	**(2,103,195)**	**8,959,429**
Cash and cash equivalents as at 1 January	9,492,844	891,443
Effect of movements in exchange rates on cash and cash equivalents	(366,361)	(358,028)
Cash and cash equivalents at 31 December (Note 23)	**7,023,288**	**9,492,844**

These financial statements were approved by management on 31 January 2018 and were signed on its behalf by:

BAIKEN-U

Zh.M. Yeralin
General Director

Z.A. Jakubaliyeva
Chief Accountant

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 48.

1 Reporting entity

(a) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment.

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

(b) Organisation and operations

On 1 March 2006, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and "National Atomic Company "Kazatomprom" Joint Stock Company ("NAC KAP") signed an Exploration Contract #1964 (the "Contract") in relation to Kharasan-2 deposit and south-east flank of North Kharassan deposit (the "Deposit") located in Kyzylorda Oblast. On 20 March 2006, NAC KAP established Baiken-U LLP (the "Company") as a subsidiary wholly owned by NAC KAP. In July 2006 the rights for subsoil use of the Kharasan-2 field under the Contract was transferred to the Company. The Company is a limited liability company as defined in Civil Code of the Republic Kazakhstan.

On 30 September 2006, 95% of the Company's charter capital was acquired by Energy Asia BVI Limited (state registration certificate #76442-1910-TOO).

The address of the Company's registered office is: Baikenzhe village, Zhanakorgan Rayon, Kyzylorda Oblast, Republic of Kazakhstan.

The Company's number of employees as at 31 December 2017 was 491 (2016: 507).

The principal activities of the Company are the exploration, extraction and processing of uranium-bearing ores. The Contract was originally issued for a thirty-one-year period including an exploration and evaluation period of six years, and extraction (development) period of twenty five years. On 26 December 2007, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan agreed to extend the production period to 45 years. Currently the functions of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan have been transferred to the Ministry of Energy of the Republic of Kazakhstan as the competent body to the Contract (the "Competent Body").

At the beginning of 2012 the Company's management arrived at conclusion about technical and economical viability of the mining of the estimated reserves with regard to a part of the Deposits and received approval of the program for mining of explored reserves from the Competent Body, after that the Company moved to the stage of commercial production of the estimated reserves.

1 Reporting entity, continued

(b) Organisation and operations, continued

In November 2014, the State Commission for Mineral Reserves of the Republic of Kazakhstan approved mineral reserves of Kharasan-2 block of the North Kharassan Deposit. The Company estimates its mineral reserves using the definitions adopted by the State Commission for Mineral Reserves of the Republic of Kazakhstan. The Company also continues exploration of the remaining part of the Deposit. The exploration program assumes that the exploration will continue till March 2018. The Company has the right for further extension of the exploration period. Once the exploration and evaluation of uranium on the remaining part of the Deposit are completed, the Company would prepare a formal assessment and present to the Government committee for the formal opinion on commercial viability. Once uranium mining is approved to be commercially recoverable, the relevant governmental body will arrange a state examination of the uranium reserves following procedures specified by the legislation.

The opinion of the Company's management comprising the conclusion on commercial discovery provides the Company with the exclusive right to commence commercial production. The production period can be extended until the Deposits are fully depleted.

2 Basis of accounting

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, except that equity investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 13 – Useful lives of non-current assets;
- Note 25 – Provisions.

2 Basis of accounting, continued

(d) Use of estimates and judgments, continued

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

- Note 12 - Deferred tax assets and liabilities;
- Note 18 - Other investments.

Useful lives of non-current assets

The Company assesses the remaining useful lives of these assets at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as changes in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These factors may affect the assessment of the field use period, including the following:

- changes in the proven and estimated ore reserves;
- difference between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues directly on the field, and
- changes in operating, mining, processing and regeneration costs, discount rates and currency exchange rates may adversely affect the economic viability of ore reserves.

Any of these changes may affect future depreciation and the carrying amount of the capitalised costs.

Depreciation on non-production assets is accrued on a straight-line basis over their estimated useful lives period. Management periodically reviews the reasonableness of the useful lives of the assets. The analysis is based on the current condition of the assets and the estimated period during which they will bring economic benefit of the Company.

Uranium reserves

Uranium reserves are a significant factor in the Company’s activity. All reserves estimates involve some degree of uncertainty, depending on the amount of reliable geological and engineering information. Estimates are reviewed and revised each year. Estimates may be reviewed as a result of changes in production capacity or changes in mine development strategy.

To calculate the depletion and depreciation by production method, the Company uses only proven reserves. Proven reserves are reserves of C1 and C2 categories approved by the State Commission for Mineral Reserves of the Republic of Kazakhstan. Under production method the Company understands depreciation prorated to the volume of reserves recovered.

3 Significant accounting policies

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

(a) Interests in associates (equity-accounted investments)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

3 Significant accounting policies, continued

(a) Interests in associates (equity-accounted investments), continued

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(b) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(c) Financial instruments

(ii) Non-derivative financial instruments

Non derivative financial instruments comprise demand deposits, restricted cash, trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables.

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

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

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

The Company classifies non-derivative financial assets into the following categories: loans and receivables and financial assets available for sale.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Non-derivative financial instruments, continued

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (Note 3 (i) (i)).

Loans and receivables category comprise the following classes of assets: restricted cash, as presented in the Note 19, deposits in banks as presented in the Note 22, trade and other receivables, as presented in Note 21 and cash and cash equivalents, as presented in Note 23.

Cash and cash equivalents comprise petty cash, bank balances and demand deposits in banks.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(i)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Financial assets available for sale include unquoted equity securities.

(iv) Non-derivative financial liabilities

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

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

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value which is increased by the amount of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities include loans and borrowings, liability on the repayment of historical costs and trade and other payables.

(v) Charter capital

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

3 Significant accounting policies, continued

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Loans losses, related to the acquisition or construction of the qualified assets are capitalised as a part of such assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Before the commercial operation, depreciation was recognised in exploration assets (for those assets, which are used in the exploration activity), or was charged to profit or loss (for the asses, which are not related to the exploration activity) using straight-line method during the estimated useful life period of each significant component of the property, plant and equipment item.

Once the commercial operation began, the depreciation of the property, plant and equipment, used in the process of uranium processing is calculated using the unit-of production method for the items, since this method most closely reflects the expected pattern of consumption and embodied in the asset. Depreciation of other property, plant and equipment is calculated on the basis of the depreciated value, which is the actual asset value or other replacing value less the residual value of the asset. Other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Any significant components of the separate items are assessed and if the period of the component is different from the life of the remaining part of the asset, such component shall be depreciated separately.

3 Significant accounting policies, continued

(d) Property, plant and equipment, continued

(iii) Depreciation, continued

Due to a wider range of property, plant and equipment used and application of more recent and streamlined PPE items, the Company has reviewed the useful lives of property, plant and equipment.

The estimated useful lives of for the current and comparative periods are as follows:

- Buildings and constructions 10-50 years;
- Machinery and equipment 3-50 years;
- Vehicles 3-10 years;
- Major repair of the roads and operation 16 years;
- Other 3-20 years.

The following types of assets are depreciated using the production method based on the extracted reserves of a relevant block or several blocks, to which the assets relate.

- Production buildings and constructions;
- Machinery and production equipment.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Intangible assets

(i) Mineral rights

Subsoil use rights are measured at cost less accumulated depreciation and impairment losses.

Acquisition costs include the cost of subsurface mineral rights and capitalised expenses related to the reimbursement of historical costs.

The Company has committed to reimburse historical costs incurred by the Government of the Republic of Kazakhstan in respect of the licensed territories before issuing a license. Historical costs are recognised at cost and have a corresponding liability equal to the present value of the payments made during the term of the license.

(ii) Amortisation

Prior to the beginning of commercial production of amortisation are for exploration and evaluation assets using the units of production method, based on estimates of resources during the period of exploration and evaluation, and based on estimates of proved and probable reserves during the production period from the date of readiness of these assets to be used as this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. After the commercial production, the depreciation expense recorded in cost of production.

3 Significant accounting policies, continued

(f) Exploration and evaluation assets

Exploration and evaluation costs such as geological and geophysical costs, the costs of drilling wells are capitalised as incurred.

Exploration and evaluation assets are classified as tangible or intangible based on their nature. Intangible exploration and evaluation costs comprise costs of geological drilling and all overheads associated with exploration activities. Tangible exploration and evaluation costs comprise costs of drilling wells and preparation of production well fields for test production.

Due to move to the commercial production stage the exploration and evaluation assets shall no longer be classified as such. Tangible exploration and evaluation assets are reclassified to tangible development assets and intangible exploration and evaluation assets are reclassified to intangible development costs and amortised using the unit-of-production method based on estimates of proved and probable reserves.

General overhead costs not related directly to exploration and evaluation activities are expensed as incurred.

Borrowing costs directly attributable to the acquisition of exploration and evaluation assets are recognised in the cost of such assets.

Exploration and evaluation assets are measured at cost less accumulated depreciation and the cost of sales distribution of the experimental products and impairment losses.

(g) Mine development costs

(i) Acquisition cost

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

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

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

(ii) Amortisation

Amortisation commences on the start of commercial extraction of uranium. Intangible development assets are amortised using the unit-of-production method based on the extractable reserves on the block to which they relate.

Tangible mine development costs related to certain well field are amortised using the units-of-production method based on the current production and wellfield available reserves, determined during the initial exploration and further exploration carried out during the process of wellfield construction. Tangible mine development costs related to the entire block are amortised using the units-of-production method based on the reserves of the block, which are planned to be extracted during the Contract term.

3 Significant accounting policies, continued

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, disappearing of an active market for any security.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are individually assessed for impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and with similar risk characteristics.

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

An impairment loss is calculated as the difference between an asset’s carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 Significant accounting policies, continued

(i) Impairment, continued

(i) Non-derivative financial assets, continued

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

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

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Exploration and evaluation assets are assessed to identify possible impairment if there are facts and circumstances indicate that the carrying amount may exceed its recoverable amount, which takes place in the following cases: the exploration license has expired and its renewal is not expected substantive expenditure on further exploration are planned, intelligence has not led to the discovery of commercial reserves, and there are signs that the exploration and evaluation assets will not be recovered in full from successful development or sale.

3 Significant accounting policies, continued

(j) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

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

(l) Revenue

(i) Goods sold

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. In case of sale of uranium, transfer usually occurs when uranium is delivered to convertors, certain processing factory or storage plant specified in the agreement.

3 Significant accounting policies, continued

(m) Finance income and costs

Finance income comprises interest income on funds invested (including demand deposits) and gains on the foreign currency exchange. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on borrowings and foreign exchange loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or tax loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Payables for current tax also includes any tax liability arising as a result of the dividends are declared.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective for annual periods beginning after 1 January 2017 and as at 31 December 2017, and have not been applied in preparing these financial statements.

Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

3 Significant accounting policies, continued

(o) New standards and interpretations not yet adopted, continued

- IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.
- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.
- IFRIC 23 *Uncertainty over Income Tax Treatments*.

(p) Estimated impact of the adoption of IFRS 9 and IFRS 15

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments*: *Recognition and Measurement.*

Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

At present the Company analyses the likely impact of a new classification and measurement approach for financial assets on its financial position or performance.

Impairment - Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

3 Significant accounting policies, continued

(p) Estimated impact of the adoption of IFRS 9 and IFRS 15, continued

IFRS 9 *Financial Instruments, continued*

Impairment - Financial assets and contract assets, continued

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date.
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component;

At present the Company analyses the likely impact of a new 'expected credit loss' (ECL) model on its financial position or performance.

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. At present the Company performs a review to identify data gaps.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

3 Significant accounting policies, continued

(p) Estimated impact of the adoption of IFRS 9 and IFRS 15, continued

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 11 *Construction Contracts*, IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programs*.

Sales of goods

For the sale of uranium products, revenue is currently recognised when uranium is delivered to the customers' premises, convertors or processing factory specified in the agreement, which is taken to be the point in time at which the customer accepts uranium and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with uranium.

Under IFRS 15, based on the Company's assessments all current contracts for sale of uranium have one performance obligation for sales of uranium, revenue will be recognised when a customer obtains control of the good. Therefore, the Company does not expect the application of IFRS 15 to result in significant differences in revenue recognition for sales of uranium.

For certain contracts for uranium processing that provide for the storage of goods over time before the date and time of delivery are notified by the buyer, revenue is currently recognised when the goods are ready for delivery, provided that all other criteria for revenue recognition are met.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Company's assessment indicates that storage service may be a separate performance obligation, this will result in revenue, for this storage service, being recognised over time. However, according to its estimates, the Company does not expect the change in the contract accounting principle to result in a significant impact on its financial statements.

Based on its assessment, the Company also believes that the current contracts do not contain a significant financing component because there is no difference between the transaction price and the price at which uranium is sold, provided that it is immediately paid in cash, and duration of a period between the time when obligation is performed and payment is made has no significant effect.

Processing services

The Company provides uranium mining and processing services and transportation services. For each type of service the Company has a separate agreement, which is concluded for the reporting year. Revenues are recognised on a monthly basis on the basis of the work performed, which is confirmed by the relevant act of work performed. Currently, revenue is recognised in proportion to the amount of work performed signed by both parties. Consequently, the Company does not expect that the application of IFRS 15 will lead to significant changes in the timing of recognition of revenue from the provision of these services.

Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

4 Determination of fair values

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

(a) Equity securities

The fair value of equity securities is determined based on the relevant adjustments of the quoted bid price at close of exchange as at the reporting date or in case of unquoted equity securities - using the valuation methods. The used valuation methods include multifactor analysis or discounted cash flows analysis using the expected cash flows and market discount rates.

(b) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

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

5 Revenue

'000 KZT	2017	2016
Sale of the Company's own uranium	30,721,738	49,618,992
Sale of purchased uranium	728,590	-
Other	1,030,191	908,398
	32,480,519	**50,527,390**

6 Cost of sales

'000 KZT	2017	2016
Cost of goods sold	18,080,164	18,500,375
Cost of purchased uranium	923,846	-
Other	858,121	744,946
	19,862,131	**19,245,321**

6 Cost of sales, continued

Cost of sales by nature of expenses for the years ended 31 December 2017 and 2016 was as follows:

'000 KZT	**2017**	**2016**
Raw materials and consumables	5,121,650	6,051,620
Amortisation of mine development costs	4,998,165	4,759,072
Mineral extraction tax	3,321,633	3,406,190
Wages and salaries and related taxes	1,984,038	2,008,637
Depreciation and amortisation	1,437,440	1,397,325
Cost of purchased uranium and other goods	923,846	-
Repair and maintenance	328,742	268,862
Other taxes	278,263	298,692
Employee training expenses	144,140	137,248
Transportation services	134,553	39,115
Production-related works and services	85,822	108,445
Communication services	52,651	42,025
Security services	41,634	43,465
Freight insurance	32,423	38,327
Travel expenses	26,026	28,293
Other	951,105	618,005
	19,862,131	**19,245,321**

7 Distribution expenses

'000 KZT	**2017**	**2016**
Transportation services	772,907	731,041
Storage of finished goods	156,474	54,994
Materials	132,282	110,342
Wages and salaries and related taxes	77,651	82,867
Radiation safety	31,836	35,990
Rent of containers	28,265	40,488
Travel expenses	5,573	15,931
Freight insurance	3,568	12,915
Customs clearance	175	884
Other	17,769	7,566
	1,226,500	**1,093,018**

8 Administrative expenses

‘000 KZT	**2017**	**2016**
Wages and salaries and related taxes	740,186	732,928
Research expenses	72,060	84,904
Professional education	56,901	72,416
Rent	50,274	41,047
Consulting services	47,518	41,641
Communication and Internet	36,828	23,309
Charity and sponsorship	35,745	7,012
Depreciation and amortisation	18,678	14,069
Travel expenses	15,568	19,695
Insurance expenses	12,121	9,455
Bank charges	6,413	11,465
Fines and penalties	4,294	6,335
Other taxes	919	4,576
Allowance for doubtful debts	-	21,343
Withholding tax	-	16,989
Other	66,227	65,974
	1,163,732	**1,173,158**

9 Other expenses

‘000 KZT	**2017**	**2016**
Non-deductible VAT	470,020	105,600
Impairment of other investments (Note 18)	104,533	-
Regional social sphere costs	33,991	35,662
Depreciation of capital repair of roads in use	22,454	22,453
Losses from disposal of property, plant and equipment	7,723	7,999
Provision for impairment of purchased uranium	-	604,293
Other	-	526
	638,721	**776,533**

10 Personnel costs

'000 KZT	2017	2016
Wages and salaries	2,370,529	2,285,892
Social tax	151,640	154,505
Social security contributions	115,333	101,725
	2,637,502	**2,542,122**

The personnel costs were included in cost of production in the amount of KZT 1,844,139 thousand (2016: KZT 1,731,702 thousand), and were recognised in administrative expenses and distribution costs in the amount of KZT 793,363 thousand (2016: KZT 810,420 thousand). Vacation and bonus provision is not included in the personnel costs: in cost of production – KZT 96,341 thousand (2016: KZT 6,425 thousand), in administrative expenses and distribution costs – KZT 24,474 thousand (2016: KZT 5,375 thousand).

11 Finance income and costs

'000 KZT	2017	2016
Interest income on bank deposits	114,615	625,237
Overnight interest rates	133,419	38,376
Financial liabilities revaluation gain	-	63,288
Finance income	**248,034**	**726,901**
Net foreign exchange loss	(373,370)	(580,304)
Unwinding of discount on provisions (Note 25)	(44,303)	(55,453)
Unwinding of discount on historical cost liability	(13,197)	(18,824)
Interest expense on financial liabilities measured at amortised cost	-	(957,538)
Other	(53,769)	(188,811)
Finance costs	**(484,639)**	**(1,800,930)**
Net finance costs recognised in profit or loss	**(236,605)**	**(1,074,029)**

Financial liabilities revaluation gain/(loss) represent foreign exchange difference resulted from indexation of loan received from the related party - NAC KAP.

12 Income tax expense

The Company's applicable tax rate in 2017 is the income tax rate of 20% for Kazakhstan companies (2016: 20%).

'000 KZT	2017	2016
Current tax expense		
Current year	1,576,657	5,309,445
Prior years adjustments	4,313	15,510
Deferred tax expense		
Origination and reversal of temporary differences	614,190	353,363
	2,195,160	**5,678,318**

12 Income tax expense, continued

Reconciliation of effective tax rate:

	2017		2016	
	'000 KZT	%	'000 KZT	%
Profit before income tax	**9,429,022**	**100**	**27,198,086**	**100**
Income tax at applicable rate	1,885,804	20	5,439,617	20
Non-deductible expenses	305,043	3	223,191	1
Prior years adjustments	4,313	-	15,510	-
	2,195,160	**23**	**5,678,318**	**21**

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 KZT	Assets		Liabilities		Net position	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	-	-	(559,950)	(586,755)	(559,950)	(586,755)
Intangible assets	-	-	(17,044)	(11,653)	(17,044)	(11,653)
Mineral rights	-	-	(58,051)	(63,524)	(58,051)	(63,524)
Mine development costs	35,833	-	(119,574)	(145,951)	(83,741)	(145,951)
Provision for impairment of purchased uranium	-	120,859	-	-	-	120,859
Provisions	62,784	92,930	(103,502)	-	(40,718)	92,930
Trade and other payables	213,222	195,769	-	-	213,222	195,769
Tax loss carry-forwards	462,452	928,685	-	-	462,452	928,685
Tax assets/(liabilities)	**774,291**	**1,338,243**	**(858,121)**	**(807,883)**	**(83,830)**	**530,360**

(b) Movement in temporary differences during the year

'000 KZT	1 January 2017	Recognised in profit or loss	31 December 2017
Property, plant and equipment	(586,755)	26,805	(559,950)
Intangible assets	(11,653)	(5,391)	(17,044)
Mineral rights	(63,524)	5,473	(58,051)
Mine development costs	(145,951)	62,210	(83,741)
Provision for impairment of purchased uranium	120,859	(120,859)	-
Provisions	92,930	(133,648)	(40,718)
Trade and other payables	195,769	17,453	213,222
Tax loss carry-forwards	928,685	(466,233)	462,452
	530,360	**(614,190)**	**(83,830)**

12 Income tax expense, continued

(b) Movement in temporary differences during the year, continued

'000 KZT	1 January 2016	Recognised in profit or loss	31 December 2016
Property, plant and equipment	(589,388)	2,633	(586,755)
Intangible assets	417	(12,070)	(11,653)
Mineral rights	(69,257)	5,733	(63,524)
Mine development costs	(201,461)	55,510	(145,951)
Provision for impairment of purchased uranium	-	120,859	120,859
Provisions	197,852	(104,922)	92,930
Trade and other payables	149,630	46,139	195,769
Tax loss carry-forwards	1,395,930	(467,245)	928,685
	883,723	**(353,363)**	**530,360**

The deductible temporary differences expire within 10 years under current tax legislation. The earliest tax loss has arisen in 2009, which expires in 2020. Deferred tax assets have been recognised in respect of these items because it is probable that future taxable profits will be available against which the Company can utilise the benefits therefrom due to transition to the commercial production and expected generation of the taxable income in the future. The Company maintains separate accounting records for contractual and non-contractual operations. Tax loss carry-forwards were accumulated on contractual operations. As at 31 December 2017, the amount of tax loss, which expires in 2020 is KZT 633,105 thousand (2016: KZT 1,733,477 thousand).

13 Property, plant and equipment

'000 KZT	**Land and buildings**	**Machinery and equipment**	**Vehicles**	**Other**	**Capital repair of roads in use, long-term inventory**	**Construction in progress**	**Total**
Cost							
Balance at 1 January 2016	13,178,241	3,340,101	286,415	237,328	573,823	355,457	17,971,365
Additions	27,259	196,837	108,639	14,094	297,869	646,987	1,291,685
Transfers	419,084	411,434	-	-	-	(830,518)	-
Disposals	(4,301)	(27,660)	(2,238)	(4,630)	(217,695)	-	(256,524)
Balance at 31 December 2016	**13,620,283**	**3,920,712**	**392,816**	**246,792**	**653,997**	**171,926**	**19,006,526**
Balance at 1 January 2017	13,620,283	3,920,712	392,816	246,792	653,997	171,926	19,006,526
Additions	-	194,972	132,512	31,124	56,842	320,181	735,631
Transfers	106,559	35,351	4,492	-	-	(146,402)	-
Disposals	-	(10,978)	(7,856)	(1,703)	-	(4,025)	(24,562)
Balance at 31 December 2017	**13,726,842**	**4,140,057**	**521,964**	**276,213**	**710,839**	**341,680**	**19,717,595**
Depreciation							
Balance at 1 January 2016	(3,003,504)	(1,247,101)	(122,126)	(111,450)	(113,672)	-	(4,597,853)
Depreciation for the year	(886,786)	(430,446)	(45,266)	(27,557)	(22,453)	-	(1,412,508)
Disposals	1,649	23,360	2,065	3,583	-	-	30,657
Balance at 31 December 2016	**(3,888,641)**	**(1,654,187)**	**(165,327)**	**(135,424)**	**(136,125)**	**-**	**(5,979,704)**
Balance at 1 January 2017	(3,888,641)	(1,654,187)	(165,327)	(135,424)	(136,125)	-	(5,979,704)
Depreciation for the year	(830,313)	(476,474)	(46,984)	(27,482)	(22,454)	-	(1,403,707)
Disposals	-	10,000	5,074	1,469	-	-	16,543
Balance at 31 December 2017	**(4,718,954)**	**(2,120,661)**	**(207,237)**	**(161,437)**	**(158,579)**	**-**	**(7,366,868)**
Carrying amount							
At 1 January 2016	10,174,737	2,093,000	164,289	125,878	460,151	355,457	13,373,512
At 31 December 2016	**9,731,642**	**2,266,525**	**227,489**	**111,368**	**517,872**	**171,926**	**13,026,822**
At 31 December 2017	**9,007,888**	**2,019,396**	**314,727**	**114,776**	**552,260**	**341,680**	**12,350,727**

13 Property, plant and equipment, continued

During 2017 depreciation expense of KZT 1,367,771 thousand (2016: KZT 1,379,409 thousand) was charged to production costs, in the amount of KZT 13,482 thousand (2016: KZT 10,646 thousand) to administrative expenses, and in the amount of KZT 22,454 thousand (2016: KZT 22,453 thousand) to other expenses.

14 Mineral rights

'000 KZT	**Total**
Cost	
Balance at 1 January 2016	528,764
Additions	-
Balance at 31 December 2016	**528,764**
Balance at 1 January 2017	528,764
Additions	-
Balance at 31 December 2017	**528,764**
Amortisation	
Balance at 1 January 2016	(95,105)
Amortisation for the year	(35,899)
Balance at 31 December 2016	**(131,004)**
Balance at 1 January 2017	(131,004)
Amortisation for the year	(34,266)
Balance at 31 December 2017	**(165,270)**
Carrying amount	
At 1 January 2016	433,659
At 31 December 2016	**397,760**
At 31 December 2017	**363,494**

All amortisation was charged to production cost.

15 Exploration and evaluation assets

'000 KZT	**Drilling costs**	**Geological works**	**Total**
Cost			
Balance at 1 January 2016	960,527	420,237	1,380,764
Additions	117,009	186,529	303,538
Balance at 31 December 2016	**1,077,536**	**606,766**	**1,684,302**
Balance at 1 January 2017	1,077,536	606,766	1,684,302
Additions	698,240	479,519	1,177,759
Balance at 31 December 2017	**1,775,776**	**1,086,285**	**2,862,061**

Exploration and evaluation assets comprise the following:

'000 KZT	**2017**	**2016**
Tangible assets	1,775,776	1,077,536
Intangible assets	1,086,285	606,766
	2,862,061	**1,684,302**

Capitalised borrowing costs related to the exploration and evaluation assets amounted to KZT 57,989 thousand in 2016. Capitalisation rate used by the Company in 2016 was 4.32%. All borrowings were repaid during 2016.

16 Mine development costs

'000 KZT	**Mine development**	**Exploration costs**	**Ion-exchange resin**	**Total**
Cost				
Balance at 1 January 2016	7,483,278	5,795,990	572,463	13,851,731
Additions	4,846,951	-	577,684	5,424,635
Change in estimate (Note 25)	(257,374)	-	-	(257,374)
Amortisation charge	(3,672,449)	(479,805)	(123,588)	(4,275,842)
Balance at 31 December 2016	**8,400,406**	**5,316,185**	**1,026,559**	**14,743,150**
Balance at 1 January 2017	8,400,406	5,316,185	1,026,559	14,743,150
Additions	4,939,444	-	492,460	5,431,904
Change in estimate (Note 25)	(293,222)	-	-	(293,222)
Amortisation charge	(4,240,687)	(457,988)	(143,605)	(4,842,280)
Balance at 31 December 2017	**8,805,941**	**4,858,197**	**1,375,414**	**15,039,552**

All amortisation was charged to production cost.

17 Investments in equity accounted investees

The Company has 40% ownership and voting interest in Zhanakorgan-Transit LLP. The Company's share of loss in its equity accounted investees for the reporting year was KZT 45,778 thousand (2016: profit of KZT 7,935 thousand).

The following is summarised financial information for equity accounted investees, not adjusted for the percentage ownership held by the Company:

'000 KZT	**2017**	**2016**
Total assets	497,296	588,883
Total liabilities	(60,351)	(37,492)
Net assets	**436,945**	**551,391**
The Company's share of net assets	174,778	220,556
Revenue	**710,662**	**690,646**
Net (loss)/profit for the period	(114,446)	19,837
The Company's share of net (loss)/profit	(45,778)	7,935

The reporting date for the associate is 31 December.

18 Other investments

'000 KZT	**2017**	**2016**
Available-for-sale investments	106,172	210,705

The available-for-sale investment comprises unquoted equity securities.

During 2007, the Company acquired a 6.56% interest in Uranenergo LLP ("Uranenergo") for KZT 600,000 thousand. Uranenergo has been established for the purpose of the development and construction of power transmission facilities to meet the increasing demand for electricity from mining companies located in the region. The Company's interest in Uranenergo has been established by reference to a percentage of estimated cost of the project and future electricity consumption by the Company out of the total electricity that will be consumed by all mining companies in the region, applied to the total expected cost of the project.

During 2017 and 2016, the Company made no additional contributions to the capital. The Company's interest in Uranenergo equals to 3.49% and 3.57% as at 31 December 2017 and 2016, respectively. Decrease of the Company's interest was due to additional contribution paid in June 2017 by the related party - one of the participants of Uranenergo. Forecasted tariffs for energy transmission have not been approved as it was provided for in the mid-term development plan, and the Company reviewed the cash flows for the future periods. As a result, the Company has tested its investments in Uranenergo for impairment and as at 31 December 2017 recognised an impairment loss of KZT 104,533 thousand (Note 9). Note 27 (f) describes the key assumptions used to measure the fair value of the investment.

19 Restricted cash

Restricted cash was transferred to a special bank account for the mine site restoration plan and cannot be used for other purposes. The bank account earns interest according to the contractual terms.

The Company's exposure to credit and interest rate risks related to restricted cash is disclosed in Note 27.

20 Inventories

'000 KZT	**2017**	**2016**
Finished goods	1,023,171	1,556,746
Spare parts and consumables	656,284	577,689
Work-in-progress	380,813	364,061
Raw materials	102,219	143,905
Goods purchased (purchased uranium)	-	827,062
	2,162,487	**3,469,463**

Due to reduction of market prices in 2016 on uranium products, the Company made a provision of KZT 604,293 (Note 9) thousand for inventory write-downs to its net realisable value to reflect the cost of purchased uranium in the financial statements.

21 Trade and other receivables

'000 KZT	**2017**	**2016**
Current assets		
Trade receivables from related parties (Note 30)	16,590,892	1,200,363
Trade receivables from third parties	6,997,111	6,134,724
Total financial assets	**23,588,003**	**7,335,087**
VAT recoverable	862,235	1,264,766
Prepayments	123,887	130,337
	24,574,125	**8,730,190**
Non-current assets		
VAT recoverable	1,053,012	1,736,160

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 27.

22 Bank deposits

As at 31 December 2016, bank deposits comprised one term deposit with maturity until the end of 2017. According to the contractual terms the Company prolonged the deposit term and as at 31 December 2017, the bank deposits also comprise one term deposit with maturity until the end of 2018.

According to the contractual terms, the Company has the right to withdraw cash ahead of schedule any time and in this case, the interest is recalculated. Minimum balance is USD 1 million.

The Company's exposure to credit, interest rate and currency risks related to bank deposits is disclosed in Note 27.

23 Cash and cash equivalents

'000 KZT	**2017**	**2016.**
Bank balances in tenge	7,023,288	9,492,844

The Company's exposure to credit, interest rate and currency risks related to cash and cash equivalents is disclosed in Note 27.

24 Equity

Charter capital

Charter capital of the Company in 2017 amounts to KZT 20,431,800 thousand (2016: KZT 20,431,800 thousand).

95% interest in charter capital is owned by Energy Asia BVI Limited and 5% by NAC Kazatomprom JSC.

The holders of interests in the charter capital are entitled to receive dividends as declared from time to time. In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings.

25 Provisions

'000 KZT	**Site restoration**
Balance at 1 January 2016	827,667
Changes in estimate	(257,374)
Unwinding of discount (Note 11)	55,453
Balance at 31 December 2016	**625,746**
Balance at 1 January 2017	625,746
Changes in estimate	(293,222)
Unwinding of discount (Note 11)	44,303
Balance at 31 December 2017	**376,827**

Site restoration

In accordance with the Company's subsurface agreement, the Company has constructed equipment and facilities necessary to extract uranium. There will be future costs associated with the restoration of the site. The Company estimates total future decommissioning and reclamation costs for its operating assets to be KZT 1,308,118 thousand (2016: KZT 1,218,871 thousand) in current prices. The expected future cash flows were discounted to the net present value using a nominal risk-free discount rate of 9.06% (2016: 7.08%) including estimated inflation rate of 5.40% (2016: 5.13%). The majority of expenditures are expected to be incurred in 2055 at the end of the production life of the mine.

The Company has completed preparation of a detailed reclamation plan which was approved by the Competent Body.

The Company is also required to invest cash in a long-term bank deposit to finance future site reclamation activities commencing the production stage as required by the Contract (Note 19).

In view of the long-term nature of reclamation liabilities, there is uncertainty concerning the actual amount of expenses that will be incurred in performing the site restoration activities and discount rate used to present value of these future obligations.

26 Trade and other payables

'000 KZT	2017	2016
**Current liabilities**		
Trade payables to third parties	7,903,268	749,909
Trade payables to related parties	1,107,076	2,303,304
Mineral extraction tax	849,207	872,721
Historical cost liability	162,843	163,313
Provision for bonuses	123,590	-
Other taxes payable	92,145	109,883
Payments for participation in tenders	67,941	28,492
Pension fund and social contributions payable	43,562	50,420
Vacation reserve	18,993	21,769
Other	235	185
	10,368,860	**4,299,996**
**Non-current liabilities**		
Other payables to related parties	-	103,342
Other payables to third parties	1,482	-

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

27 Financial instruments and risk management

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Supervisory Board has overall responsibility for the establishment and oversight of the Company's risk management framework. There is no established risk management committee and management is responsible for developing and monitoring the Company's risk management policies. Management reports regularly to the Supervisory Board on its activities.

27 Financial instruments and risk management, continued

(a) Overview, continued

Risk management framework, continued

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's financial instruments comprise borrowings, available-for-sale investments, accounts receivable and payable, and cash. The Company's accounting policies with regard to financial instruments is detailed in Note 3. The Company does not speculate in financial instruments and does not use derivative instruments to hedge risk exposures.

Exposure to credit, liquidity and market risks arises in the normal course of the Company's business.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

(i) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All of the Company's revenue is attributable to sales transactions with two customers (2016: five customers).

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
'000 KZT	**Note**	**2017**	**2016**
Restricted cash	19	933,417	700,718
Other non-current assets		16,466	39,820
Trade receivables	21	23,588,003	7,335,087
Bank deposits	22	332,330	333,290
Cash and cash equivalents	23	7,023,288	9,492,844
		31,893,504	**17,901,759**

Cash

At the end of the reporting period the Company had cash of KZT 3,938,458 thousand on the current accounts held with the bank having credit rating BB(Ba2) and of KZT 3,084,830 thousand held with the banks having credits rating from BB+(Ba1) to CCC(Caa2) (2016: KZT 4,797,315 with the bank having credit rating BB(Ba2) and KZT 4,682,685 thousand with the banks having credit ratings from BB+(Ba1) to CCC(Caa2)). During 2016 the remaining cash and cash equivalents were deposited on the current accounts with the banks having credit ratings from B+(B1) to B-(B3).

27 Financial instruments and risk management, continued

(b) Credit risk, continued

(ii) Exposure to credit risk, continued

Cash, continued

Restricted cash of KZT 933,417 thousand is held with a bank having credit rating of BB(Ba2).

Bank deposits

At the end of the reporting period the Company had deposits in the amount of KZT 332,330 thousand placed with the bank having credit rating B(B2) (with the banks having credit rating of B(B2) in 2016: KZT 333,290 thousand).

Trade receivables

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
'000 KZT	**2017**	**2016**
Domestic	16,591,842	1,200,363
Germany	6,996,161	-
USA	-	6,134,724
	23,588,003	**7,335,087**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
'000 KZT	**2017**	**2016**
Wholesale customers	23,588,003	7,335,087

The Company's most significant customer accounts for KZT 16,197,688 thousand of the trade receivables carrying amount at 31 December 2017 (2016: KZT 6,134,724 thousand). None of these trade receivables are overdue as at 31 December 2017 and 31 December 2016.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

27 Financial instruments and risk management, continued

(c) Liquidity risk, continued

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2017

'000 KZT	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**
Non-derivative financial liabilities						
Trade payables	9,174,669	9,174,669	9,173,187	-	-	1,482
Historical cost liability	151,076	325,686	81,422	81,422	162,844	-
	9,325,745	**9,500,355**	**9,254,609**	**81,422**	**162,844**	**1,482**

2016

'000 KZT	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**
Non-derivative financial liabilities						
Trade payables	3,319,868	3,319,868	3,216,526	-	103,342	-
Historical cost liability	301,333	488,528	81,422	81,422	162,844	162,844
	3,621,201	**3,808,396**	**3,297,948**	**81,422**	**266,186**	**162,844**

27 Financial instruments and risk management, continued

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company does not buy or sells derivatives, nor incurs financial liabilities, in order to manage market risks. The Company does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Commodity price risk

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

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

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

(ii) Currency risk

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

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily USD. This provides an economic hedge without a need to enter into derivatives contract.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 KZT	**USD-denominated 2017**	**USD-denominated 2016**
Cash and cash equivalents	2,111,511	9,378,754
Trade receivables	6,996,161	6,134,724
Bank deposits	332,330	333,290
Net exposure	**9,440,002**	**15,846,768**

27 Financial instruments and risk management, continued

(d) Market risk, continued

(ii) Currency risk, continued

The following significant exchange rates applied during the year:

In KZT	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
USD 1	326.00	342.16	332.33	333.29

Sensitivity analysis

A strengthening of the KZT, as indicated below, against USD at 31 December would have increased (decreased) profit or loss, net of tax, by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

'000 KZT	Profit or loss	
	Strengthening	Weakening
31 December 2017		
USD (20% movement)	1,510,400	(1,510,400)
31 December 2016		
USD (20% movement)	2,535,483	(2,535,483)

(iii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Profile

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

	Carrying amount	
'000 KZT	2017	2016
Fixed rate instruments		
Financial assets	1,265,747	5,700,068
Variable rate instruments		
Financial liabilities	-	-

27 Financial instruments and risk management, continued

(d) Market risk, continued

(iii) Interest rate risk, continued

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

The Company has no variable rate instruments.

(e) Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows. With these measures the Company aims for steady profits growth once it successfully completes exploration and evaluation stage and starts commercial production.

(f) Fair values

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts. Fair values have been determined for measurement and for disclosure purposes based on the methods disclosed in Note 4.

Fair value hierarchy

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Management categorises the fair value of the Company's trade and other receivables and non-derivative financial liabilities in Level 2 of the fair value hierarchy.

The Company has 3.49% interest in Uranenergo which is non-listed company and the investment is recognised at fair value as an available-for-sale investment. Because of limited market activity in the shares, the valuation is not benchmarked against observed transaction prices. Instead, the Company applies a discounted cash flow model where some of the inputs are non-observable. As a consequence, the investment is classified as a level 3 asset. The discount rate applied in the valuation was 13.8% and is based on management's assessment of the risks related to Uranenergo. The cash flow analysis is based on the current year's budget and the assumption of further sales growth of 0.05% in average till 2050. The assumed growth rate is based on average growth in demand of mining companies.

28 Commitments

In accordance with the Contract the Company is obliged to comply with the below listed commitments. If the Company fails to comply with the commitments, the Government may revoke the mineral rights granted to the Company.

(a) Work Program

In accordance with the Contract the Company agreed the Minimum Work Program ("MWP"), which may be revised periodically depending on economic and operating conditions at the deposit. Fulfilment of MWP is a criterion of compliance with terms and conditions of the license and contract.

(i) Annual output

According to the Contract, the Company's Management is committed to extract certain volume of uranium every year. The Company complies with this commitment.

(ii) Investment into mine development assets

According to the Contract, the Company agreed the work program, which may be revised periodically depending on economic and operating conditions at the deposit.

The management believes that failure to comply with this commitment will not result in the mineral rights granted to Company to be revoked, as the Company met the actual amounts set for production indicators.

(b) Education projects

According to the Contract, the Company is committed to provide financing of education projects not less than 1% of total exploration investments during the exploration and evaluation period and 1% of operational expenses during the production period.

As at the reporting date the Company was in compliance with all requirements related to financing of education projects.

(c) Investment in social development of the region

According to the Contract, the Company provides financing of social projects of not less than USD 50 thousand annually during the period of exploration and evaluation and USD 100 thousand annually during the production period.

As at the reporting date the Company was in compliance with all requirements related to financing of social projects.

(d) Site restoration

According to the Contract, the Company is obliged to submit to the Competent Authority a site restoration programme aimed to eliminate the aftermath of the Company's operations at the Deposit after cessation of operations, within two years upon moving on to commercial production. During 2014, the Company developed, presented and approved at the Competent Authority a detailed plan of restoration activities.

(e) Liquidation fund

Pursuant to the Contract, the Company is obliged to accumulate cash on a special bank account in the amount of not less than 1% of the total operating costs to meet the provision for the future site restoration related to the obligations to rehabilitate land and make wells safe after abandonment and the estimate costs of cleaning up after any chemical leakage.

28 Commitments, continued

(e) Liquidation fund, continued

The Company accumulated cash on the special account. The deposited funds may be used only for the site restoration activities as agreed with the relevant authority. The deposited amount as at 31 December 2017 totalled KZT 933,417 thousand (31 December 2016: KZT 700,718 thousand) (Note 19).

As at 31 December 2017, the Company complies with all obligations stipulated by the Contract.

(f) Investment in Research and Development

According to the Contract, the Company has to provide funds for Research and Development, Design and Technological Work carried out by Kazakhstani producers of goods, works and services in the amount of not less than 1% of the total annual income from the contractual activity based on the preceding year performance results. Annual plan for funding the Research and Development, Design and Technological Work in 2017 was estimated at KZT 185,359 thousand.

As at 31 December 2017 the Company was in compliance with the Research and Development, Design and Technological Work financing requirements.

29 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

(b) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

29 Contingencies, continued

(b) Taxation contingencies, continued

(i) Transfer pricing law

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

Also, the law excluded the 10 percent price safe harbour provision. Accordingly, the tax authorities are now entitled to review prices under any transaction, subject to the negotiated price varies from the price of transaction on commercial terms by any percentage. Management of the Company considers these requirements while assessing its income tax liabilities.

(ii) Environmental and ecological matters

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

The Company's operations are subject to various environmental laws and regulations of the Republic of Kazakhstan. Though management believes that the Company complies with the requirements of such laws and regulations, there is a risk that unforeseen liabilities may arise.

30 Related party transactions

(a) Control relationship

Energy Asia BVI Limited (95%) and NAC KAP (5%) are the Company's shareholders.

No publicly available financial statements are produced by the Company's parent company - Energy Asia BVI Limited. The Company's ultimate parent company is Energy Asia Holding Ltd. There is no any ultimate controlling party.

(b) Transactions with key management personnel

Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see Note 10):

'000 KZT	2017	2016
Salaries and bonuses	78,931	79,567
Contributions to pension funds	5,897	6,034
	84,828	**85,601**

(c) Transactions with other related parties

The Company's other related party transactions are disclosed below. Other related parties comprise companies within the group of NAC KAP. Management believes that NAC KAP has significant influence on the Company's operations.

30 Related party transactions, continued

(c) Transactions with other related parties, continued

(i) Revenue

'000 KZT	Transaction value		Outstanding balance	
	2017	**2016**	**2017**	**2016**
Other				
Sale of goods	31,444,585	2,866,024	16,197,688	-
Sale of other goods and services	1,030,191	908,398	393,204	1,200,363
	32,474,776	**3,774,422**	**16,590,892**	**1,200,363**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

'000 KZT	Transaction value		Outstanding balance	
	2017	**2016**	**2017**	**2016**
Purchase of goods and services:				
Other	7,113,508	6,283,592	1,107,076	2,406,646
	7,113,508	**6,283,592**	**1,107,076**	**2,406,646**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Advances received

'000 KZT	Transaction value		Outstanding balance	
	2017	**2016**	**2017**	**2016**
Prepayments for current assets:				
Other	357,850	164,091	45,680	64,383
	357,850	**164,091**	**45,680**	**64,383**

In September 2016, the Company fully repaid, in advance, the loan of KZT 28,673,808 thousand from NAC KAP.