



KAZAX  
MINERALS INC

## **KazaX Minerals Inc.**

Condensed Consolidated Interim Financial Statements  
For the three month period ended March 31, 2016 and 2015  
(expressed in thousands of U.S. dollars, except where indicated)

**KAZAX MINERALS INC.**

Room 1140, Arman Business Center, 6 Saryarka  
Avenue Astana, Kazakhstan, 010000

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a) continuous disclosure requirement, if any auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these Condensed Interim Consolidated Financial Statements.

**Kazax Minerals Inc.****Condensed Consolidated Interim Statement of Financial Position**

As of March 31, 2016 and December 31, 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

	Note	March 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	3,177	3,660
Other receivables and prepaid expenses	5	79	66
Other current assets		6	8
		<b>3,262</b>	3,734
<b>Non-current assets</b>			
Property and equipment	6	11	13
Exploration and evaluation assets	3	83,089	83,502
Other long term assets	5, 8 (ii)	126	126
		<b>83,226</b>	83,641
<b>TOTAL ASSETS</b>		<b>86,488</b>	87,375
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		1,261	1,786
Convertible debentures – current	7	36,975	34,572
Derivative liability	7	1	1
Payable to Safin – LLLP acquisition – current portion	3	19,763	18,694
Loan to Safin	3	—	—
Asset retirement obligation – current	8	47	—
Payable to Tobol – LLLP acquisition	3	1,927	1,805
		<b>59,973</b>	56,858
<b>Non-current liabilities</b>			
Convertible debentures	7	3,369	3,369
Long-term provision	3	0	48
Asset retirement obligation	8	0	39
		<b>3,369</b>	3,456
<b>TOTAL LIABILITIES</b>		<b>63,343</b>	60,314
<b>EQUITY</b>			
Share capital	9	37,769	37,769
Reserves		19,492	19,492
Deficit		(34,117)	(30,201)
Total equity for owners		23,144	27,060
Non-controlling interest (“NCI”)	3	1	1
<b>TOTAL EQUITY</b>		<b>23,145</b>	27,061
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>86,488</b>	87,375

**Approved on behalf of the Directors:**“Mohamad Chafic”

Director

Mohamad Chafic

“Daniel Kunz”

Director

Daniel Kunz

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

**Kazax Minerals Inc.****Condensed Consolidated Interim Statement of Net Loss and Comprehensive Loss**

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

	Notes	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
<b>General and administrative expenses</b>			
Amortization	6	(5)	(3)
Professional fees		(44)	(60)
Travel and entertainment		(11)	(35)
Management fees	10	(135)	(25)
Directors fees	10	(6)	(8)
Other general and administration		(112)	(268)
		(313)	(399)
<b>Other (expenses) income, net</b>			
Finance income		—	244
Finance cost	9, 3	(3,594)	(1,346)
Gain on debt settlement		—	—
Foreign exchange (loss) gain		(1)	(102)
<b>Net loss before income tax</b>		(3,908)	(1,603)
Deferred tax on convertible debt		—	—
<b>Net loss</b>		(3,908)	(1,603)
<b>Other comprehensive loss</b>			
Cumulative translation adjustment		—	—
<b>Comprehensive loss</b>		(3,908)	(1,603)
<b>Loss per share</b>			
Basic & diluted		(0.02)	(0.01)
<b>Weighted average shares outstanding (000's)</b>			
Basic & diluted		218,058	218,058
<b>Total shares issued and outstanding (000's)</b>		218,058	218,058

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

**Kazax Minerals Inc.****Condensed Consolidated Interim Statement of Changes in Equity**

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

	Notes	Shares (‘000)	Share capital	Foreign translation reserves	Convertible debenture reserves	Other reserves	Deficit	Total for owners	NCI	Total Equity
Balance at December 31, 2015		218,058	37,769	3,336	5,113	11,044	(30,201)	27,060	1	27,061
Net loss – three-month period ended		—	—	—	—	—	(3,885)	(3,885)	—	(3,885)
Cumulative translation adjustment		—	—	—	—	—	—	—	—	—
Stock based compensation expense	10	—	—	—	—	—	—	—	—	—
Balance at March 31, 2016		218,058	37,769	3,336	5,113	11,044	(34,086)	23,175	1	23,176

	Notes	Shares (‘000)	Share capital	Foreign translation reserves	Convertible debenture reserves	Other reserves	Deficit	Total for owners	NCI	Total Equity
Balance at December 31, 2014		218,058	38,925	(1,324)	7,107	11,044	(30,330)	25,422	1	25,423
Net loss – three-month period ended		—	—	—	—	—	(1,603)	(1,603)	—	(1,603)
Cumulative translation adjustment		—	—	—	—	—	—	—	—	—
Stock based compensation expense	10	—	—	(6)	—	—	—	(6)	—	(6)
Balance at March 31, 2015		218,058	38,925	(1,330)	7,107	11,044	(31,933)	23,813	1	23,814

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

# Kazax Minerals Inc.

## Condensed Consolidated Interim Statement of Cash Flows

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

	Notes	Three-month period ended March 31, 2016	Three-month period ended March 31, 2015
<b>Cash used from operating activities:</b>			
Net loss		(3,908)	(1,603)
<b>Items not affecting cash:</b>			
Amortization	6	5	3
Accreted interest – convertible debt		2,403	1,346
Accreted interest – Safin and Tobol		1,191	—
Accreted interest – derivative liability		—	—
Stock based compensation expense	10	—	—
Deferred income tax recovery		—	—
Gain on debt settlement		—	—
Loss on equipment disposal		—	—
Foreign exchange		1	102
		(308)	(152)
<b>Change in non-cash operating working capital:</b>			
Change in accounts receivable, deposits, and prepaid expenses		(16)	16
Change in accounts payable and accruals		(2,274)	(345)
		(2,598)	(482)
<b>Cash flows from financing activities:</b>			
Proceeds from warrants exercised	9	—	—
Proceeds from convertible debentures	7	—	—
Proceeds from loans	7	—	—
Payment of asset retirement obligation	8	—	—
Novation of Safin loan to LLLP	3	—	—
Settlement of Safin loan	3	—	—
Payment of Safin SPA cash consideration	3	—	—
		—	—
<b>Cash flows used in investing activities:</b>			
Equipment expenditure		—	—
Exploration and evaluation asset expenditure		—	(1,733)
Acquisition of LLLP, net of cash acquired		—	—
		—	(1,733)
<b>Decrease in cash and cash equivalents:</b>			
Foreign exchange impact on cash and cash equivalents		(2,598)	(2,215)
Cash and cash equivalents - beginning of period		5,775	7,990
<b>Cash and cash equivalents - end of period</b>		<b>3,177</b>	<b>5,775</b>
<b>Currency (expressed in USD)</b>			
	Notes	March 31, 2016	March 31, 2015
Canadian Dollars		43	26
US Dollars		3,134	5,296
European Euro		—	191
British Pound		—	4
Kazakhstan Tenge		—	258
		3,177	5,775

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

# **Kazax Minerals Inc.**

## **Notes to Condensed Consolidated Interim Financial Statement**

For the three-month period ended March 31, 2016 and 2015

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(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### **1. Nature of operations**

KazaX Minerals Inc. (formerly Newbridge Capital Inc.) (the “Company”) was incorporated under the Business Corporations Act of British Columbia on September 12, 2005. The Company’s shares are listed for trading on the TSX Venture Exchange under the symbol KZX. The address of the Company’s corporate office and principal place of business is Suite 1140, Arman Business Center, 6 Saryarka Avenue, Astana, Kazakhstan, 010000.

These condensed consolidated interim financial statements of the Company for the three-month period ended March 31, 2016 and 2015, comprise the Company and its subsidiaries (together referred to as the ‘Group’ and individually as ‘Group entities’). The Group is primarily involved in the acquisition, exploration and development of mineral properties.

On February 15, 2013, the Group completed the acquisition of a 74.99% interest in Lomonosovskoye Limited Liability Partnership (“LLLP”), a legal entity existing under the laws of the Republic of Kazakhstan from Safin Element GmbH (“Safin”), a company wholly owned by a company controlled by one of the directors of Kazax Minerals Inc. LLLP holds the exploration and production rights to the Lomonosovskoye iron ore project (the “Lomonosovskoye Project” or “Project”) located in the northwest of the Republic of Kazakhstan. On November 24, 2014 the Group completed the acquisition of a 25.0% interest in LLLP from the Kazakhstan state agency Tobol. See Note 3 for details of these acquisitions, following which, the Group currently holds a 99.9% interest in LLLP, with Safin holding the remaining 0.01%.

### **2. Going concern**

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Several adverse conditions exist which may cast significant doubt on the ability of the Group to continue as a going concern. In the three-month period ended March 31, 2016, the Group had a net loss of \$3,885 (three-month period ended March 31, 2015: \$1,603) and as at March 31, 2016, a negative working capital of \$58,659 (December 31, 2015: \$53,124), an accumulated deficit of \$34,086 (December 31, 2015: \$30,201), limited resources, no source of operating cash flow and no assurances that sufficient funding will be available to conduct further exploration and development of its Project or to complete the significant commitments in respect of its purchase of the Project (see Note 3).

The Company does not generate cash flow from operations and has therefore relied principally upon the issuance of securities to, and loans from, two of the Company’s directors for financing. In April 2014, two of the Company’s directors advanced \$2,260 (equivalent to CAD\$ 2,500) through completion of a private placement of convertible debentures, in July 2014 they advanced \$2,980 (equivalent to CAD\$ 3,200) through completion of a private placement of convertible debentures and in September 2014, they advanced \$20,000 on terms that were subsequently renegotiated in October 2014 by way of issuance of convertible debentures (see note 9).

The Directors expect to be able to obtain further funding for the Group. However, there can be no guarantee that the required funds will be raised within the necessary timeframe. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities and/or debt or financing institutes or new partners to finance its future activities, but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. Although these consolidated financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company’s business, results of operations and financial condition.

On August 31, 2015 the Group negotiated to extend the maturity of Safin liability to June 30, 2016.

On August 15, 2015 the Group also negotiated to extend the maturity of Tobol liability to May 31, 2016.

In April, 2016 the Group negotiated to extend the maturity for the \$20 million and \$19 million convertible debts and Safin liability to a date not earlier April 29, 2017.

# Kazax Minerals Inc.

## Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

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(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### 3. Acquisition of LLLP

#### i) Overview

On February 15, 2013, the Group completed the acquisition of a 74.99% interest in LLLP from Safin (the "Acquisition"). Pursuant to the terms of the SPA, the Group agreed to make certain cash payments and issue common shares (the "Consideration Shares") to Safin as consideration for the Acquisition. To date, the Group has made the following payments to Safin in connection with the Acquisition:

- a) at the closing of the Acquisition (February 15, 2013), the Group made an initial payment to Safin of \$6.933 million in cash (the "First Instalment Cash") and the Company issued approximately 23.1 million Consideration Shares to Safin (the "First Instalment Consideration Shares");
- b) on May 28, 2013, the Company issued a further approximately 13.1 million Consideration Shares to Safin;
- c) on October 2, 2013 the Group made a further cash payment to Safin of \$2.0 million ("Second Instalment Cash payment");
- d) on February 10, 2014 the Company issued a further approximately 39.3 million Consideration Shares to Safin (the "Third Instalment Consideration Shares");
- e) on October 14, 2014, the Group made a further cash payment to Safin of \$2.125 million and on December 23, 2014, the Group made a further cash payment to Safin of \$1.275 million, totalling \$3.400 million ("Third Instalment Cash payment");

Under the terms of the SPA, as at December 31, 2015 the nominal value of future cash consideration remaining to be paid totals approximately \$20.894 million (gross and including amounts to be deducted from the gross sum and paid by the Group to the government of Kazakhstan in respect of Safin's Capital Gains Tax ("CGT") liability). No further Consideration Shares are due to be issued under the terms of the SPA. As at December 31, 2015 this liability to Safin is shown at its amortized cost of \$18.694 million.

Under the terms of the SPA, the Group is required to pay Safin's CGT liability on the cash and share consideration to the Kazakhstan tax authorities, without deduction from the consideration payable to Safin. Following the initial cash payment and share issuance in February 2013, the Group made a CGT payment of \$2.0 million to the Kazakhstan tax authorities in April 2013 in respect of Safin's CGT liability for the First Instalment Cash and First Instalment Consideration Shares. In accordance with the terms of the SPA, the application for refund of the CGT paid in respect of the First Instalment Cash and First Instalment Consideration Shares having been successful with the Kazakh tax authorities, the refund of these CGT funds has been made to Safin. Pursuant to the SPA, all other successful CGT refunds in respect to the consideration payable to Safin, will be to the benefit of the Group subject to due payments being made to Safin by KMI as per the SPA schedule.

All of the Consideration Shares issued to Safin were subject to resale restrictions for four months and a day from the date of issuance. In addition, under the terms of the SPA, the parties agreed that 25% of the Consideration Shares have an additional hold period expiring 12 months from issuance, 25% of the Consideration Shares have an additional hold period expiring 18 months from issuance and 25% of the Consideration Shares have an additional hold period expiring 24 months from issuance.

On September 17, 2014, the Company and Safin agreed to amendments to the SPA and entered into an amending agreement (the "Amendment Agreement") for the rescheduling of the outstanding consideration due to Safin under the terms of the SPA. Under the terms of the Amendment Agreement, \$2.125 million was paid to Safin on October 14, 2014 and \$1.275 million was paid to Safin on December 23, 2014. In October 2014, \$1.884 million of CGT was paid by the Group, bringing all outstanding CGT payment obligations at that time, up to date. In January 2015, \$0.225 million was paid by the Group and during 2015 the Group applied a CGT refund of \$1.253 million to the Safin payable.

From each of the payments shown above, the Group will deduct such amount as is due to the Republic of Kazakhstan in respect of CGT and all risk relating to such tax shall be borne by Safin. The estimated future CGT payable by the Group on behalf of Safin in respect of future SPA consideration payments is \$3.427 million.

In the event the Group does not complete any of the above payments to Safin, in full or in part, in accordance with the terms of the SPA, the Group is required to transfer back to Safin the unpaid portion of its interest in LLLP on a pro rata basis.



# Kazax Minerals Inc.

## Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### 3. Acquisition of LLLP (continued)

#### i) Overview (continued)

Under the terms of the Amendment Agreement, the Company also remitted \$1.0 million to Safin on October 9, 2014 and, at the same time, Safin novated to a wholly-owned subsidiary of the Company an outstanding loan of approximately \$1.3 million owed by LLLP to Safin. As well, under the terms of the Amendment Agreement, the obligation on the part of Safin to pay certain agricultural losses pursuant to the SPA was removed.

A further condition to the effectiveness of the Amendment Agreement, was the execution by Tobol of a purchase and sale agreement pursuant to which Tobol would agree to sell its 25% interest in LLLP (the "Tobol Interest") on certain terms and conditions outlined in the Amendment Agreement and on terms otherwise acceptable to the Company (the "Tobol Condition").

Finally, under the terms of the Amendment Agreement, the parties also agreed to co-operate with each other in respect of certain matters, including satisfaction of the Tobol Condition, the further development of the LLLP business and certain matters pertaining to the Company.

#### The Tobol SPA

In satisfaction of the Tobol Condition, on September 17, 2014, the Group executed a share purchase agreement with Tobol (the "Tobol SPA") pursuant to which it acquired the Tobol Interest for a purchase price of \$5.03 million, payable pursuant to the terms of the Tobol SPA. On October 31, 2014, the Group received consent from the Ministry of Investments and Development of Kazakhstan ("MID") for the acquisition of the Tobol Interest and the re-registration by the Kazakh authorities of the transfer of the Tobol Interest to the Group was completed on November 24, 2014. In respect of the purchase price for the acquisition of the Tobol Interest, USD 3 million has been paid in November 2014 and the final payment of USD 2.012 million is due for payment as at December 31, 2016. As announced on November 28, 2014, the interest in the Project is now held 99.99% by the Group and 0.01% by Safin.

In August, 2015 the Group concluded certain amendments to the Tobol SPA agreement related to payment terms which were considered as substantial change in the terms of the debt facility and, accordingly, the Company applied debt extinguishment accounting and calculated a gain on extinguishment of debt of \$379 as the difference between the fair value of the amended debts immediately after the amendment (\$1,635) and the amortized cost of these debts immediately prior to the amendments (\$2,012). The Company calculated the fair value of the amended debts by discounting future cash flows using rates representative of current borrowing rates for debt instruments with similar features (30%).

<b>Payable to Tobol</b>	<b>In thousand</b>
Balance, December 31, 2014	<b>1,805</b>
Accreted interest	377
Gain on extinguishment	(377)
Balance, December 31, 2015	<b>1,805</b>
Accreted interest	122
Balance, March 31, 2016	<b>1,927</b>

#### Safin loan

The loan obligation of LLLP to Safin in the amount of approximately \$1.3 million was novated to the Group in October 2014 in consideration of the payment to Safin of USD\$1.0 million (refer Note 3).

In April, 2015 the Group concluded certain amendments to the SPA agreement related to payment terms which were considered as substantial change in the terms of the debt facility and, accordingly, the Company applied debt extinguishment accounting and calculated a gain on extinguishment of debt of \$2,652 as the difference between the fair value of the amended debts immediately after the amendment (\$17,350) and the amortized cost of these debts immediately prior to the amendments (\$20,002). The Company calculated the fair value of the amended convertible debts by discounting future cash flows using rates representative of current borrowing rates for debt instruments with similar features (25%).

# Kazax Minerals Inc.

## Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### 3. Acquisition of LLLP (continued)

#### Acquisition accounting

The Company's acquisition of the controlling shareholding in LLLP on February 15, 2013 has been accounted for as an acquisition of a group of assets and liabilities.

The gross consideration agreed to in exchange for the acquisition of LLP, before factoring the time value of money is as follows:

<b>Gross purchase consideration paid and accrued</b>	<b>Notes</b>	<b>Amount</b>
Advance loan to Safin forgiven		1,235
Settlement of existing advances in lieu of initial cash payment		454
Cash payments		31,300
Capital gains taxes paid on behalf of Safin		7,678
Shares		11,510
Finder's fees		2,636
<b>Total</b>		<b>54,813</b>

The Third Finder's Fee installment of \$966,000 was subsequently forgiven.

The following summarizes the purchase consideration transferred / payable based on the above payment terms, and the recognized amounts of assets acquired and the liabilities assumed at the acquisition date.

<b>Purchase consideration paid and accrued</b>	<b>Notes</b>	<b>Amount</b>
<b>Paid</b>		
Advance loan to Safin forgiven		1,235
Settlement of existing advances in lieu of first initial cash payment		454
First Installment Cash payment		6,480
First Installment Shares (23,076 thousand common shares) issued	(i)	5,526
Initial payment of Finder's Fee		704
First payment of capital gains taxes on behalf of Safin		2,038
Second Instalment Shares (13,086 thousand common shares)	(i)	3,201
Second Finder's Fee installment		966
		<b>20,604</b>
<b>Accrued</b>		
Third Installment Shares		2,783
Second Installment Cash payment		10,897
Second payment of capital gains taxes on behalf of Safin		2,527
Third Installment of Cash payment		9,924
Third payment of capital gains taxes on behalf of Safin		2,283
Third Finder's Fee installment		609
		<b>29,023</b>
<b>Total purchase consideration</b>		<b>49,627</b>

The fair value of the First Instalment Shares of 23,076 thousand common shares was based on the discounted fair value of the market price at the Acquisition date of \$0.24 per share. The fair value of the Second Instalment Shares of 13,086 thousand common shares was based on the discounted fair value of the market price on issuance date of \$0.24 per share. Upon the settlement of the Second Instalment Shares, the Company recognized an accreted interest of \$369.

The outstanding third tranche of consideration shares ("Third Instalment Shares") with value of \$3,570.0 was issued on February 10, 2014. A total of 39,270.0 million common shares with a fair value of CDN\$0.10 per share were issued to Safin. Following this issue of common shares, Safin had direct ownership and direction or control over 75,652.9 common shares of the Company, representing.

# Kazax Minerals Inc.

## Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### 3. Acquisition of LLLP (continued)

#### Acquisition accounting (continued)

The purchase consideration, which is payable over the next 14 months, is recognized as current and non-current liabilities on the statement of financial position. The non-current financial liability is \$20,682 as at March 31, 2016 due to the agreed rescheduled due dates.

<b>Payable to Safin</b>	<b>Amount</b>
Balance, December 31, 2014	19,177
Accreted interest – Restated	4,122
Gain on extinguishment – Restated	(1,953)
Settled balance	(2,652)
Balance, December 31, 2015	<b>18,694</b>
Accreted interest	1,069
Balance, March 31, 2016	<b>19,763</b>

<b>Identifiable assets acquired and liabilities assumed:</b>	<b>Amount</b>
Cash and cash equivalents	37
Property, plant and equipment and inventory	5
Exploration and evaluation assets	67,038
Safin loan	(1,539)
Accounts payable and accrued liabilities	(122)
NCI	(15,792)
	<b>49,627</b>

Details of Exploration and evaluation assets recognized as at March 31, 2016 are as follows:

<b>Exploration and evaluation assets recognized comprised of:</b>	<b>Three-month period ended March 31, 2016</b>	<b>Twelve-month period ended December 31, 2015</b>
Opening balance	83,502	80,637
Identifiable assets acquired in LLLP	—	—
Exploration and evaluation costs post acquisition	(413)	2,865
Acquisition costs (professional fees directly related to the acquisition )	—	—
Foreign exchange impact (cumulative translation adjustment)	—	—
	<b>83,089</b>	<b>83,502</b>

Details of exploration and evaluation costs post Acquisition to March 31, 2016 are as follows:

<b>Exploration and evaluation assets incurred comprised of:</b>	<b>Three-month period ended March 31, 2016</b>	<b>Twelve-month period ended December 31, 2015</b>
Exploratory drilling and engineering	(413)	2,865
Wages and benefits	—	—
Other direct overhead	—	—
	<b>(413)</b>	<b>2,865</b>

# Kazax Minerals Inc.

## Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### 4. Basis of preparation

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting, on a basis consistent with the most recent annual consolidated financial statements. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and accordingly should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on May 30, 2016.

### 5. Financial instruments

#### i) Fair values of financial instruments

	March 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents	3,177	3,177	3,660	3,660
Other receivables	79	79	43	43
	<b>3,256</b>	<b>3,256</b>	3,703	3,703
<b>Financial liabilities</b>				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities*	1,261	1,261	1,786	1,786
Convertible debentures	40,344	40,344	37,941	36,473
Derivative liability	1	1	1	1
Payable to Safin – LLLP acquisition**	19,763	19,763	18,694	18,694
Payable to Tobol – LLLP acquisition	1,927	1,927	1,805	1,805
	<b>63,296</b>	<b>63,296</b>	60,227	58,759

#### i) Fair values of financial instruments (continued)

\* On April 29, 2014, the Company announced the amicable settlement with LogiCamms Limited (“LogiCamms”), with legal proceedings to be withdrawn, subject to payment of USD 645 thousand (AUD\$700.) by the Company to LogiCamms in 4 instalments, which was completed by the Company during the reporting period.

\*\* The loan obligation of LLLP to Safin in the amount of approximately \$1.3 million was novated to the Group in October 2014 in consideration of the payment to Safin of USD\$1.0 million (refer Note 3).

## Kazax Minerals Inc.

### Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

## 5. Financial instruments (continued)

### ii) Fair value measurements

Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The fair values of the convertible debentures are estimated using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market interest rates of similar loans with similar risk.

The fair value of the conversion feature classified as a derivative financial liability is estimated using an option pricing model adjusted for the impact of the non-functional currency feature.

The following table sets forth the Company's assets and liabilities measured or disclosed at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	March 31, 2016
Payable to Safin – LLLP acquisition	—	19,763	—	19,763
Payable to Tobol – LLLP acquisition	—	1,927	—	1,927
Convertible debentures	—	—	40,344	40,344
Derivative liability	—	—	1	1

  

	Level 1	Level 2	Level 3	December 31, 2015
Payable to Safin – LLLP acquisition	—	18,694	—	18,694
Payable to Tobol – LLLP acquisition	—	1,805	—	1,805
Convertible debentures	—	36,473	—	36,473
Derivative liability	—	—	1	1

### iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting its cash flows from operations and anticipating investing and financing activities. Senior management is actively involved in the review and approval of planned expenditures. Management believes that the ability to fund operations through cash generated from financing activities should be sufficient to meet the ongoing capital and operating requirements (see Note 2). As at March 31, 2016, the Company's working capital deficit of \$56,659 (December 31, 2015: \$53,124).

In the normal course of business the Company enters into contracts and conducts business activities that give rise to commitments for future minimum payments.

# Kazax Minerals Inc.

## Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### 5. Financial instruments (continued)

#### iv) Currency risk

The Company operates in Canada, Austria and Kazakhstan and is exposed to foreign exchange risk arising from transactions denominated in foreign currencies.

In August, 2015 the Government and the National Bank of the Republic of Kazakhstan ceased regulating the exchange rate of the national currency and shifted to a freely floating rate model. As a result the KMI group of companies operating in Kazakhstan land (EMM, Lomo) with functional currency of tenge reported foreign exchange losses due to related devaluation of tenge.

The operating results and the financial position of the Company are reported in United States dollars. Fluctuations of the operating currencies in relation to the United States dollar will have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company's financial assets and liabilities as at March 31, 2016 are denominated in United States Dollars, Canadian Dollars, European Euro, and Kazakhstan Tenge set out in the following table:

March 31, 2016	Canadian Dollars	US Dollars	British Pounds	European Euro	Kazakhstan Tenge	Total
<b>Financial assets</b>						
Cash and cash equivalent	43	3,134	—	—	—	3,177
Accounts receivable	46	—	—	—	33	79
	89	3,134	—	—	33	3,256
<b>Financial liabilities</b>						
Accounts payables and accrued liabilities	—	(1,261)	—	—	—	(1,261)
Payable – Safin SPA - LLLP acquisition	—	(19,763)	—	—	—	(19,763)
Convertible debentures	(18,191)	(22,153)	—	—	—	(40,344)
Derivative liability	—	(1)	—	—	—	(1)
Payable to Tobol – LLLP acquisition	—	(1,927)	—	—	—	(1,927)
	(18,191)	(45,105)	—	—	—	(63,296)
Net financial assets (liabilities)	(18,102)	(41,971)	—	—	33	(60,040)
<b>December 31, 2015</b>	<b>Canadian Dollars</b>	<b>US Dollars</b>	<b>British Pounds</b>	<b>European Euro</b>	<b>Kazakhstan Tenge</b>	<b>Total</b>
<b>Financial assets</b>						
Cash and cash equivalent	27	3,630	1	—	2	3,660
Accounts receivable	—	31	—	—	12	43
	27	3,661	1	—	14	3,703
<b>Financial liabilities</b>						
Accounts payables and accrued liabilities	—	(1,786)	—	—	—	(1,786)
Convertible debentures	(16,129)	(21,812)	—	—	—	(37,941)
Derivative liability	—	(1)	—	—	—	(1)
Payable – Safin SPA - LLLP acquisition - Restated	—	(18,694)	—	—	—	(18,694)
Payable to Tobol – LLLP acquisition	—	(1,805)	—	—	—	(1,805)
	(16,129)	(44,098)	—	—	—	(60,227)
Net financial assets (liabilities)	(16,102)	(40,437)	1	8	14	(56,524)

The Company's reported results will be affected by changes in the US dollar to Kazakhstan Tenge exchange rate. A 10% appreciation of the Kazakhstan Tenge relative to the US dollar would have increased net financial assets by approximately \$35 and a 10% depreciation of the Kazakhstan Tenge would have had an equal but opposite effect. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risk

## Kazax Minerals Inc.

### Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

## 5. Financial instruments (continued)

### v) Credit risk

The Company's credit risk is primarily attributable to its liquid financial assets and would arise from the non-performance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash with high-credit quality financial institutions. Management believes the risk of loss of the Company's liquid financial assets to be nominal.

### vi) Interest risk

The Company invests its cash in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations. Interest rate risks arising from the Company's operations are not considered material.

	Notes	March 31, 2016	December 31, 2015
<b>Current</b>			
Prepaid expenses		11	23
Other receivables		68	43
		<b>79</b>	66
<b>Non-current</b>			
Long term deposits (see Note 9 (ii))		96	96
Other long term assets		30	30
		<b>126</b>	126

## 6. Property and Equipment

Cost	December 31, 2014	Additions	Disposals	December 31, 2015	Additions	March 30, 2016
Computer equipment	20	14	—	34	—	34
Office Furniture & other	39	2	—	41	—	41
	<b>59</b>	16	—	<b>75</b>	—	<b>75</b>

  

Accumulated Depreciation	December 31, 2014	Depreciation & Amortization	Disposals	December 31, 2015	Depreciation & Amortization	March 30, 2016
Computer equipment	(16)	(16)	—	(32)	(1)	(33)
Office Furniture & other	(15)	(15)	—	(30)	(1)	(31)
	<b>(31)</b>	(31)	—	<b>(62)</b>	(2)	<b>(64)</b>

  

Carrying amount	March 30, 2016	December 31, 2015
Computer equipment	1	2
Office Furniture & other	10	11
	<b>11</b>	13

# **Kazax Minerals Inc.**

## **Notes to Condensed Consolidated Interim Financial Statement (continued)**

For the three-month period ended March 31, 2016 and 2015

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(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### **7. Convertible debentures**

#### **September 2013 Issuance**

On September 26, 2013 the Company completed a private placement of convertible unsecured non-interest bearing debentures (the "First Debenture") for aggregate proceeds of \$19.0 million (CAD\$19.57 million).

The Debentures will mature and become payable on September 26, 2016 (the "First Maturity Date") and are direct, unsecured obligations of the Company, ranking equally with all other unsecured indebtedness of the Company. Upon receipt of all necessary approvals from the Kazakhstan Ministry of Industry and New Technologies of the Republic of Kazakhstan ("MINT"), the principal amount of the First Debentures will automatically be converted into units of the Company (the "First Units") on or before the First Maturity Date, at a conversion price of CAD\$0.15 per Unit.

Each First Unit will be comprised of one common share of the Company (a "Share"), and one-half of one share purchase warrant with each whole warrant exercisable to purchase an additional Share until the First Maturity Date at an exercise price of CAD\$0.35 ("First Warrant"). In the event that the closing price of the Share on the Exchange is equal to or exceeds \$1.00 for a period of 10 consecutive trading days ("Acceleration Event"), the First Warrants will expire 90 calendar days after the Company provides notice that the Acceleration Event has occurred.

#### **April 2014 Issuance**

On April 25, 2014 the Company completed a private placement of convertible unsecured non-interest bearing debentures ("Second Debenture") for aggregate proceeds of \$2.26 million (CAD\$2.50 million).

The Second Debenture will mature and become payable on April 25, 2017 ("Second Maturity Date") and are direct, unsecured obligations for the Company, ranking equally with all other unsecured indebtedness of the Company. Upon receipt of all necessary approvals from the MID on or before the Second Maturity Date for the Second Convertible Debenture, the principal amount of the Second Debenture will automatically be converted into units of the Company ("Second Units"); provided, however that the Second Debenture will only be converted into Second Units where such conversion would not result in a reduction in the existing percentage of Shares held by persons other than insiders or their associates and affiliates and not subject to resale restriction.

The conversion of the Second Debenture into Second Units shall be at a conversion price of:

- (i) CAD\$0.05 per Second Unit if conversion occurs by April 25, 2015; and
- (ii) CAD\$0.10 per Second Unit if conversion occurs within the following two years.
- (iii) In certain circumstances, the conversion price may be greater than CAD\$0.05 or CAD\$0.10, if the Company has announced a positive change concerning its resources prior to conversion.

Each Second Unit will be comprised of one Share and one-half of one share purchase warrant, with each whole warrant exercisable to purchase one additional Share of the Company at an exercise price of CAD\$0.10 until the Second Maturity Date ("Second Warrant"). In the event of an Acceleration Event, the Second Warrants will expire 90 calendar days after the Company provides notice that the Acceleration Event has occurred.

The Second Debenture and any Shares and Second Warrants issued upon conversion of the Second Debentures will be subjected to a hold period expiring August 26, 2014.

#### **July 2014 Issuance**

On July 14, 2014 the Company completed a private placement of convertible unsecured non-interest bearing debentures ("Third Debenture") for aggregate proceeds of \$2.98 million (CAD\$3.2 million) ("Third Private Placement").

The July Debenture will mature and become payable on July 14, 2017 ("Third Maturity Date") and are direct, unsecured obligations of the Company, ranking equally with all other unsecured indebtedness of the Company. Upon receipt of (i) all necessary approvals from the MID; and (ii) approval by the requisite majority of shareholders of the Company on or before the Third Maturity Date for the Third Debentures, the principal amount of the Third Debentures will automatically be converted into units of the Company (the "Third Units"); provided, however, (iii) that the Debentures will only be converted into Third Units where such conversion would not result in a reduction in the existing percentage of common shares of the Company held by persons other than insiders or their associates and affiliates and not subject to resale restrictions.

The conversion of the Third Debentures into Third Units shall be at a conversion price of: (i) CAD\$0.05 per Third Unit if conversion occurs by July 14, 2015; and (ii) CAD\$0.10 per Third Unit if conversion occurs within the following two years.



# **Kazax Minerals Inc.**

## **Notes to Condensed Consolidated Interim Financial Statement (continued)**

For the three-month period ended March 31, 2016 and 2015

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(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

### **7. Convertible debentures (continued)**

Each Third Unit will be comprised of one Share and one-half of one share purchase warrant, with each whole warrant exercisable to purchase one additional Share until July 14, 2017 at an exercise price of CAD\$0.10 ("Third Warrant"). In the event of an Acceleration Event, the Third Warrants will expire 90 calendar days after the Company provides notice that the Acceleration Event has occurred.

The Third Debentures, and any Shares issued upon conversion of the Third Debentures or exercise of the Third Warrants, will be subject to a hold period expiring November 15, 2014.

The proceeds of the Third Private Placement were to be used for general working capital purposes.

#### **September 2014 USD \$20.0 million debt financing**

On September 25, 2014, in conjunction with the foregoing, and in furtherance of the Company's work on its BFS for the Project, the Company and two of its directors (the "Holders"), entered into agreements (the "Loan Agreements") to each advance USD 10 million to the Company for a total of USD 20 million in debt financing. These loans were set to mature on October 31, 2014 (the "Maturity Date"), are unsecured and bear interest at a rate of 12.5% per annum. Prior to the Maturity Date, the Company negotiated further loan terms with the Holders (as set out below).

#### **October 2014 USD \$20.0 million debt financing terms renegotiated**

On October 27, 2014, the Company amended the terms of the Loan Agreements. The amendments were made by way of the issuance to the Holders, on a non-brokered private placement basis (the "October Private Placement"), of USD 20 million in an aggregate principal amount of convertible secured debentures (the "October Debentures") and an aggregate of 100,000,000 warrants ("October Warrants", and together with the October Debentures, the "Securities") to purchase Shares.

The October Debentures are direct obligations of the Company which will, following receipt of necessary approvals by MID, be secured (up to such amount as is approved by MID) by all of the shares of a wholly-owned subsidiary of the Company (the "Security"). The annual interest rate on the October Debentures will be 12.5 per cent. Interest will be payable at maturity in cash or, at the election of the Company and subject to certain conditions, in Shares, in accordance with applicable rules of the TSX-V.

The October Debentures will mature on and become payable on December 31, 2015, following an agreement with the debenture holders to extend the due date from the initial due date of April 14, 2015. The new due date is subject to an extension of such date to December 31, 2016 following receipt of MID approval of the Security and for the conversion features (the "October Maturity Date"). The Holders will have the option to require the Company to repay the October Debenture earlier than the October Maturity Date upon the occurrence of (i) a sale for consideration by the Company of at least 50% of its shareholdings in LLLP or (ii) a change of control of the Company.

The principal amount owing under the October Debentures will be convertible into Shares at the option of each Holder at a price of CAD\$0.20 at any time following satisfaction of the following conditions: (i) receipt of all necessary approvals from MID; (ii) approval by the requisite majority of shareholders of the Company; and (iii) where such conversion would not result in a reduction in the existing percentage of common shares of the Company held by persons other than insiders or their associates and affiliates and not subject to resale restrictions (collectively, the "Conversion Conditions").

Subject to satisfaction of the Conversion Conditions, the October Warrants will be exercisable to purchase one common share of the Company at an exercise price of CAD\$0.10 until December 31, 2016, provided however on an Acceleration Event, the October Warrants will expire on the date which is 90 calendar days after the Company provides notice that the Acceleration Event has occurred

The Company valued the liability component of the October Debentures by calculating the present value of the principal and interest payments, discounted at a rate of 28.64%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear for the April 14, 2015 maturity date. The conversion feature of the October Debentures (the derivative liability component) comprises the value of the conversion option based on an option pricing model that reflects the foreign exchange feature using inputs that are consistent with the terms of the instrument. The warrant feature (the equity component) was determined as the residual of the proceeds of issuance and liability components. Based on these calculations, the liability components were \$18,797 debt and \$16 derivative liability and the residual amount of \$1,188 was recorded as equity. As of December 31, 2015 the Group re-estimated the derivative liability at the amount of \$1 and adjusted the carrying value of the derivative liability balance accordingly in the statement of financial position.

In December, 2015 the Group concluded certain amendments to the \$20 million convertible debts which were considered as substantial change in the terms of the debt facility and, accordingly, the Company applied debt extinguishment accounting and calculated a gain on extinguishment of debt of \$1,131 as the difference between the fair value of the amended debts immediately after the amendment (\$21,824) and the amortized cost of these debts immediately prior to the amendments (\$22,955). The Company calculated the fair value of the amended convertible debts by discounting future cash flows using rates representative of current borrowing rates for debt instruments with similar features (28.64%).

## Kazax Minerals Inc.

### Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

## 7. Convertible debentures (continued)

### Accounting treatment

The Company recognized gain on extinguishment in 2015 for the amount of \$1,130 in the statement of profit and loss as a result of amendments made to the terms of convertible debts during 2015 (2014: nil). Also the Company estimated the equity element of the debenture instrument issued in 2014 by discounting future cash flows and recognized related equity item for \$2,986 in the statement of changes in equity.

	Notes	Three-month period ended March 31, 2016	Twelve-month period ended December 31, 2015
Opening balance		37,941	36,407
Convertible debt issued		—	—
Allocation of equity portion		—	—
Accreted interest		2,403	5,543
Foreign exchange impact		—	(2,879)
Gain on extinguishment of debt		—	(1,130)
		<b>40,344</b>	<b>37,941</b>

## 8. Asset retirement obligation

	Notes	March 31, 2016	December 31, 2015
Social Sphere Provision	(i)	47	48
Liquidation Fund Provision	(ii)	0	39
		47	87
Current portion			—
Non-current portion		0	87
		0	87

### i) Social Sphere Provision

Pursuant to the Subsoil Use Contract between the Company and the Ministry of Industry and New Technologies of the Republic of Kazakhstan (the “Competent body”) dated March, 20, 2009 and as amended on July 31, 2009 and December 28, 2010 (the “Contract”), the Company holds unrestricted exploration and production rights to the LLLP’s iron ore deposit (the “Deposit”), located in Kostanay Oblast, the Republic of Kazakhstan. The term of the Contract is 21 years including 7 years of exploration period and 14 years of production period. In 2013 the exploration period was extended until March 19, 2016. Currently the Group’s management awaits for the confirmation by the Competent body for two more years of standby period.

Pursuant to the Contract on exploration and production of iron ore the Company is obliged to make an annual allocation to the social infrastructure of the region in the amount of \$48.0 during the exploration period. In 2013 the Company extended the exploration period until March 20, 2016. The provision is recognized at amortized cost using a discount rate of 5.5%, which is LLLP’s borrowing rate.

### ii) Liquidation Fund Provision

Pursuant to the Contract the Company is obliged to make annual allocations to the liquidation fund. These funds are accumulated in a special bank account and are restricted for use until the Competent body provides permission for expenditure. The provision is recognized at amortized cost using a discount rate of 5.5%, which is LLLP’s borrowing rate. As at December 31, 2015, the Company has deposited \$96 in the Liquidation Fund.

## Kazax Minerals Inc.

### Notes to Condensed Consolidated Interim Financial Statement (continued)

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

## 9. Share capital

### Authorized

Unlimited common shares without par value.

### Warrants

	Three-month period ended March 31, 2016		Twelve-month period ended December 31, 2015	
	Number of warrants (000's)	Weighted average exercise price (CDN\$)	Number of warrants (000's)	Weighted average exercise price (CDN\$)
Outstanding - beginning of period	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Outstanding - end of period	—	—	—	—

### Stock Options

	Three-month period ended March 31, 2016		Twelve-month period ended December 31, 2015	
	Number of options (000's)	Weighted average exercise price (CDN\$)	Number of options (000's)	Weighted average exercise price (CDN\$)
Outstanding - beginning of period	—	—	—	—
Granted	—	—	—	—
Expired	—	—	—	—
Outstanding - end of period	—	—	—	—

On July 15, 2013, the Company granted 4,000 stock options with an exercise price of CDN\$0.17 to management. The options are valued through the Black-Scholes model with the following assumptions: 111.29% volatility, 0% annual rate of dividends, 1.82% annual risk free rate, and an expected life of option of 1 year.

On July 15, 2014, the incentive stock options granted to Mr. Campbell Smith to purchase up to 4,000.0 common shares in its capital stock at a price of CDN\$0.17 per share (subject to receipt of approval from MINT) expired.

## **Kazax Minerals Inc.**

### **Notes to Condensed Consolidated Interim Financial Statement (continued)**

For the three-month period ended March 31, 2016 and 2015

(expressed in thousands of U.S. dollars, except where indicated; common shares balances are expressed in thousands)

#### **10. Related party transactions**

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

The Company incurred the following expenses with related parties:

	<b>Three-month period ended March, 2016</b>	Three-month period ended March, 2015
Management compensation	<b>135</b>	127
Stock based compensation (non-cash)	<b>—</b>	—
Directors fees	<b>6</b>	21

In addition to the foregoing related party transactions the Company incurred the following:

Directors fees include compensation to Director, not a holder of shares in Kazakh group entities and another Director, not a holder of shares in Kazakh group entities (Director, not a holder of shares in Kazakh group entities). The Company's directors do not provide any other additional services to the Group other than being members of the Board of Directors of the Company.

In addition to the foregoing related parties transactions the Company incurred the following:

The Company does not generate cash flow from operations and has therefore relied principally upon the issuance of securities to, and loans from, two of the Company's directors for financing. In April 2014, two of the Company's directors advanced \$2,260 (equivalent to CAD\$ 2,500,000) through completion of a private placement of convertible debentures, in July 2014 they advanced \$2,980 (equivalent to CAD\$ 3,200,000) through completion of a private placement of convertible debentures and in September 2014, they advanced \$20,000 on terms that were subsequently renegotiated in October 2014 by way of issuance of convertible debentures (see note 7).

#### **11. Subsequent events**

WAI has confirmed start of work on Preliminary Feasibility Study with target date for first draft by 29 July 2016.