China Nonferrous Gold Limited 中国有色黄金有限公司

(‘CNG’ or the ‘Company’)

Interim Results for the Six-Month Period Ended 30 June 2017

China Nonferrous Gold Limited (AIM:CNG), the mineral exploration and development company currently developing the Pakrut Gold Project (‘the Pakrut Project’) in the Republic of Tajikistan, today announces its interim results for the six-month period ended 30 June 2017.

The results below are available on the Company's website at www.cnfgold.com.

Highlights

- Access roads to the mine have been repaired and a temporary power solution is now in place
    - With power restored, drainage work was completed by the end of June 2017
- The repair and restoration of explosives library, oil depots and other facilities is ongoing
- Discussions with the Company's insurance provider continue with an initial claim of US$10.32 million submitted
    - Further submissions to be made throughout the next 12 months
- Production expected to resume in Q1 2018
- New management appointed and new short-term financing signed post period end

For further information please visit the Company's website (www.cnfgold.com) or contact:

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CHINA NONFERROUS GOLD LIMITED

Project Summary

The Pakrut Gold Project, of which CNG has 100 per cent ownership, is situated in Tajikistan approximately 120km northeast of the capital city Dushanbe. Pakrut is located within the Tien Shan gold belt, which extends from Uzbekistan into Tajikistan, Kyrgyzstan and Western China, and which hosts a number of multi-million ounce gold deposits.

CNG is transitioning from construction into the production phase.

About Tajikistan

Tajikistan is a secular republic located in Central Asia. The country is a member of the Commonwealth of Independent States and the Shanghai Cooperation Organisation. Tajikistan hosts numerous operating precious metal mines as well as the largest aluminium smelter in Central Asia. CNG's management team has extensive experience in the mining industry in Tajikistan.

CHINA NONFERROUS GOLD LIMITED

Chairman's Statement

As the Chairman of the Board, it gives me great pleasure to present the Chairman's Statement of the Interim Results for the Six-Month Period Ended 30 June 2017.

The period under review was defined by the events in early 2017 when the Pakrut Gold Mine experienced high-levels of snowfall that had not been seen for over 50 years which resulted in a serious avalanche and landslides. This materially interrupted the external power supply and access to the mine, with certain workshops and equipment severely damaged and underground roadway flooded. The snowfall severely impacted operations at the Pakrut Gold Mine Project, and resulted in the postponement of construction and the suspension of production. The events brought significant economic loss both to the Group and Pakrut Gold Mine Project and impacted the year-end audit, resulting in the auditors issuing a disclaimer of opinion in respect of the financial statements for the year ended 31 December 2016 primarily as a result of lack of access to inventory and to the mine site. The Group has been working closely with the auditors in respect of these issues, and good progress has been made following the restoration of access to the mine. It is the intention of management to have resolved them by 31 December 2017.

Conditions at the mine site were so severe that full access to the mine site was restricted until May 2017. The avalanche destroyed three power towers and two-thousand meters of power lines, resulting in the complete interruption of power supply in the Pakrut mining area. We have been able to put in place a temporary power supply through setting up cement rods, and power was restored at the end of May. Construction works for external power are ongoing and are expected to be completed by November 2017.

Drainage of the mine was also unable to commence until a power solution was found and the tunnels and equipment between 2110 meters level and 2230 meters level were submerged. When power was restored at the end of May, personnel and equipment were immediately assigned to carry out pumping work. The drainage work has now been completed and the repair of the damaged tunnels and the removal of sludge from the tunnels will commence shortly.

The tailings filter press workshop, explosives library, staff living quarters and other buildings were destroyed by the avalanches and landslides with the tailings filter press and other equipment severely damaged. The repair and restoration of explosives library, oil depots and other facilities have been finalised, and rebuilding process for the destroyed tailing filter press workshop is well underway.

In 2016, the Group purchased property insurance and equipment damage insurance for the Pakrut gold project. The insurance company has confirmed that the damage caused by the avalanches and landslides at the Pakrut gold mine is within the scope of the insurance. In April and September 2017 the insurance company visited the mine site to investigate and evaluate the loss incurred by the snowfall. A total claim was submitted for $10.32 million of which $0.74m has already been received. We are awaiting further approval from our insurance provider in respect of the remaining amounts and we envisage that it could take up to a year to compile all our claims.

We accordingly recorded the total claim to the insurance provider in our current period P&L and as an impairment to the mine site.

Financial Results

The amount incurred by the Company on development and construction work during the first six months of 2017 was US$(15,616,000) (30 June 2016: US$39,548,000). Administration expenditure was US$2,034,000 (30 June 2016: US$2,820,560). The overall loss incurred by the Company was US$12,398,000 (30 June 2016: US$3,400,000). Total cash equivalents at the end of the period amounted to US$1,398,000 (30 June 2016: US$109,020,000).

In February, the gold produced in 2016 was sold to Tajikistan central bank with sales of Tajikistan Somoni 48.39m (equivalent to US$5.49m).

Due to the snowfall we were unable to perform an inventory count at the end of December 2016, and along with the other matters described in the 2016 audit report, our auditor issued a disclaimer of opinion on the 31 December 2016 financial statements. From the date of the audit report for the year ended 31 December 2016, we put together a timetable to perform the inventory count procedures and were able to do so in July 2017. Subsequently we performed a roll-back procedure to ascertain the inventory held at 30 June 2017.

Given the lack of production and limited cash balances the Group has been reliant on support from its major shareholder. To support the Group in its repair of its existing facilities and to fund working capital, the Company has signed documentation for a loan of $6.5m with from CNMC International Capitals Company Limited repayable in three tranches, with the first repayment due on 15 December 2017. The Company expects to complete a wider refinancing ahead of this date in order to repay the loan and amounts due under the Company's existing facilities. The Company is monitoring its financial position and will continue to update shareholders in due course.

Outlook

As announced in June at the time of the publication of our annual accounts, the Group's immediate focus in the aftermath of the avalanche is to recommence production as well as work with the appropriate authorities and agencies to help repair the damage that has occurred in the local community. The Group does not expect operations at the mine site to return to normal levels until the first quarter of 2018. Consequently, the Pakrut gold mine will not achieve the originally budgeted sales revenue for the year ending 31 December 2017. As a result, the Group will continue to monitor its financial position and is in discussions with CNMC International Capitals Company Limited regarding its repayment obligations.

Beyond this, the construction of the back filing station and the tailing dam is underway. The back filling station is expected to be completed in April 2018, and the soil excavation work for the tailing dam is expected to be completed at the end of 2017. It is also intended that ventilation system construction and mining operations will be carried out, in the areas not affected by the flood, above the level of 2,230 metres.

It has been a particularly difficult six months for the Group. We have faced unfortunate circumstances beyond our control which has required significant management time and resources. Despite this, the Group has made significant progress in returning the mine site to its original condition and in that respect I would like to take this opportunity to thank all our employees, management and advisors for their continued efforts in first half of 2017 and thank our shareholders for their continued support.

Since the end of the period David Tang stood down as Managing Director and Mr Li Li as a Non-Executive Director. I would like to thank both David and Li for their efforts over their respective tenures and welcome our new directors, Mr Yu Lixian, the new Managing Director, and Mr Hao Zhang, the new Finance Director. In addition we are actively engaged in the process of selecting and appointing new independent non-executive directors and we look forward to updating the market in due course.

Wu Xiang
Non-Executive Chairman

29th September 2017

CHINA NONFERROUS GOLD LIMITED

INDEPENDENT REVIEW REPORT TO CHINA NONFERROUS GOLD LIMITED

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2017 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes. We have read the other information contained in the Chairman's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

This report is made solely to the company, as a body, in accordance with our instructions. Our review has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial statements are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the interim financial statements in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express a conclusion on the interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The evidence available to us was limited in relation to the comparative figures and opening balances shown in the interim financial report which are derived from the financial statements for the year ended 31 December 2016. In our report on those financial statements, which included a disclaimer of opinion, we stated that the audit evidence available to use was limited due to the high levels of snowfall at the Pakrut mine site and Vahdat smelting plant, together with the consequential effect from avalanches, landslides and floods which was further impacted by the loss of key accounting personnel. As a result we were unable to obtain sufficient, appropriate audit evidence in relation to inventories, accounts payable, mines under construction, intercompany balances, reconciling the value of work performed by contractors, preparing an impairment assessment to include an estimate of the damage caused at the mine site and potential recoveries from the associated insurance claim and performing a going concern review. Any adjustment to these balances would have a consequential effect on the statement of comprehensive income and statement of financial position for the period ended 30 June 2017. In addition, the amounts shown for the periods ended 30 June 2016 and 31 December 2016 may not be comparable with the figures for the interim period.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2017are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

PKF Littlejohn LLP

PKF Littlejohn LLP
Chartered Accountants and Statutory Auditor
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29 September 2017

CHINA NONFERROUS GOLD LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Unaudited Six months ended 30 June 2017 US$'000	Unaudited Six months ended 30 June 2016 US$'000	Audited Year ended 31 December 2016 US$'000
Revenue	2	5,493	-	-
Cost of sales	2	(5,493)	-	-
Gross profit		-	-	-
Administrative and other expenses		(1,987)	(2,821)	(5,100)
Impairment of Construction in Progress	7	(10,322)	-	-
Foreign exchange losses		(42)	(550)	(1,215)
Operating loss		(12,351)	(3,371)	(6,315)
Interest income		-	3	5
Finance costs		(47)	(32)	-
Loss before Tax		(12,398)	(3,400)	(6,310)
Income tax		-	-	-
Loss for the period attributable to owners of the Company		(12,398)	(3,400)	(6,310)
Other comprehensive income		-	-	-
Total comprehensive income for the period attributable to owners of the Company		(12,398)	(3,400)	(6,310)
Earnings per Share				
-Basic and diluted (US Dollar and US cents)	6	$(0.0324)	$(0.0089)	$(0.0165)

All of the activities of the Group are classed as continuing.

CHINA NONFERROUS GOLD LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	Unaudited 30 June 2017 US$'000	Unaudited 30 June 2016 US$'000	Audited 31 December 2016 US$'000
Non-Current Assets				
Mine under construction	7	317,098	284,077	317,297
Prepayments for property, plant and equipment		-	565	-
Property, plant and equipment		2,275	10,573	3,946
Total Non-Current Assets		319,373	295,215	321,243
Current Assets				
Inventories		28,462	40,164	28,166
Trade and other receivables		3,235	2,571	4,084
Cash and cash equivalents		1,398	109,020	12,357
Total Current Assets		33,095	151,755	44,607
Current Liabilities				
Trade and Other payables		(82,892)	(120,474)	(82,209)
Borrowings	8	(30,000)	(20,000)	(26,667)
Total Current Liabilities		(112,892)	(140,474)	(108,876)
Net Current (Liabilities)/Assets		(79,797)	11,281	(64,269)
Total Assets less Current Liabilities		239,576	306,496	256,974
Non-Current Liabilities				
Provision for other liabilities and charges		(704)	-	(704)
Borrowings	8	(222,684)	(275,000)	(227,684)
Total Non-Current Liabilities		(223,388)	(275,000)	(228,388)
Net Assets		16,188	31,496	28,586
Capital And Reserves				
Capital		38	38	38
Share premium		65,901	65,901	65,901
Other reserves		10,175	10,175	10,175
Retained earnings		(59,926)	(44,618)	(47,528)
Total Equity		16,188	31,496	28,586

CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT 30 JUNE 2017

	Unaudited Six months ended 30 June 2017 US$'000	Unaudited Six months ended 30 June 2016 US$'000	Audited Year ended 31 December 2016 US$'000
Cash flows from Operating Activities			
Loss before tax	(12,398)	(3,400)	(6,310)
Adjustments for:			
Depreciation	45	908	83
Unrealised foreign exchange loss	42	-	1,606
Finance income	-	-	(5)
Impairment of construction in progress (CIP)	10,322	-	-
Estimated cost of sales reclassified from CIP	5,493	-	-
Trade and other receivables decrease / (increase)	859	197	(3,074)
Trade and other payables increase	682	43,688	8,006
Net cash flows from Operating Activities	5,045	41,393	306
Cash flows from Investing Activities			
Purchase of property, plant and equipment	-	(61)	(333)
Payments for mining rights and construction in progress	(14,041)	(38,752)	(66,391)
(Increase) / decrease in Inventories	(296)	(774)	11,224
Interest received	-	-	5
Net cash used in Investing Activities	(14,337)	(39,587)	(55,495)
Cash flows from Financing Activities			
Proceeds from borrowings	-	240,000	244,837
Repayment of borrowings	(1,667)	(135,000)	(167,435)
Interest paid	-	-	(12,069)
Net Cash (used in)/from Financing Activities	(1,667)	105,000	65,333
Net Decrease in Cash and Cash Equivalents	(10,959)	106,806	10,144
Cash and cash equivalents at beginning of the period	12,357	2,213	2,213
Cash and cash equivalents at end of the period	1,398	109,019	12,357

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Share capital US$'000	Share premium US$'000	Other reserve US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2016	38	65,901	10,175	(41,218)	34,896
Loss and total comprehensive income for the period	-	-	-	(3,400)	(3,400)
Balance at 30 June 2016 (unaudited)	38	65,901	10,175	(44,618)	31,496
Balance at 1 July 2016	38	65,901	10,175	(44,618)	31,496
Loss and total comprehensive income for the period	-	-	-	(2,910)	(2,910)
Balance at 31 December 2016 (audited)	38	65,901	10,175	(47,528)	28,586
Balance at 1 January 2017	38	65,901	10,175	(47,528)	28,586
Loss and total comprehensive income for the period	-	-	-	(12,398)	(12,398)
Balance at 30 June 2017 (unaudited)	38	65,901	10,175	(59,926)	16,188

1. Accounting Policies

i) Basis of preparation

These interim consolidated financial statements are for the six months ended 30 June 2016 and have been prepared in accordance with International Accounting Standard 34 "Interim Financial Statements". The accounting policies applied are consistent with International Financial Reporting Standards (IFRS) adopted for use by the European Union. The accounting policies and methods of computation used in the interim consolidated financial statements are consistent with those used in the Company's Annual Report for 2016 and are expected to be applied for the year ended 31 December 2017.

ii) Cyclicality

The interim results for the six months ended 30 June 2017 are not necessarily indicative of the results to be expected for the financial year 2017. The operations of China Nonferrous Gold Limited may be subject to seasonal variations depending on the severity of snowfall levels at the mine site. Severe levels may impact the ability to continue operations and result in damage to the mine site. Such snowfall was experienced during the interim period under review and resulted in damage to the mine site and a shut-in period. The impact has been a US$10,322,000 impairment to mines under construction and delays to the start of production.

iii) Full year comparative information in interim results

The financial information for the year ended 31 December 2016 does not constitute the Group's statutory accounts for that year, but is derived from those accounts. Statutory accounts for 2016 are available at the company's website. The auditors reported on those accounts and their report included the following disclaimer of opinion:

"The audit evidence available to us was limited because we were unable to obtain full access to accounting records due to the high levels of snowfall at the Pakrut mine site and Vahdat smelting plant, together with the consequential effect from avalanches, landslides and flooding which was further impacted by the loss of key accounting personnel. Management has therefore been prevented from undertaking key accounting procedures in respect of the Group financial statements, which include counting physical inventories; undertaking key accounting reconciliations on inventories, payables, mines under construction and intercompany balances; reconciling the value of work performed by contractors at the accounting reference date; preparing an impairment assessment to include an estimate of the damage caused at the mine site and potential recoveries from the associated insurance claim; and performing a going concern review based upon revised budgets and cash flow forecasts. The preparation of financial information was significantly delayed as a result of the adverse weather which resulted in insufficient time for management to prepare the required audit information and resolve the issues created. As a result of the significant outstanding information, we have been unable to obtain sufficient appropriate audit evidence on which to form an audit opinion, including the appropriateness of the going concern basis."

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

2. Changes in Accounting Policies

During the period as a result of the mine incurring its first sales as a result of trial production the following accounting policies were adopted.

i) Revenue

Revenue represents the value of gold sold, excluding value added tax, and is recognised when goods are delivered and risk and reward has passed, and is measured at the fair value of the consideration received or receivable.

ii) Trial Production Costs

Costs associated with the production of gold during the trial production phase are estimated to match the revenue generated and are deducted from the mines under construction representing the costs of said production.

3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the relevant actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets or liabilities are detailed below.

Estimated impairment of mines under construction

The Group tests at each reporting date whether exploration, evaluation and licensing assets and mines under construction have suffered any impairment. The recoverable amounts of the cash generating units ("CGUs") have been determined based on value in use calculations which require the use of estimates and assumptions such as long-term commodity prices, discount rates, operating costs, future capital requirements and mineral resource estimates (see below). These estimates and assumptions are subject to risk and uncertainty and therefore there is a possibility that changes in circumstances will impact the recoverable amount. Management has assessed its CGUs as being individual exploration and mine sites, which is the lowest level for which cash inflows are independent of those of other assets or CGUs.

In assessing the carrying amounts of its exploration, evaluation and licensing assets and mines under construction at Pakrut, the Directors have used an independently prepared and Director approved bankable feasibility study. The assessment period used in the report is the anticipated life of the mine to the expiration of the licence in 2030, which consists of 1 year to prepare for full production, and 13 years of full production. Gold revenues have been estimated over that period at a price of US$1,280 per ounce to US$1,300. These estimates are based on, and are consistent with, external sources of information. The calculation assumes a mining capacity of 2,000 tonnes of ore daily increasing to 4,000 tonnes per day.

In addition, and as a result of heavy snowfall, they have performed an analysis and costing estimate in relation to the damage incurred and considered this in the overall impairment assessment which had an impairment impact of US$10,322,000.

The total cost per ounce including royalties, taxes, depreciation and amortisation is US$698, after taking into account external information available and adjusted according to prevailing market prices and forecasts over the period of production. Royalties have been calculated at 6% of sales revenues and corporate income tax at 14%, according to the relevant laws in Tajikistan. A discount rate of 10% has been utilised.

The calculations have been tested for sensitivity to changes in the key assumptions as well as being updated for the impairment to the mine site following the heavy snowfall and consequential damage. The most sensitive inputs in the calculation of the value in use are operating costs, the gold price, the discount rate, and the estimation as to when production will recommence. Further impairment to the mine value would occur if gold prices fell to the five year low, costs were to increase by 10%, and the discount factor used were to increase to 12%. Further impairment may also occur should the initial cost of damage to the mine site prove to be materially different from the impairment already recorded.

Approval of Pakrut reserves by Tajik Department of Geology

In November 2011, the Government of the Republic of Tajikistan issued the Pakrut Gold Project mining licence to LLC Pakrut. According to the terms of the licence, the amount of ore that can be mined is variable depending upon the mine plan. The plan submitted by the Group envisages an initial processing capacity of 660,000 tons of ore per annum, increasing to 1,320,000 tons per annum. The mining licence is valid until 2 November 2030.

The mining licence issued in November 2011 currently entitles the Group to mine JORC compliant resources (measured, indicated and inferred) of 904,000 ounces out of total JORC compliant resources of 4,383,000 ounces at Pakrut, excluding the Eastern Pakrut, Rufigar and Sulfidnoye ore zones. The JORC compliant resources include the results from the Group's exploration and evaluation work subsequent to the mining licence issue date.

LLC Pakrut has sought approval of the increased JORC compliant resources from the Tajik Department of Geology and the Scientific and Technical Counsel which includes the results of all exploration and evaluation activities undertaken by the Group between 2009 and 2013. The application is currently subject to that approval process and the Directors are not aware of any legal or other impediments which would prevent approval of their application and therefore permit the Group to mine the increased resources. However, the approval process currently remains incomplete.

The mine design and construction work undertaken to date, together with the assessment of the recoverable amount of 'Mines under Construction' (see below), is based upon the total quantity of JORC compliant resources of which part falls outside the area covered by the mining licence and still subject to formal approval, as noted above. Failure to obtain this approval would lead to an impairment of 'Mines under Construction', together with inventories, and also impact the going concern basis of preparation of the Financial Statements. The Group has made the judgement that this approval will be forthcoming. No provision for impairment has been recognised in these Financial Statements relating to this uncertainty.

Mineral resource and reserve estimates

Reserves are estimates of the amount of resources that can be economically and legally extracted from the Group's mining properties. The Group estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. This analysis requires complex geological judgements to interpret the data. The estimation of the recoverable amount is based upon factors such as estimates of commodity prices, future capital expenditure and production costs along with geological assumptions made in estimating the size and grade of the resources.

The Group estimates and reports mineral resource estimates in line with the principles contained in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2004), which is prepared by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, known as the "JORC Code". The determination of a JORC resource is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e. measured, indicated or inferred).

As additional geological information is produced during the operation of a mine and through additional exploration activity, mineral resource estimates may change. Such changes may impact on the Group's reported financial position which includes the carrying value of mines under construction, property, plant and equipment and inventories.

Mine rehabilitation provision

Rehabilitation costs will be incurred by the Group at the end of the operating life of the Pakrut mine and some of the processing facilities. The Group assesses its rehabilitation provision at each reporting date. The ultimate rehabilitation costs are uncertain and cost estimates can vary in response to various factors, including estimates of the extent and costs of rehabilitation activities, regulatory changes, inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided and there could be significant adjustments to the provisions established which would affect future financial results. The provision as at 31 December 2016 represents management's best estimate of the present value of future rehabilitation costs required.

Production start date

The Group assesses the stage of the Pakrut mine under construction to determine when it moves into the production phase, this being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of the mine construction project, the complexity of the project, its location and the remedial work required to bring the mine into operational status following the heavy snowfall and subsequent damage. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. At this point, all related amounts are reclassified from 'Mines under construction' to 'Mine Properties' and 'Property, plant and equipment'. Some of the criteria used to identify the production start date include:

- Level of capital expenditure incurred compared to the original construction cost estimate;
- Completion of testing of the mine plant and processing equipment; and
- Ability to produce metal in a saleable form.

When the mine development and construction project moves into the production phase, the capitalisation of certain costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation. It is also at this point that depreciation commences.

Trial production costs
During the period under review, the Group undertook trial production. As a result of the trial, the Group has estimated the costs of such production to match the revenue generated from gold produced. As these costs have been estimated, the actual costs may differ to those stated.

4. Going Concern

The Interim Financial Statements have been prepared assuming the Company will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws and regulations.

In assessing whether the going concern assumption is appropriate, the Directors take into account all available information for the foreseeable future, in particular for the twelve months from the date of approval of the Interim Financial Statements. This information includes:

- Management prepared cash flow projections;
- Estimations as to when production will commence at the mine site and first revenues will be generated and associated cash flow will occur;
- The ability to repair the mine site within the stated timeframe and budget;
- Sources of funding from external sources;
- Settle financial obligations as they fall due; and
- The ability of management to renegotiate current financing arrangements as was achieved in June 2017 in respect of the loan with China Nonferrous Metals International Mining Co. Ltd.

As at the date of approval of these interim statements, and based upon consideration of the above, the Directors are satisfied that the Group has sufficient cash and loan facilities to finance the Group's operating expenses and any further development and construction of the Pakrut Gold Project that is required. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and thus they continue to adopt the going concern basis of accounting in preparing the interim results.

5. Segment Information

The following segments are based on the management reports received by the Executive Directors, who are the chief operating decision makers. The Group operates principally in three geographical areas, UK, PRC and Tajikistan, with operations managed on a project by project basis within Tajikistan. For segment reporting purposes, the operations of the Cayman Islands registered parent company are included in the UK and PRC segment.

The Group's exploration and evaluation activities are located in Tajikistan, principally within the Pakrut Gold Project. Support and administration services are provided from the UK and PRC. Inter-segment revenue is eliminated on consolidation and is conducted on mutually agreed terms between Group companies.

		Tajikistan	
	UK and PRC	*Pakrut*	*Total*
June 2017	***US$000***	***US$000***	***US$000***
Revenue	-	5,493	5,493
Operating loss	(351)	(12,000)	(12,351)
Finance income	-	-	-
Finance cost	(20)	(27)	(47)
Loss for the year	(371)	(12,027)	(12,398)
Total assets	17,895	334,573	352,468
Total liabilities	(316,903)	(19,377)	(336,280)
Depreciation	(2)	(43)	(45)
Additions to property, plant and equipment	-	-	-
Additions to mines under construction	-	15,616	15,616

5. Segment Information (continued)

June 2016	*UK and PRC* *US$000*	*Tajikistan Pakrut* *US$000*	*Total* *US$000*
Revenue	-	-	-
Operating loss	(1,224)	(2,147)	(3,371)
Finance income	3	-	3
Finance cost	(32)	-	(32)
Loss for the year	(1,253)	(2,147)	(3,400)
Total assets	103,769	343,201	446,970
Total liabilities	(395,747)	(19,727)	(415,474)
Depreciation	(4)	(456)	(460)
Additions to property, plant and equipment	-	(1,051)	(1,051)
Additions to mines under construction	-	39,548	39,548

December 2016	*UK and PRC* *US$000*	*Tajikistan Pakrut* *US$000*	*Total* *US$000*
Revenue	-	-	-
Operating loss	(3,444)	(2,871)	(6,315)
Finance income	5	-	5
Loss for the year	(3,439)	(2,871)	(6,310)
Total assets	8,785	357,065	365,850
Total liabilities	317,198	20,066	337,264
Depreciation	8	5,972	5,980
Additions to property, plant and equipment	-	(1,698)	(1,698)
Additions to mines under construction	-	72,768	72,768

All of the revenue generated in the period to 30 June 2017 was attributable to one customer.

6. Earnings per Share

	June 2017 *US$*	*June 2016* *US$*
Basic and diluted earnings per share(US Dollar and US cents)	$(0.0324)	$(0.0089)

The basic earnings per share is calculated by dividing the loss attributable to equity holders after tax of US$12,398,000 (2016 – loss US$3,400,000) by the weighted average number of shares in issue and carrying the right to receive dividend. For the period ended 30June 2017 this was 382,392,292 (2016 – 382,392,292) shares.

7. Mines under construction

Cost	*Mining rights* *US$000*	*Construction in progress* *US$000*	*Total* *US$000*
At 1 January 2016	35,022	209,507	244,529
Additions including foreign exchange differences	-	39,548	39,548
At 30 June 2016	35,022	249,055	284,077
Additions including foreign exchange differences	-	33,220	33,220
At 31 December 2016	35,022	282,275	317,297
Additions including foreign exchange differences	-	15,616	15,616
Provision for impairment	-	(10,322)	(10,322)
Reclassification to cost of sales	-	(5,493)	(5,493)
At 30 June 2017	35,022	282,076	317,098

Mining rights comprise exploration and evaluation assets up to the date the Pakrut Gold Project was determined to be technically feasible and commercially viable. All subsequent exploration and evaluation expenditure at this site is capitalised within mining rights. Mining rights also includes the subsoil contract signature bonus, a share based payment for securing the Pakrut Mining Licence and payments to obtain land use rights.

7. Mines under construction (continued)

Construction in progress comprises the mine, smelting plant, tailings pond, power lines and road construction work carried out at the Pakrut Gold Project by contractors and directly by the Group. It also includes the borrowing costs associated with the loan to finance the mine construction from China Nonferrous Metals Intl Mining Co. Limited ("CNMIM") and China Construction Bank ("CCB"), together with associated legal, professional and consultancy costs.

Mines under construction are not depreciated until construction is completed and the assets are available for their intended use, signified by the formal commissioning of the mine for production.

8. Borrowings

	June 2017	*June 2016*	*December 2016*
	US$000	*US$000*	*US$000*
Bank borrowings	100,000	100,000	100,000
Other loans	153,145	195,790	154,811
Less: unamortised borrowing costs	(461)	(790)	(461)
Total	252,684	295,000	254,350
Non-current portion	222,684	275,000	227,684
Current portion	30,000	20,000	26,667

The fair value of borrowings equals their carrying amounts, as the impact of discounting is not significant.

CNMIM loan

In accordance with the terms of the Subscription Agreement and Warrant Instrument dated 27 July 2010 between Kryso Resources Limited (formerly Kryso Resources Plc) and CNMIM, a subsidiary company of significant shareholder China Nonferrous Metals Mining (Group) Co. Limited ("China Nonferrous"), CNMIM was required to use its best endeavors to secure mine funding for the construction and development of the Pakrut Gold Project.

8. Borrowings (continued)

The Shareholder Loan Agreement ("the Agreement") was signed between Kryso Resources Plc and CNMIM on 24 May 2012. The loan consisted of two tranches; tranche 1 for RMB 530,000,000 (approximately US$83.5 million) ("the RMB tranche") and tranche 2 for US$10,000,000 ("the US$ tranche"). The Group was required to expend all the loan exclusively for the design, construction, operation and administration of the Pakrut Gold Project including operating costs, capital expenditure and general working capital. Under the terms of the Agreement, the US$ tranche was disbursed by the lender transferring the funds into a designated bank account of the Group. The RMB tranche was disbursed by the lender entering into contracts with third parties on behalf of the Company or LLC Pakrut as their agent and transferring amounts to the bank accounts of such parties.

The original term of the loan commenced from the date of the first advance until 31 May 2017. The annual fixed interest rate was 9% for each RMB and US$ tranche and a management fee at 0.5% on the total amount of the loan was paid within 30 days of the first advance. Default interest of 13.5% per annum was payable on overdue amounts on the RMB and US$ tranches. The Group was to repay all amounts of principal and interest in respect of the US$ tranche and the RMB tranche in US$ at the fixed exchange rate of US$1 to RMB6.30.

The repayment schedule under the original agreement for the RMB tranche is as follows:

31/05/15 – US$14,020,000
30/11/15 – US$14,020,000
31/05/16 – US$14,020,000
30/11/16 – US$14,020,000
31/05/17 – US$14,030,000

The repayment schedule under the original agreement for the US$ tranche is as follows:

31/05/15 – US$1,666,700
30/11/15 – US$1,666,700
31/05/16 – US$1,666,700
30/11/16 – US$1,666,700
31/05/17 – US$1,666,500

Where only part of the loan has been drawn down by the Group, the amount drawn down was to be repaid on the repayment dates in the amounts specified above until the amounts drawn down have been fully repaid. As at 30 November 2014, being the end of the loan availability period, the Group had drawn down RMB384,802,696 (equivalent to US$61,079,793 at the fixed repayment exchange rate) under the RMB tranche and US$10,000,000 under the US$ tranche.

8. Borrowings (continued)

During the interim period, an extension was granted by CNMIM, revising the original loan term of 31 May 2017 to 31 May 2022, at which time the outstanding balance on the loan will be payable in full. Hence the final repayment instalment under the above repayment schedule was not paid on 31 May 2017. All other terms remain consistent with the original agreement.

During the interim period the Group received drawdowns under the RMB tranche of RMB Nil(equivalent to US$ Nil) (2016 – RMB Nil equivalent to US$ Nil) and US$ Nil(2016 – US$Nil) under the US$ tranche. The Group repaid US$1,666,500 during the interim period of 2017 of the US$ tranche leaving the US$ tranche fully repaid. The Group loan interest charge was US$667,000(2016 –US$395,310) during the interim period. The interest is directly attributable to the construction or production of a qualifying asset and has been capitalised within 'Mine Construction' costs and property, plant and equipment.

The Group has pledged its 100% equity interest in LLC Pakrut to CNMIM as security for repayment of the loan.

CNMC loans

The loan agreement between CNMC International Capitals Company Limited ("CNMC") and China Nonferrous Gold Limited was announced on 6 May 2016. Under this agreement, CNMC provided a loan facility of US$120,000,000 to China Nonferrous Gold Limited. This loan was used to refinance the previous ICBC loan of the same amount, and the purpose of these funds is for development, operations and management of the Pakrut Gold Project, including operating and related expenses.

The full amount of the loan was drawn down on the 27 April 2016. The loan contains annual fixed interest at 4%, however where the loan is used for a purpose other than that stated in the contract (Pakrut Mine – see comments above), the proportion of the loan used will incur interest at a fixed rate of 8% per annum. Payment of interest will be made biannually in June and December.

The loan is repayable in full on 31 December 2018. For any outstanding amounts owed after this date, interest will be charged at a rate of 6% per annum until the outstanding amount is paid.

The Group has pledged its 100% equity interest in LLC Pakrut to CNMC as security for repayment of the loan.

On 27 June 2016 the Group drew down a further loan of US$20,000,000 from CNMC for working capital purposes, this portion of the loan is repayable on 26 November 2017.

8. Borrowings (continued)

The loan contains a fixed interest rate of 4% per annum, which is calculated on a monthly basis from the 21st of the month to the 20th of the following month. Interest payments are due on a quarterly basis on the 21st of the month. Interest on the overdue balance will be charged at 150% of the fixed interest rate per the agreement.

CCB loan

The loan agreement between China Construction Bank ("CCB") and China Nonferrous Gold Limited was signed on 14 June 2016. Under this agreement CCB provided a loan facility of US$ 100,000,000 to China Nonferrous Gold Limited. This loan was used to refinance a previous loan from CNMC of US$ 55,000,000, with the remainder used for development, operations and management of the Pakrut Gold Project, including operating and related expenses. This use is in line with the terms of the agreement.

The loan is secured by Standby Letter(s) of Credit to be issued by China Construction Bank Corporation, Beijing Branch, and guaranteed by CNMC under the terms of the loan agreement, for an aggregate amount of not less than US$103,092,783, with validity of not less than 60 months in favour of CCB.

The full amount of the loan was drawn down on 30 June 2016. The loan incurs interest at a rate of 3 months LIBOR + 2.1% and is payable in arrears at the end of each applicable interest period.

The loan is repayable in 8 instalments commencing 18 months from drawdown date and every 6 months thereafter as follows:

31/12/17 – US$5,000,000
30/06/18– US$5,000,000
31/12/18 – US$5,000,000
30/06/19 – US$5,000,000
31/12/19 – US$5,000,000
30/06/20 – US$5,000,000
31/12/20 – US$5,000,000
30/06/21 (or 14 working days prior to expiry date of relevant Standby Letter(s) of Credit – whichever is earlier) – Balance of loan

8. Borrowings (continued)

Discussions with CNMC International Capitals Company Limited, an associate of CNMIM, regarding its loans of USD$140 million (which were fully drawn as at 30 June 2017 and $20,000,000 is repayable by 26 November 2017 and the remainder on 31 December 2018), are currently taking place. The Company's facility with China Construction Bank Corporation Macau Branch under which $100 million was drawn as at 30 April 2016, is repayable 60 months from first draw down. The Company is monitoring its financial position in light of the avalanche and lack of production and will continue to update shareholders in due course. As at 31 August 2017, the Company retained $0.2 million of cash on the balance sheet.

9. Post balance sheet event

To support the Company in its repair of its existing facilities and fund working capital, CNG has also signed documentation for a total of $6.5m with CNMC International Capitals Company Limited, with an annual fixed interest rate of 4% on the amount drawn down. Interest is payable quarterly in arrears. There is no penalty for pre-payment, however in the event of default an interest rate of 6% per annum will be applied on any overdue amount from the date on which it is due until the date on which it is repaid.