Atalaya Mining Plc

Annual Report

For the year ended 31 December 2016

Atalaya Mining Plc

Contents

	Page
Board of directors and other officers	1
Directors' report	2-13
Independent auditors' report	14-21
Consolidated income statements	22
Consolidated and company statements of financial position	23
Consolidated statements of changes in equity	24
Company statements of changes in equity	25
Consolidated statements of cash flows	26
Company statements of cash flows	27
Notes to the consolidated financial statements	28-71

Board of directors and other officers

Board of directors:

Roger Davey	- Non-Executive Chairman
Alberto Lavandeira	- Managing Director and CEO
Hui (Harry) Liu	- Non-Executive Director
Dr. Jose Sierra Lopez	- Non-Executive Director
Jesus Fernandez	- Non-Executive Director
Damon Barber	- Non-Executive Director
Dr. Hussein Barma	- Non-Executive Director
Jonathan Lamb	- Non-Executive Director
Stephen Scott	- Non-Executive Director

Company secretary:

Inter Jura CY (Services) Limited
1 Lampousas Street
1095 Nicosia, Cyprus

Auditor Canada:

MNP LLP
50 Burnhamthinorpe Road West
Suite 900
Mississauga, ON
Canada, L5B 3C2

Auditor Cyprus:

Moore Stephens Stylianou & Co
Certified Public Accountants &
Registered Auditors
58 Arch. Makarios III Avenue
Iris Tower
6th Floor, Office 602
1075 Nicosia, Cyprus

Registered office:

1 Lampousas Street
1095 Nicosia, Cyprus

Directors' report

The board of directors presents its report for Atalaya Mining Plc ("Atalaya Mining" and/or the "Company") and its subsidiaries ("Atalaya", the "Company" and/or the "Group") together with the consolidated financial statements of the Group for the year ended 31 December 2016.

Introduction

This report provides an overview and analysis of the financial results of operations of Atalaya Mining Plc and its subsidiaries ("Atalaya" and/or the "Group"), to enable the reader to assess material changes in the financial position between 31 December 2015 and 31 December 2016 and results of operations for the years ended 31 December 2016 and 31 December 2015.

This report has been prepared as of 5 April 2017. The analysis, hereby included, is intended to supplement and complement the audited consolidated financial statements and notes thereto ("Financial Statements") as at and for the year ended 31 December 2016. The reader should review the Financial Statements in conjunction with the review of this report and with the annual audited, consolidated financial statements for the year ended 31 December 2015. These documents can be found on the Atalaya website at www.atalayamining.com.

Atalaya prepares its Financial Statements in accordance with International Financial Reporting Standards ("IFRSs"). The currency referred to in this document is the Euro, unless otherwise specified.

Forward looking statements

This report may include certain "forward-looking statements" and "forward-looking information" under applicable securities laws. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterised by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are based on a number of assumptions and subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Assumptions upon which such forward-looking statements are based include that all required third party regulatory and governmental approvals will be obtained. Many of these assumptions are based on factors and events that are not within the control of Atalaya and there is no assurance they will prove to be correct. Factors that could cause actual results to vary materially from results anticipated by such forward-looking statements include changes in market conditions and other risk factors discussed or referred to in this report and other documents filed with the applicable securities regulatory authorities. Although Atalaya has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Atalaya undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

Incorporation and principal activity

Atalaya Mining was incorporated in Cyprus on 17 September 2004 and is a limited liability company under the Companies Law of Cyprus, Cap. 113. The Company was listed on the AIM Market of the London Stock Exchange in May 2005 (AIM: ATYM) and on the Toronto Stock Exchange ("TSX") (TSX: AYM) in December 2010.

The Company is a new copper producer with the historical mine of Proyecto Riotinto as its main asset. The site has historically been mined since ancient times. In 2001, operations stopped due to low copper prices and the mine was put in care and maintenance until 2015, when Atalaya reopened the mine and started operations following 18 months of refurbishment, commissioning and ramp-up.

The mine is located in Huelva in the Faja Piritica belt of south Spain, in a mining area with excellent infrastructure and access to power and water, 65 km northwest of Seville and 75 km from a smelter and a major seaport.

The asset is an open-pit mine with certificated proven and probable ore reserves of 153 million tonnes of ore containing 680,000 tonnes of copper. The fully operated processing plant of 9.5Mtpa provides a 16+ years of life of mine producing concentrate.

Atalaya has offices in Nicosia (Cyprus) and Huelva (Spain) and a strong workforce of more than 320 employees plus more than 150 contractors on site.

Directors' report (continued)

Review of operations

The following table presents a summarised statement of operations for the year ended 31 December 2016. As commercial production was declared in February 2016, no operational data was available for 2015.

Units expressed in accordance with the international system of units (SI)	Unit	2016
Ore mined (including marginal ore)	t	7,754,499
Ore processed	t	6,505,762
Copper ore grade	%	0.49
Copper concentrate grade	%	21.56
Copper recovery rate	%	83.29
Copper concentrate	t	122,468
Copper contained in concentrate	t	26,179
Payable copper contained in concentrate	t	25,353
Cash cost per lb of payable copper	$/lb	1.95

Note:

1) The numbers in the above table may slightly differ between them due to rounding.
2) The 2016 figures include pre-commissioning production for January 2016.

Declaration of commercial production, expansion project and production ramp-up

During the year, the Group achieved significant milestones in Proyecto Riotinto. In early 2016, the Group successfully completed the commissioning and the ramp-up for Phase I. Commercial production was declared in February 2016, as the plant reported above 85% of planned throughput capacity of 5 Mtpa, while maintaining copper recoveries of above 80% and copper concentrates grades of approximately 20% copper.

At the same time the plant commenced its operations, the Group started the expansion project to increase capacity to 9.5 Mpta. The expansion project was declared mechanically complete in May 2016, ahead of schedule and under budget.

The ramp-up for the expanded plant was finalised in December 2016, when the plant reached nameplate capacity during a single run of ten consecutives days, achieving designed recoveries and concentrate grades.

In 2017, once treatment rates are stabilised, the Group will continue to seek and implement alternatives to optimise the plant in terms of throughput, recoveries and cost reductions.

Mining and Processing

Mining

Atalaya mined 7.75 million metric tonnes of ore during 2016. As this is the first year of operation of Proyecto Riotinto, the only operation mine of the Group, no comparatives are available for 2015. The average ore mined for the year was 646,208 tonnes per month, with October being the highest month of mining with 1.1 million tonnes of ore mined.

Mining operations during 2016 were carried out in the Cerro Colorado open pit.

Management has worked to maintain ore level in the stockpile. As of 31 December 2016, the ore in the stockpile was shown as inventory in the balance sheet.

Processing

Ore processed in the year was 6.5 million tonnes, including 391,787 tonnes of ore processed in January, during the pre-commissioning stage.

Since commercial operations started in February 2016, the plant has increased its production rate as expected, and achieved nameplate capacity in December 2016, with an annualised rate of 9.5 million tonnes per annum.

Plant availability was in line with planned ramp-up, increasing progressively since February 2016.

Grades

Average ore grade for 2016 was 0.49%, increasing from 0.43% in the first quarter of 2016 to 0.52% in the last quarter.

Copper grade levels were in line with the updated Technical Report released in September 2016 (Note: Exploration and geology).

Copper concentrate grade averaged 21.56% during 2016, in line with offtake agreements and offtakers' expectations.

Recoveries

The recovery rate in 2016 was 83.29% reaching the design criteria.

Copper production

The Group produced during the year 122,468 tonnes of copper concentrates with 26,179 tonnes of copper and 434 thousand ounces of silver contained. Copper payable amounted to 25,353 tonnes.

Directors' report (continued)

Infrastructure

During the year, the Company completed investment in the commissioning of the operation and the expansion to the current nameplate capacity of 9.5 Mtpa.

A water treatment plant is now fully operational after successful commissioning during the third quarter of 2016.

Dewatering of Cerro Colorado open pit is progressing according to plan and the pit is expected to be fully dewatered by the summer of 2017.

Exploration and geology

During 2016, Atalaya compiled and reported an updated technical report on its Mineral Resources and Reserves for Proyecto Riotinto. The report was compiled according to the Canadian National Instruments 43-101 and filed on a voluntary basis.

New mineral reserves estimation amounts to 152.8 million metric tonnes with an average copper grade of 0.45%, using variable, declining cut-off grades. New reserve estimates increased both copper metal contained by 12%, up to 681,000 metric tonnes and life of mine, up to 16.5 years.

Total open-pit measured and indicated mineral resources were estimated at 192.8 million metric tonnes, averaging 0.43% copper. Inferred mineral resources were estimated at 22.7 million metric tonnes, averaging 0.48% copper. These figures do not include any resources from the San Antonio/Planes deposit and from the San Dionisio/Atalaya zones. Although some of these zones could have some limited open pit potential, it is expected that, if economic, they would be mined using underground methods. After concentrating on infill drilling of the Cerro Colorado pit, Atalaya is now focusing exploration in extensions of new mineralisation at the Cerro Colorado and Atalaya pits.

Operation guidance

The forward-looking information contained in this section is subject to the risk factors and assumptions contained in the cautionary statement on forward-looking statements included in the introduction note of this report.

The short and medium terms outlook for commodities appears to remain positive. It is expected that demand from Asian countries will continue to stimulate the demand for commodities. As a base metals producer of copper, Atalaya's operation is subject to the demand for, and fluctuations in the market prices of copper. The Company considers itself well-positioned for the future as its main operation is fully operated now and it is located in a historical site, within a safe jurisdiction.

The Riotinto Project operational guidance for 2017 is 34,000 to 40,000 tonnes of copper contained in concentrates. Copper head grade for 2017 is expected to be in line with 2016 figures and average between 0.49% Cu and 0.51% Cu, with an expected recovery rate of 79% to 82%.

On the costs side, with the expected full capacity production levels, cash operating costs for 2017 are expected to be in the range of $1.9/lb – $2.1/lb.

Acquisition of Touro project

On 23 February 2017, the Company announced that it had exercised an option to acquire 10% of the share capital of Cobre San Rafael S.L., ("CSR"), a wholly owned subsidiary of Explotaciones Gallegas S.L. ("EG"), part of the F. GOMEZ Group. This is part of an earn-in agreement (the "Agreement"), which will enable the Company to acquire up to 80% of CSR.

Proyecto Touro is located about 27 km east of Santiago de Compostela in northwest Spain. It was operated by Riotinto Patiño from 1973 to 1986 using open pit mining followed by copper flotation. Infrastructure is in place, including high voltage power and a road network providing access to an international airport and a number of deep-water ports.

In July 2015, the Company secured an exclusivity agreement. Since then it has been working with its consultants to evaluate the viability of the project. The Company has carried out significant drilling, resource evaluation, mine planning, metallurgical test work, plant engineering and other auxiliary studies required to fast track the project to feasibility stage ahead of permitting.

The Company's evaluation of the results to date has confirmed and expanded the resources identified by previous owners. As the project has been a past producer, the orebody is well understood and exhibits straightforward metallurgy, reporting good copper recoveries and clean concentrates.

Drilling has confirmed a significant resource that remains open in several directions. The deposit is amenable to open pit mining in shallow pits. Capital expenditures are expected to compare favourably with copper projects globally, as was the case at Proyecto Riotinto.

Following the acquisition of the initial 10% of CSR's share capital, the agreement included the following four phases:

Directors' report (continued)

Acquisition of Touro project (continued)

- Phase 1 – The Company paid €0.5 million to secure the exclusivity agreement and will continue to fund up to a maximum of €5 million to get the project through the permitting and financing stages.
- Phase 2 – When permits are granted, the Company will pay €2 million to earn-in an additional 30% interest in the project (cumulative 40%).
- Phase 3 – Once development capital is in place and construction is underway, the Company will pay €5 million to earn-in an additional 30% interest in the project (cumulative 70%).
- Phase 4 – Once commercial production is declared, the Company will purchase an additional 10% interest in the project (cumulative 80%) in return for a 0.75% Net Smelter Return (NSR) royalty, with a buyback option.

The Agreement has been structured so that the various phases and payments will only occur once the project is de-risked, permitted and in operation.

Ruling on the Astor litigation

On 6 March 2017, judgment in the Astor Management AG ("Astor") case ("Astor Case") was handed down in the High Court of Justice in London (the "Judgment"). On 31 March 2017 declarations were made by the High Court which give effect to the Judgment.

In summary, the High Court found that the deferred consideration of €43.8 million (the "Deferred Consideration"), potentially payable to Astor under the master agreement entered into in 2008 between inter alia the Company and Astor (the "Master Agreement"), did not start to become payable when permit approval was granted for Proyecto Riotinto. In addition, the intra-group loans by which funding for the restart of mining operations was made available to the Company's subsidiary, Atalaya Riotinto Minera S.L. did not constitute a "Senior Debt Facility" so as to trigger payment of the Deferred Consideration. Accordingly, the first instalment of the Deferred Consideration has not fallen due.

Astor failed to show that there had been a breach of the all reasonable endeavours obligation contained in the Master Agreement to obtain a senior debt facility or that the Group had acted in bad faith in not obtaining a senior debt facility. While the Court confirmed that the Group was not in breach of any of its obligations, the Master Agreement and its provisions remain in place. Accordingly, other than up to US$10 million a year which may be required for non-Proyecto Riotinto related expenses, Atalaya Riotinto Minera S.L. cannot make any dividend, distribution or any repayment of the money lent to it by companies in the Group until the consideration under the Master Agreement (including the Deferred Consideration) has been paid in full.

As a consequence, the Judgment requires that, in accordance with the Master Agreement, Atalaya Riotinto Minera S.L. must apply any excess cash (after payment of operating expenses, sustaining capital expenditure, any senior debt service requirements and up to US$10 million (for non-Proyecto Riotinto related expenses)) to pay the consideration due to Astor (including the Deferred Consideration and the amount of €9.1 million payable under the loan assignment agreement between the parties) early. The Court confirmed that the obligation to pay consideration early out of excess cash does not apply to the up-tick payments of up to €15.9 million (the "Up-tick Payments") and the Judgment notes that the only situation in which the Up-tick Payments could ever become payable is in the unlikely event that mining operations stop at Proyecto Riotinto and a senior debt facility is then secured for a sum sufficient to restart mining operations.

The Company will consider whether it is appropriate to appeal the Court's decision that excess cash should be used to pay consideration to Astor in circumstances where the conditions precedent to payment have not been met.

Results

The Group's profit after taxation for the year ended 31 December 2016 was €12.0 million compared to a loss of €15.0 million for the year ended 31 December 2015.

Consolidated income statement

The profit for the year 2016 is summarised and compared to the loss for the year 2015 as follows:

(Euro 000's)	**2016**	2015
Sales	98,768	-
Total operating costs	(77,848)	-
Corporate expenses	(4,660)	(4,176)
Care and maintenance expenses	-	(1,641)
Exploration expenses	(1,022)	(124)
Share-based benefits	(137)	(152)
Other income	292	135
EBITDA	**15,393**	**(5,958)**
Depreciation and amortisation	(11,292)	(152)
Impairment of land options not exercised	(903)	-
Net finance cost and FX loss	(3,338)	(9,015)
Results of associated & profit on subsidiaries disposals	(10)	145
Loss before tax	**(150)**	**(14,980)**
Tax credit/(charge)	12,187	(30)
Profit/(loss) for the year attributable to owners of the parent	**12,037**	**(15,010)**

Directors' report (continued)

Definition

EBITDA, as defined below, provides insight into the Group's overall business performance (a combination of cost performance, commodity prices and sales volumes), and are the corresponding flow drivers towards achieving an industry-leading return on equity. EBITDA is revenue less cost of goods sold and selling and administrative expenses, excluding significant items such as Impairment, Interest, Tax, Depreciation and Amortisation.

General

Revenues for the year ended 31 December 2016 amounted to €98.8 million (year ended 31 December 2015: €nil). Revenues relate to sales of copper concentrate to off takers since commercial production was declared in February 2016. Total concentrates sold during the year amounted to 122,468 tonnes, as no concentrate inventory was held as of 31 December 2016.

Total operating costs and corporate expenses (both excluding depreciation and amortisation costs) for the year ended 31 December 2016 amounted to €77.9 million and €4.6 million respectively (year ended 31 December 2015: €nil million and €4.2 million respectively).

Operating costs relate to the costs incurred for Proyecto Riotinto, including on-site administration expenses.

Corporate expenses include costs incurred at the corporate office in Cyprus and relate to the general and administrative costs not directly attributable to the Proyecto Riotinto operation.

During 2016 the Operation reported Cash Cost of $1.95 per pound of copper.

Care and maintenance cost incurred during 2015 refer to the pre-commercial stage of the Proyecto Riotinto cost.

Exploration expenses amounted to €1 million, incurred mainly on work done on historical sites. As at 31 December 2016, diamond drilling was carried out mainly in the lateral extension of Cerro Colorado as per Group´s drilling program. The current drilling campaign is focused on San Antonio – Planes, San Dionisio, Alfredo and Filon Sur.

Share-based payments relates to stock options granted to directors and key employees amounted to 137k and 152k for 2016 and 2015, respectively.

Other income amounted to €292k (2015: €135) mainly relating to the sale of scrap.

EBITDA amounted to €15.4 million for the year ended 31 December 2016. The EBITDA level was impacted by the initial low levels of production and lower copper prices toward the beginning of the year.

The main items below the EBITDA line are depreciation and amortisation of €11.3 million, net finance costs and FX losses amounting to €3.3 million, which included the true-up of the deferred consideration, and an impairment of land options not exercised of €0.9 million.

During 2016, the Group recognised a deferred tax asset in respect of tax losses for prior years and recorded a tax income of €12.2 million (2015: expense of €30k) as the start of commercial production has made it probable that these accumulated tax losses will be recovered through future profits.

The Group's full results for the year are set out on page 22.

Realised copper prices

The average prices of copper for year ended 31 December 2016 are as summarised below. As commercial production was declared in February 2016, no operational data was available for 2015.

USD	**2016**
Realised copper price per lb	2.25
Market copper price per lb (year average)	2.21

Consolidated financial position

(Euro 000's)	**31 Dec 2016**	31 Dec 2015
ASSETS		
Non-current assets	263,497	188,592
Other current assets	36,306	16,934
Cash and cash equivalents	1,135	18,618
Total assets	300,938	224,144
Shareholders' equity	188,562	176,366
LIABILITIES		
Non-current liabilities	49,553	5,867
Current liabilities	62,823	41,911
Total liabilities	112,376	47,778
Total equity and liabilities	**300,938**	224,144

Directors' report (continued)

Results (continued)

Assets

Total assets were €300.9 million as at 31 December 2016, compared to €224.1 million as at 31 December 2015, an increase of €76.8 million. The Group's significant assets are its mineral properties and mining plant, property and equipment at Proyecto Riotinto. The increase is mainly due to increase in property, plant and machinery of €23.0 million, an increase in intangibles of €39.5 million, an increase in deferred tax asset of €12.2 million, an increase in inventories of €6.2 million and an increase in receivables of €13.4 million, counteracted by a decrease of €0.04 million in available-for-sale investment and a decrease in cash and cash equivalents of €17.5 million.

The increase in property, plant and equipment is primarily due to the execution of works for the restart of activities at Proyecto Riotinto: machinery, equipment, improvement of facilities, professional services and other development costs necessary to renew the mining installations in readiness for the start up and the works done on the expansion of the facilities.

The increase in intangible assets relates to the recognition of the intangible assets corresponding to the deferred consideration recognised in relation to the Astor Case and the result of work completed by technical, permitting and other consultants to develop the necessary technical evaluation and plans for operational and environmental requirements, for the project restart, including restoration and water management.

Other current assets as at 31 December 2016 were €36.3 million (2015: €16.9 million), of which €6.2 million (2015: €nil) related to spare parts and ore in stockpile classified as inventories, €0.3 million (2015: €0.3 million) related to available-for-sale investment, €29.9 million (2015: €16.6 million) related to trade and other receivables. Trade receivables comprise €15.1 million of receivables from copper concentrates from third parties (2015: €nil) €2.1 million (2015: €6.5 million) related to a receivable from related parties from copper concentrates sales, €11.2 million (2015: €8.0 million) related to VAT due from authorities in Spain and Cyprus, with deposits, prepayments and other receivables amounting to €1.5 million (2015: €2.1 million).

Liabilities

Non-current liabilities stood at €49.5 million on 31 December 2016 compared to €5.9 million on 31 December 2015. The €43.6 million increase was mainly due to the deferred consideration recognised in 2016 amounted to €44.3 million and the increase in the rehabilitation provision by €1.1 million, netted off by the reduction in the non-current element of the debt with the Department of Social Security in Spain and the land options by €1.8 million.

Current liabilities stood at €62.6 million as at 31 December 2016 (2015: €41.9 million). The increase of €20.7 million related to the increase in trade payables by €12.2 million, the increase of the copper concentrate prepayment by €8.7 million and the increase of accruals and other by €0.9 million. offset by a decrease of €1.1 million in the current portion of Social Security debt.

Liquidity and capital resources

Atalaya monitors factors that could impact its liquidity as part of Atalaya's overall capital management strategy. Factors that are monitored include, but are not limited to, the market price of copper, foreign currency rates, production levels, operating costs, capital costs and administrative costs.

The following is a summary of Atalaya's cash position and cash flows as at 31 December 2016 and 31 December 2015:

(Euro 000's)	**31 Dec 2016**	31 Dec 2015
Cash at beginning of the year	**18,618**	21,050
Net cash from operating activities	**13,789**	6,054
Net cash used in investing activities	**(31,272)**	(101,666)
Net cash from financing activities	**-**	93,180
Cash at end of the year	**1,135**	18,618

In 2016, cash flows from operating activities increased mainly due to the sale of concentrates.

In 2016, cash flows used in investing activities mainly comprised a €30.0 million investment in property plant and equipment (2015: €99.3 million) and a €1.3 million investment in intangible assets (2015: €2.5 million).

In 2016, cash flows from financing activities were €nil (2015: €93.2 million).

Directors' report (continued)

Results (continued)

Liquidity information

Euro 000's)	31 Dec 2016	31 Dec 2015
Unrestricted cash and cash equivalents	**885**	18,578
Restricted cash	**250**	40
Working capital deficit	**(25,382)**	(6,359)

Unrestricted cash and cash equivalents as at 31 December 2016 decreased to €0.9 million from €18.6 million at 31 December 2015. The decrease in the cash balances is the result of capital expenditures incurred in the period related to the finalisation of the expansion project, certain ramp-up inefficiencies and the resulting slower revenue cash inflows. Atalaya reported a working capital deficit of €25.4 million at 31 December 2016, compared with a €6.4 million deficit at 31 December 2015.

Foreign exchange

Foreign exchange rate movements can have a significant effect on Atalaya's operations, financial position and results. Atalaya's sales are denominated in U.S. dollars ("USD"), while Atalaya's operating expenses, income taxes and other expenses are denominated in Euros ("EUR") and to a much lesser extent in British Pounds ("GBP"). Accordingly, fluctuations in the exchange rates can potentially impact the results of operations and carrying value of assets and liabilities on the balance sheet.

During the year ended 31 December 2016, Atalaya recognised a foreign exchange loss of €0.7 million (2015: €4.7 million).

The following table summarises the movement in key currencies versus the EUR:

	2016	2015
Average rates		
GBP – EUR	0.8195	0.7258
USD – EUR	1.1069	1.1095
Spot rates as at year end		
GBP – EUR	0.8562	0.7339
USD – EUR	1.0541	1.0887

During 2016, Atalaya entered into certain short term currency hedging agreements to ensure a competitive rate of EUR to USD. Further information on the hedging agreements is disclosed in the Financial Statements (Note 28).

Proposed dividend

The Directors do not recommend the payment of a dividend for the year (2015: €nil).

Share capital

There was no share capital issue during 2016.

Details on authorised and issued share capital are disclosed in Note 23 of the consolidated financial statements.

Capital structure

At 31 December 2016, the Company had the following shares outstanding and commitments to issue shares:

	No. of shares
Ordinary shares	116,679,555
Warrants	365,354
Options	500,000
Fully diluted	**117,544,909**

Details of share options granted after year end are set out in Note 35 to the Financial Statements.

Directors

The names and particulars of the qualifications and experience of each director are set out below. All directors held office from the start of the financial year to the date of this report. In accordance with the Company's Articles of Association, one-third of the board of directors must resign each year. All the directors will retire at the AGM and offer themselves for re-election.

Roger Davey - Non-Executive Chairman of the Board

Mr. Davey is a member of the Audit and Financial Risk, Physical Risk and Corporate Governance, Nominating and Compensation Committees of the Company.

Mr. Davey has over forty years' experience in the mining industry. Previous employment included assistant director and senior mining engineer at NM Rothschild & Sons; director, vice-president and general manager of AngloGold's subsidiaries in Argentina; operations director of Greenwich Resources Plc, London; production manager for Blue Circle Industries in Chile; and various production roles from graduate trainee to mine manager, in Gold Fields of South Africa (1971 to 1978). Mr. Davey is currently a director of Orosur Mining Inc. Condor Gold Plc and Central Asia Metals Plc.

Mr. Davey is a graduate of the Camborne School of Mines, England (1970), with a Master of Science degree in Mineral Production Management from Imperial College, London University, (1979) and a Master of Science degree from Bournemouth University (1994). He is a Chartered Engineer (C.Eng.), a European Engineer (Eur. Ing.) and a Member of the Institute of Materials, Minerals and Mining (MIMMM).

Directors' report (continued)

Directors (continued)

Alberto Lavandeira - Managing Director and Chief Executive Officer

Mr. Lavandeira brings 39 years of experience operating and developing mining projects. As a Director of Samref Overseas S.A. from 2007 to early 2014, he represented one of the shareholder's interests in the JV that developed the world-class Mutanda Copper-Cobalt Mine in the Democratic Republic of Congo. From 1995 to 2007, he worked for Rio Narcea Gold Mines starting as COO and later working as President and CEO and Director. During this period, RNG took three projects from exploration stage into production. Prior to that, Mr. Lavandeira held different positions within the Spanish mining subsidiaries of Rio Tinto, Anglo American and Cominco.

He is a graduate of the University of Oviedo, Spain with a degree in Mining Engineering.

Damon Barber - Non-Executive Director

Mr. Barber is a member of the Corporate Governance, Nominating and Compensation Committee of the Company.

Mr. Barber is the Senior Managing Director of Liberty Metals & Mining Holdings, LLC. He formerly held management positions with several mining companies, served as the Head of Deutsche Bank's Metals & Mining Investment Banking practice in the Asia-Pacific region and was an investment banker in Credit Suisse's Energy Group.

Mr. Barber is currently a director of Yara Dallol B.V., Baralaba Coal Company Limited and Ram River Coal Corp. and holds a B.S. degree in Mining Engineering from the University of Kentucky and an MBA in Finance from the Wharton School of Business.

Dr. Hussein Barma - Non-Executive Director

Dr. Barma is the Chairman of the Audit and Financial Risk Committee and a member of the Corporate Governance, Nominating and Compensation Committee of the Company.

Dr. Barma is a principal of Barma Advisory. He was formerly CFO (UK) of Antofagasta Plc from 1998 to 2014 and possesses a deep knowledge of governance practices at board level, as well as accounting and reporting, investor relations and regulatory requirements of the London market. He previously worked as an auditor at Price Waterhouse (now PwC) and is a steering group member of the UK Financial Reporting Council's Financial Reporting Lab. Dr Barma has no other directorships in publicly listed companies.

Jesus Fernandez - Non-Executive Director

Mr. Fernandez is head of the M&A team for Trafigura. He joined Trafigura in 2004 and has 16 years of experience in mining investments and financing. He is currently a director of Nyrstar NV, Terrafame Ltd and Mawson West Limited. Previously, he was a director of Tiger Resources Limited, Anvil Mining Limited and Iberian Minerals Corp. plc.

Harry Liu, BSc. Economics - Non-Executive Director

Mr. Liu is a board director of Shandong Xiangguang Copper Group in China, one of the world's largest copper smelting, refining and processing groups.

Mr. Liu has held a number of senior management and marketing positions in the mineral and financial industries in Shanghai and Hong Kong, including roles as marketing manager at BHP Billiton Marketing AG and Director at BNP Paribas Asia and vice president of Maike Metals International Group.

Mr. Liu graduated with a Bachelor´s Degree in Economics from Zhejiang University in Zhejiang Province, China. Mr. Liu is a member of LME Copper Committee.

Jonathan Lamb - Non-Executive Director

Mr. Lamb is Investment Manager at Orion Mine Finance and formerly Investment Manager for Red Kite Group's Mine Finance business. He was previously with Deutsche Bank's Metals & Mining Investment Banking group in New York, where he worked on a variety of debt and equity financings and M&A transactions. Mr. Lamb is currently a director of Lynx Resources and Minera La Negra.

Dr. Jose Sierra Lopez - Non-Executive Director

Dr. Sierra is Chairman of the Physical Risks Committee of the Company.

Dr. Sierra brings to the Company extensive experience as a mining and energy leader in the business and government sectors. He spent 16 years on mineral exploration, becoming COO of the National Exploration Company of Spain. His experience includes being Spain's national Director General of Mines and Construction Industries and EU Director for Fossil Fuels for the European Commission. Most recently he was Commissioner at the National Energy Commission of Spain and Deputy Independent Member of the SEMC (Single Electricity Market Committee of the Island of Ireland). He was a member of the Board of TIGF (Transport et Infrastructures Gaz France).

Dr. Sierra holds a Ph.D. in Mining Engineering from the University of Madrid. He obtained a DIC at the Royal School of Mines (Imperial College) and is an elected member of the Royal Academy of Doctors of Spain.

Directors' report (continued)

Directors (continued)

Stephen Scott - Non-Executive Director

Mr. Scott is the Chairman of the Corporate Governance, Nominating and Compensation Committee, and a member of the Audit and Financial Risk and Physical Risks Committees of the Company.

Mr. Scott is President and CEO of Entree Gold Inc. and a director of Nevsum Resources Ltd.

He previously held several executive positions with Rio Tinto Plc, including General Manager Commercial for Rio Tinto Copper (2005 to 2014).

Indemnification of Directors and officers

During the year, the Company held insurance to indemnify Directors, the Company Secretary and executive officers of the Company against liabilities incurred in the conduct of their duties to the extent permitted under applicable legislation.

Directors' interests

The interests of the Directors and their immediate families, (all of which are beneficial unless otherwise stated) and of persons connected with them, in Ordinary Shares, as at 31 December 2016 and 2015, are as follows:

Name	No of existing ordinary shares	% of issued share capital
R. Davey	-	-
A. Lavandeira	100,000*	0.09%
D. Barber[(1)]	16,315,789**	13.98%
H. Barma	-	-
J. Fernández[(2)]	25,684,344**	22.01%
H. Liu[(3)]	26,033,238***	22.31%
J. Lamb[(4)]	16,986,609**	14.56%
J. Sierra Lopez	26,666	0.02%
S. Scott	-	-

(1) Liberty Metals & Mining Holdings LLC
(2) Urion Holdings (Malta) Ltd
(3) Yanggu Xiangguang Copper Co. Ltd
(4) Orion Mine Finance (Master) Fund I LP

* 66,666 shares held in escrow
** Shares held by the companies the directors represent
*** includes 444,711 shares held personally by Mr. Liu

The Directors to whom options over Ordinary Shares have been granted and the number of Ordinary Shares subject to such Options (post share consolidation figures) as at the date of this report are as follows:

Grant date	Expiration date	Exercise price	A. Lavandeira
14 April 2014	19 Mar 2019	360 p	200,000

Options expire five years after grant date and are exercisable at the exercise price in whole or in part up to one third in the first year from the grant date, two thirds in the second year from the grant date and the balance thereafter.

Directors' emoluments

In compliance with the disclosure requirements of the listing requirements of AIM and TSX, the aggregate remuneration paid to the directors of Atalaya Mining for the year ended 31 December 2016 is set out below.

(Euro 000's)	Short term benefits		Share based payments		
31 Dec 2016	Salary & fees	Bonus	Incentive options*	Bonus shares**	Total
Executive Directors					
A. Lavandeira(1)	350	500	56	63	969
Non-Executive Directors					
R. Davey	75	-	-	-	75
D. Barber	38	-	-	-	38
H. Barma	42	-	-	-	42
J. Fernández	37	-	-	-	37
J. Lamb	37	-	-	-	37
H. Liu	37	-	-	-	37
J. Sierra Lopez	39	-	-	-	39
S. Scott	41	-	-	-	41
	696	500	56	63	1,315

* There were no new options granted during 2016. The amount relates to options granted in 2014 which vest over a three year period. During 2016, 431,654 options expired without being exercise.

** There were no new shares granted during 2016. The amount relates to shares issued in 2014 and held in escrow, which vest over a three year period.

(1) The bonus related to the completion of construction and for the period up to declaration of commercial production of the mine and it is expected to be paid in 2017. In 2017 the Group granted 150,000 share options under the incentive share options plan to Mr. Lavandeira (See Note 35 to the Financial Statements).

Directors' report (continued)

Directors' emoluments (continued)

(Euro 000's)	Short term benefits	Share based payments		
31 Dec 2015	Salary & fees	Incentive options*	Bonus shares**	Total
Executive Directors				
A. Lavandeira	350	56	101	507
Non-Executive Directors				
R. Davey	84	-	-	84
D. Barber	13	-	-	13
H. Barma	13	-	-	13
J. Fernández	22	-	-	22
J. Lamb	13	-	-	13
H. Liu	42	-	-	42
J. Sierra Lopez	42	-	-	42
S. Scott	13	-	-	13
	592	56	101	749

Substantial share interests

The Shareholders holding more than 3% of the share capital of the Company as at the date of this report were:

	Ordinary shares 000's	%
Urion Holdings (Malta) Ltd (subsidiary of Trafigura)	25,684	22.01
Yanggu Xiangguang Copper Co. Ltd	25,589	21.93
Orion Mine Finance (Master) Fund I LP	16,987	14.56
Liberty Metals & Mining Holdings LLC	16,316	13.98
Majedie Asset Management Limited	7,067	5.97

Corporate governance

The Directors comply with TSX and AIM regulations and Cyprus Company Law. The Board remains accountable to the Company's shareholders for good corporate governance.

Board of directors

The Board is responsible for approving Company policy and strategy. The Board has 10 formal meetings in each calendar year (13 meetings actually held during 2016). The Board is supplied with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professionals at the Company's expense. Training is available for new Directors and other Directors as necessary. A number of the Group's key strategic and operational decisions are reserved exclusively for the decision of the Board.

The Board currently consists of one executive director who holds an operating position in the Company (the CEO) and eight Non-Executive Directors, who bring a breadth of experience and knowledge, all of whom are independent of management and four of whom are independent of any business or other relationship which could interfere with the exercise of their independent judgment. The Board regularly reviews key business risks including the financial risks facing the Group in the operation of its business.

The Company has adopted a model code for Directors' dealings which is appropriate for a TSX and AIM listed company. The Directors intend to comply with Rules 21 and 31 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group's applicable employees as well.

Board committees

Audit and Financial Risk Committee

The Company's Audit and Financial Risk Committee ("AFRC") is responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on, for meeting with the Group's auditors and reviewing their reports on the Group's financial statements and the internal controls and for reviewing key financial risks.

The AFRC comprises three members all of whom are Non-Executive and Independent. The current membership of the committee is Dr. H. Barma (Chairman), Mr. R. Davey and Mr. S. Scott.

Corporate Governance, Nominating and Compensation Committee

The Company's Corporate Governance, Nominating and Compensation Committee ("CGNCC") is, among other things, responsible for reviewing the performance of the executives, setting their remuneration, determining the payment of bonuses, considering the grant of options under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant.

The CGNCC comprises four members all of whom are Non-Executive and three are Independent. The current membership of the committee is Mr. S. Scott (Chairman), Mr. R. Davey, Dr. H. Barma and Mr. D. Barber.

Directors' report (continued)

Board committees (continued)

Physical Risks Committee

The Company's Physical Risks Committee ("PRC") is responsible for reviewing the compliance with regulatory and industry standards for environmental performance and occupational health and safety of personnel and the communities affected by the Company.

The PRC comprises three members all of whom are Non-Executive and Independent. The current membership of the committee is Dr. J. Sierra (Chairman), Mr. R. Davey and Mr. S. Scott.

Internal controls

The Directors have overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal control systems are designed to reflect the particular type of business, operations and safety risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result, internal controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss.

The processes used by the Board to review the effectiveness of the internal controls are through the AFRC and the executive management reporting to the Board on a regular basis where business plans and budgets, including investments are appraised and agreed. The Board also seeks to ensure that there is a proper organisational and management structure with clear responsibilities and accountability. It is the Board's policy to ensure that the management structure and the quality and integrity of the personnel are compatible with the requirements of the Group.

The Board attaches importance to maintaining good relationships with all its shareholders and ensures that all price sensitive information is released to all shareholders at the same time in accordance with AIM and TSX rules. The Company's principal communication with its investors is through the annual report and accounts, the quarterly statements and press releases issued as material events unfold.

Directors' responsibilities for the financial statements

Cyprus company law states that the Directors are responsible for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period.

In the preparation of these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for maintaining proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. Legislation in Cyprus governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Going concern

Operations at Proyecto Riotinto started in February 2016 and the Group has generated significant operational cash flows during the year. Accordingly, the Directors have a reasonable expectation that the mining operation and the Group have adequate resources to continue in operational existence for the foreseeable future. See Note 2.1 for further information.

Creditors' payment terms

The Company does not have a specific policy towards our suppliers and does not follow any code or standard practice. However, terms of payment with suppliers are settled when agreeing overall terms of business, and the Company seeks to abide by the terms of the contracts to which it is bound.

Political and charitable donations

The Group made no political and no charitable donations during the year ended 31 December 2016 (2015: €nil).

Corporate Social Responsibility

Our communities

Atalaya Mining is committed to being a responsible corporate citizen every day by managing the environmental and social impact of its mining operations in a conscientious and sensitive manner.

Our strategy is to ensure that relations with institutions, society and the environment are led by transparency in our commercial activities, the appropriate degree of interaction with stakeholders and the maximum responsibility and accountability in all our operations.

Directors' report (continued)

Corporate Social Responsibility (continued)

Sustainable development

Atalaya Mining is committed to achieving development that provides benefits for those regions where it operates, without compromising the ability of future generations to meet their own needs both economically and environmentally. Atalaya will endeavour to achieve excellence in environmental performance abiding by environmental standards beyond those set by international regulations.

Our people

Atalaya operates within a favourable framework for labour relations based on a non-discriminatory, equal opportunities system that respects diversity and facilitates communication at all levels. The Company provides a healthy and safe working environment by implementing the best available international practices and procedures.

Communication

Atalaya Mining advocates the establishment of broad communication channels and seeks opportunities for conversation with the various stakeholders to ensure that business objectives remain in tune with social needs and expectations. The Company will always seek to provide relevant, transparent and accurate information about its activities and encourage continuous improvement.

Principal risks and uncertainties

The Company's principal risks and management objectives and policies are described in Note 2 and Note 3 to the financial statements.

Board of Directors

There were no significant changes in the responsibilities or in the remuneration of the Board of Directors.

Events after the reporting period

Any significant events that occurred after the end of the reporting period are described in Note 35 to the financial statements.

Auditors

The Group is currently reviewing its audit arrangements including the appropriateness of a tender for the year ended 31 December 2017, and an appropriate resolution will be proposed at the next Annual General Meeting.

By order of the board

Inter Jura CY (Services) Limited,
Secretary
Nicosia, Cyprus
5 April 2017

Independent Auditors' Report

To the shareholders of Atalaya Mining Plc

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Atalaya Mining Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statements of financial position as at 31 December 2016 and 2015, and the consolidated income statements, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atalaya Mining Plc and its subsidiaries as at 31 December 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
5 April 2017

MOORE STEPHENS STYLIANOU & CO

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

Independent auditor's report

To the Members of ATALAYA MINING PLC

Report on the Audit of the consolidated financial statements

We have audited the consolidated and separate financial statements of Atalaya Mining Plc (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 22 to 71 and comprise the consolidated and separate statement of financial position as at 31 December 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separated changes in equity and the consolidated and separated statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separated financial statements give a true and fair view of the consolidated financial position of the Company and the Group as at 31 December 2016, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters noted below relate to the consolidated and separated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Deferred consideration for Proyecto Riotinto (note 27 in the financial statements)	
Pursuant to the purchase of the Rio Tinto Copper Mine, the Group was contingently liable to pay an additional €53 million to the vendor. In October 2014, the Group obtained legal advice which stated that if the restart of the project is funded through issue of shares, this funding would not be considered as senior debt facility and therefore the conditions triggering the payment of the deferred consideration would not be satisfied. The case in the High Courts of Justice regarding the claim by Astor for the payment of deferred consideration has now been heard and the final judgment was issued on 6 March 2017.	We have reviewed management's correspondence with legal advisors and communicated with the legal advisors directly and obtained the approved judgment of the judge dated 6 March 2017. Based on the judgment received and discussions with the client, we have ensured that the provision that the client has made in the financial statements, after the judgment was given, for the deferred consideration is appropriate.

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

Impairment of PP&E and intangibles (note 13 and 14 in the financial statements)	
The Group's two largest assets are its plant property and equipment (PP&E) along with the intangible assets related to the Rio Tinto Copper Mine, for which significant estimates and assumptions are required. Significant estimates and assumptions are required in the determination of the depreciation of PP&E.	We focused our testing of the impairment of P&E and intangibles on the key assumptions made by management. Our audit procedures included: ➢ Reviewing management's impairment assessment and ensuring it is in line with IAS 36 Impairment of Assets. ➢ We referenced the geological reports on the Rio Tinto Mine in conjunction with the valuation model to ensure the book value of the assets is recoverable. ➢ We reviewed the depreciation calculations to ensure that they are accurate, that the useful life used for each class of assets is appropriate and the allocation of depreciation to operating costs and inventory is appropriate.
Going Concern (note 2 (b) in the financial statements)	
Although the Group started production in February 2016 and commissioning of expansion in May 2016, the results for the period 1 January 2016 to 30 September 2016 show losses. Commercial production was declared in February 2016 and the expansion project was declared mechanically complete in May 2016.	We assessed and challenged the assumptions that management made in assessing the going concern with a focus on the adequacy of the future cash flow projections to ensure viability of the project. This included: ➢ Reviewing actual results and comparing them to management budget for 2016 to assess reasonableness of management estimates and if the budget for 2017 prepared by management is considered reliable. ➢ Reviewing the appropriateness of the models utilised by management's expert ➢ Assessing the competence and experience of management's expert ➢ Testing the inputs into the model and the reasonableness of the ranges to the sensitivity of the inputs. ➢ Analyzing the future projected cash flows used in the model to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the company.
Rehabilitation provision (note 13 and note 26 in the financial statements)	
Recognition of rehabilitation provision and or provision for decommissioning is based on management estimates of future costs to remediate environmental disturbance.	In considering the appropriateness of the rehabilitation provision we reviewed all recent information relating to the rehabilitation provision and its reliable measurement. We reviewed management's rehabilitation calculations to ensure the estimates and assumptions were reasonable. In addition, we assessed the need for separate disclosure in the year-

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

	end financial statements of any adjustments that would have been necessary if the company had made rehabilitation costs adjustments at the quarterly reports.

Deferred tax	
The Company has recognised a deferred tax asset related to loss carry forwards in Spain which is based on management's estimate of the probability of future utilization of the assets against future taxable income.	We evaluated the recognition and measurement of the deferred tax assets and liabilities as follows: ➢ We reviewed management's assessment and ensured it is in compliance with IAS 12. ➢ We analysed the current and deferred tax calculations for compliance with the relevant tax legislation. ➢ We evaluated management's assessment of the estimated manner in which the time differences, including the recoverability of the deferred tax assets, would be realised by comparing this to evidence obtained in respect of other areas of the audit, including cash flow forecasts, business plans, minutes of directors meetings and our knowledge of the business. ➢ We challenged the assumptions made by management for uncertain current and deferred tax positions to assess whether appropriate current and deferred tax provisions have been recognised and are based on the most probable outcome with a focus on the Rio Tinto project.
Stripping costs (note 13 in the financial statements)	
The Group is in the production phase of the Rio Tinto surface mine and it is subject to the requirements of IFRIC20 Stripping Costs which will require significant estimates and assumptions and highly technical calculations for the allocation of stripping costs between mineral asset, inventory and operations.	We reviewed management's assessment and ensured it is in compliance with IFRIC 20 and assessed the assumptions and estimates made by management. We have also assessed the need for separate disclosure in the year-end financial statements of any adjustments that would have been necessary if the company had made stripping cost adjustments at the quarterly reports.
Management override of controls	
In terms of ISA240 the auditor shall presume that there is a significant risk in relation to management override of controls.	Even though there are some controls in place we have not perform test of controls but we applied full substantive procedures. Also, we reviewed any controls implemented by management during our audit in client's office. In addition we performed unpredicted procedures by including in the sample non material items, reviewed the journal entries and obtained explanations for any unusual or unauthorised entry, reviewed estimates made by management for reasonableness and

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

	assumptions used, and recorded and understood the company's control environment. We have also performed a detailed recalculation of the consolidation entries.
Financial statements disclosures:	
The Group has commenced trading operations in the year and there are sundry new areas in the financial statements for which disclosures may not be sufficient.	We reviewed the company's consolidated financial statements and completed an IFRS disclosure checklist to ensure no omissions exist and results were satisfactory.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Directors Report and the Payments to Government Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

MOORE STEPHENS STYLIANOU & CO

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Iris Tower, 6th Floor
Corner Makarios Avenue & Agapinor Str.
P.O. Box 24656
1302 Nicosia, Cyprus
Telephone: +357 22 71 77 77
Telefax: +357 22 71 77 66
E-mail: mscyprus@mscyprus.com
Website address: www.mscyprus.com

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Constantinos Schizas.

Constantinos Schizas
Certified Public Accountant and Registered Auditor
for and on behalf of
MOORE STEPHENS STYLIANOU & CO
CERTIFIED PUBLIC ACCOUNTANTS & REGISTERED AUDITORS
58 Arch. Makarios Avenue
Iris Tower, 6th Floor
1076 Nicosia, Cyprus

Nicosia, 5 April 2017

Consolidated income statements

(Euro 000's)	Note	Years ended 31 December 2016	2015
Gross sales	32.2	**98,273**	-
Realised gains on derivative financial instruments held for trading	28	**495**	-
Sales		**98,768**	-
Operating costs and mine site administrative expenses		**(77,848)**	-
Mine site depreciation and amortization		**(11,278)**	
Gross income		**9,642**	-
Corporate expenses		**(4,660)**	(4,176)
Corporate depreciation		**(14)**	(152)
Share based benefits		**(137)**	(152)
Care and maintenance expenses		**-**	(1,641)
Exploration expenses		**(1,022)**	(124)
Impairment charge		**(903)**	-
Operating profit/(loss)		**2,906**	(6,245)
Other income	5	**292**	135
Net foreign exchange loss		**(666)**	(4,721)
Finance income	8	**41**	38
Finance costs	9	**(2,713)**	(4,332)
Share of results of associate – net	16	**(10)**	-
Profit on disposal of subsidiaries	21	**-**	53
Profit on disposal of subsidiary/associate		**-**	92
Loss before tax		**(150)**	(14,980)
Tax credit/(charge)	10	**12,187**	(30)
Profit/(loss) for the year attributable to owners of the parent		**12,037**	(15,010)
Earnings/(loss) per share from operations attributable to equity holders of the parent during the year :			
Basic earnings/(loss) per share (expressed in cents per share)	11	**10.3**	(17.9)
Fully diluted earnings/(loss) per share (expressed in cents per share)	11	**10.2**	(17.9)
Profit/(loss) for the year		**12,037**	(15,010)
Other comprehensive income:			
Change in value of available-for-sale investments	21	**(41)**	(682)
Total comprehensive profit/(loss) for the year attributable to equity holders of the parent		**11,996**	(15,692)

The notes on pages 28 to 71 are an integral part of these consolidated financial statements.

Statements of financial position

(Euro 000's)	Note	As at 31 December The Group 2016	The Company 2016	As at 31 December The Group 2015	The Company 2015
Assets					
Non-current assets					
Property, plant and equipment	13	**191,380**	**16**	168,424	41
Intangible assets	14	**59,715**	**-**	20,158	-
Investment in subsidiaries	15	**-**	**3,572**	-	3,572
Investment in associate	16	**-**	**4**	10	4
Trade and other receivables	20	**206**	**-**	-	-
Deferred tax asset	18	**12,196**	**-**	-	-
		263,497	**3,592**	188,592	3,617
Current assets					
Inventories	19	**6,195**	**-**	-	-
Trade and other receivables	20	**29,850**	**238,152**	16,632	130,081
Available-for-sale investments	21	**261**	**261**	302	302
Cash and cash equivalents	22	**1,135**	**320**	18,618	4,246
		37,441	**238,733**	35,552	134,629
Total assets		**300,938**	**242,325**	224,144	138,246
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	23	**11,632**	**11,632**	11,632	11,632
Share premium	23	**277,238**	**277,238**	277,238	277,238
Other reserves	24	**5,667**	**5,667**	5,508	5,508
Accumulated losses		**(105,975)**	**(61,642)**	(118,012)	(156,349)
Total equity		**188,562**	**232,895**	176,366	138,029
Liabilities					
Non-current liabilities					
Trade and other payables	25	**115**	**-**	1,896	-
Provisions	26	**5,092**	**-**	3,971	-
Deferred consideration	27	**44,346**	**7,359**	-	-
		49,553	**7,359**	5,867	-
Current liabilities					
Trade and other payables	25	**62,608**	**2,071**	41,911	217
Derivative instruments	28	**215**	**-**	-	-
		62,823	**2,071**	41,911	217
Total liabilities		**112,376**	**9,430**	47,778	217
Total equity and liabilities		**300,938**	**242,325**	224,144	138,246

The notes on pages 28 to 71 are an integral part of these consolidated financial statements.

The consolidated financial statements were authorised for issue by the board of directors on 5 April 2017 and were signed on its behalf.

Roger Davey
Chairman

Alberto Lavandeira
Managing Director

Consolidated statements of changes in equity

Years ended 31 December 2016 and 2015

(Euro 000's)	Attributable to owners of the parent Share capital	Share premium	Other reserves	Accumulated losses	Total	Non-controlling interest	Total equity
At 1 January 2015	4,409	149,823	5,815	(103,002)	57,045	(116)	56,929
Loss for the year	-	-	-	(15,010)	(15,010)	-	(15,010)
Issue of share capital	7,223	130,017	-	-	137,240	-	137,240
Share issue costs	-	(2,920)	-	-	(2,920)	-	(2,920)
Derivative element of conversion of convertible note	-	440	-	-	440	-	440
Purchase of minority interest shares	-	-	-	-	-	116	116
Bonus shares issued in escrow	-	-	101	-	101	-	101
Change in value of available-for-sale investments	-	-	(682)	-	(682)	-	(682)
Recognition of share based payments	-	-	152	-	152	-	152
Warrants issue costs	-	(122)	122	-	-	-	-
At 31 December 2015/ 1 January 2016	**11,632**	**277,238**	**5,508**	**(118,012)**	**176,366**	**-**	**176,366**
Profit for the year	**-**	**-**	**-**	**12,037**	**12,037**	**-**	**12,037**
Bonus shares issued in escrow	**-**	**-**	**63**	**-**	**63**	**-**	**63**
Change in value of available-for-sale investments	**-**	**-**	**(41)**	**-**	**(41)**	**-**	**(41)**
Recognition of share based payments	**-**	**-**	**137**	**-**	**137**	**-**	**137**
At 31 December 2016	**11,632**	**277,238**	**5,667**	**(105,975)**	**188,562**	**-**	**188,562**

The notes on pages 28 to 71 are an integral part of these consolidated financial statements.

Company statements of changes in equity

Years ended 31 December 2016 and 2015

(Euro 000's)	Note	Share capital	Share premium	Other reserves	Accumulated losses	Total
At 1 January 2015		4,409	149,823	5,815	(146,829)	13,218
Loss for the year	**12**	-	-	-	(9,520)	(9,520)
Issue of share capital		7,223	130,017	-	-	137,240
Share issue costs		-	(2,920)	-	-	(2,920)
Derivative element of conversion of convertible note		-	440	-	-	440
Bonus shares issued in escrow		-	-	101	-	101
Change in value of available-for-sale investments				(682)		(682)
Recognition of share based payments		-	-	152	-	152
Warrants issue cost		-	(122)	122	-	-
At 31 December 2015/1 January 2016		11,632	277,238	5,508	(156,349)	138,029
Profit for the year	**12**	**-**	**-**	**-**	**94,707**	**94,707**
Bonus shares issued in escrow		**-**	**-**	**63**	**-**	**63**
Change in value of available-for-sale investments		**-**	**-**	**(41)**	**-**	**(41)**
Recognition of share based payments		**-**	**-**	**137**	**-**	**137**
At 31 December 2016		**11,632**	**277,238**	**5,667**	**(61,642)**	**232,895**

The notes on pages 28 to 71 are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

Years ended 31 December 2016 and 2015

(Euro 000's)	Note	2016	2015
Cash flows from operating activities			
Loss before tax		**(150)**	(14,980)
Adjustments for:			
Depreciation of property, plant and equipment	13	**8,643**	152
Amortisation of intangible assets	14	**2,649**	123
Share of result of associate		**10**	-
Recognition of share-based payments	24	**137**	152
Bonus share issued in escrow		**63**	101
Interest income	8	**(41)**	(38)
Interest expense	9	**395**	239
Interest on deferred consideration	9	**2,123**	-
Impairment charge	13	**903**	-
Loss on fair value on the conversion feature of the convertible note	9	**-**	310
Accretion expense on convertible note	9	**-**	31
Convertible note interest expense	9	**-**	1,178
Bridge loan interest expense	9	**-**	1,232
Bridge loan financing expenditure	9	**-**	1,342
Foreign exchange loss on repayment of borrowings		**-**	5,304
Gain on disposal of property, plant and equipment		**(4)**	(1)
Gain on disposal of subsidiaries		**-**	(53)
Gain on disposal of subsidiary/associate		**-**	(92)
Unrealised foreign exchange loss on financing activities		**162**	286
Cash outflows from operating activities before working capital changes		**14,890**	(4,714)
Changes in working capital:			
Inventories		**(6,195)**	-
Trade and other receivables		**(13,218)**	(14,406)
Trade and other payables		**18,724**	26,127
Cash flows from operations		**14,201**	7,007
Interest paid		**(395)**	(768)
Financing expenditure paid		**-**	(164)
Tax paid		**(17)**	(21)
Net cash from operating activities		**13,789**	6,054
Cash flows from investing activities			
Purchases of property, plant and equipment		**(29,995)**	(99,290)
Purchases of intangible assets	14	**(1,334)**	(2,503)
Proceeds from sale of property, plant and equipment		**16**	1
Proceeds from sale of subsidiaries		**-**	88
Interest received	8	**41**	38
Net cash used in investing activities		**(31,272)**	(101,666)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	90,435
Listing and issue costs	23	**-**	(2,920)
Proceeds from bridge loan – net			5,665
Net cash from financing activities		**-**	93,180
Net decrease in cash and cash equivalents		**(17,483)**	(2,432)
Cash and cash equivalents:			
At beginning of the year	22	**18,618**	21,050
At end of the year	22	**1,135**	18,618

The notes on pages 28 to 71 are an integral part of these consolidated financial statements.

Company statements of cash flows

Years ended 31 December 2016 and 2015

(Euro 000's)	Note	2016	2015
Cash flows from operating activities			
Profit/(loss) before tax		**94,707**	(9,520)
Adjustments for:			
Depreciation of property, plant and equipment	13	**14**	18
Share-based payments		**137**	39
Bonus share issue		**63**	-
Interest expense		**352**	-
Interest income		**-**	(2)
Loss on fair value on the conversion feature of the convertible note		**-**	310
Accretion expense on convertible note		**-**	31
Convertible note interest expense		**-**	1,178
Bridge loan interest expense		**-**	1,232
Bridge loan financing expenditure		**-**	1,342
Foreign exchange loss on repayment of borrowings		**-**	5,304
Zero coupon interest rate		**(1,523)**	(1,411)
Intercompany balances previously impaired		**(97,243)**	(9,625)
Impairment of investment in subsidiaries		**-**	8
Profit on disposal of property, plant and equipment		**(4)**	(1)
Unrealised foreign exchange loss on financing activities		**-**	(78)
Cash outflows used in operating activities before working capital changes		**(3,497)**	(11,175)
Changes in working capital:			
Trade and other receivables		**(2,298)**	(95,988)
Trade and other payables		**1,854**	(552)
Cash flows used in operations		**(3,941)**	(107,715)
Interest paid		**-**	(529)
Financing expenditure paid		**-**	(164)
Net cash used in operating activities		**(3,941)**	(108,408)
Cash flows from investing activities			
Purchases of property, plant and equipment	13	**(1)**	(1)
Proceeds from disposal of property, plant and equipment		**16**	1
Purchase of investment		**-**	(7)
Proceeds from sale of subsidiaries		**-**	88
Interest received		**-**	2
Net cash from investing activities		**15**	83
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	90,435
Listing and issue costs	23	**-**	(2,920)
Proceeds from bridge loan – net		**-**	5,665
Net cash from financing activities		**-**	93,180
Net decrease in cash and cash equivalents		**(3,926)**	(15,145)
Cash and cash equivalents:			
At beginning of the year	22	**4,246**	19,391
At end of the year	22	**320**	4,246

The notes on pages 28 to 71 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

1. Incorporation and summary of business

Country of incorporation
Atalaya Mining Plc was incorporated in Cyprus on 17 September 2004 as a private company with limited liability under the Companies Law, Cap. 113 and was converted to a public limited liability company on 26 January 2005. Its registered office is at 1 Lampousa Street, Nicosia, Cyprus. The Company was listed on AIM of the London Stock Exchange in May 2005 under the symbol ATYM and on the TSX on 20 December 2010 under the symbol AYM. The Company continued listed in AYM and TSX as at 31 December 2016.

Changed on name and share consolidation
Following the Company's EGM on 13 October 2015, the change of the name Emed Mining Public Limited to Atalaya Mining Plc became effective on 21 October 2015. On the same day, the consolidation of ordinary shares came into effect, whereby all shareholders received one new ordinary share of nominal value Stg £0.075 for every 30 existing ordinary shares of nominal value of Stg £0.0025.

Summary of business
The Company owns and operates through a wholly-owned subsidiary, the Proyecto Riotinto, an open-pit copper mine located in the Pyritic belt, in the Andalusia region, approximately 65 km northwest of Seville.

In addition to the production of copper concentrates, the Company's and its subsidiaries' business is to explore for and develop metals production operations in Europe, with an initial focus on copper.

The strategy is to evaluate and prioritise metal production opportunities in several jurisdictions throughout the well-known belts of base and precious metal mineralisation in Spain and the Eastern European region.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation
(a) Overview
The consolidated financial statements of Atalaya Mining have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS comprise the standards issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRICs") as issued by the IASB.

Additionally, the consolidated financial statements have also been prepared in accordance with the IFRS as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.4.

(b) Going concern
These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Group will realise its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Group's will generate sufficient cash and cash equivalents to continue operating for the next twelve months.

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

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

(i) Issued by the IASB and adopted by the European Union

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

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policy and disclosures (continued)

(ii) Issued by the IASB but not yet adopted by the European Union

New standards

- IFRS 16 ''Leases'' (effective for annual periods beginning on or after 1 January 2019).

Amendments

- Amendments to IFRS2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4: Applying IFRS 9 ''Financial Instruments'' with IFRS 4 ''Insurance Contracts'' (effective for annual periods beginning on or after 1 January 2018).
- Clarifications to IFRS 15 ''Revenue from Contracts with Customers'' (effective for annual periods beginning on or after 1 January 2018).
- IAS 7 (Amendments) ''Disclosure Initiative'' (effective for annual periods beginning on or after 1 January 2017)
- IAS 12 (Amendments) ''Recognition of Deferred Tax Assets for Unrealised Losses'' (effective for annual periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014–2016 Cycle (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014–2016 Cycle (issued on 8 December 2016) (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40: ''Transfers of Investment Property'' (effective for annual periods beginning on or after 1 January 2018).

New IFRICs

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

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

2.3 Consolidation

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Atalaya Mining plc and its subsidiaries.

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. Control exists when the Group is exposed, or has rights, to variable returns for its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The only operating subsidiary of Atalaya Mining plc is the 100% owned Atalaya Riotinto Minera, S.L.U. which operates the Proyecto Minero Riotinto, in the historical site of Huelva, Spain.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

(c) Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(d) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(e) Disposal of subsidiaries.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(f) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.3 Consolidation (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

(g) Functional currency

Functional and presentation currency items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euro which is the Group's functional and presentation currency.

Determination of functional currency may involve certain judgements to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are retranslated at year-end spot exchange rates.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Gains or losses of monetary and non-monetary items are recognised in the income statement.

Balance sheet items are translated at period-end exchange rates. Exchange differences on translation of the net assets of such entities are taken to equity and recorded in a separate currency translation reserve.

2.4 Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified. This policy only applies to the "Company's" financial statements.

2.5 Interest in joint arrangements

A joint arrangement is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic, financial and operating policy decisions relating to the activities the joint arrangement require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint arrangement expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group undertakes joint arrangements that involve the establishment of a separate entity in which each acquiree has an interest (jointly controlled entity). The Group reports its interests in jointly controlled entities using the equity method of accounting.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint arrangement.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO who makes strategic decisions.

The Group has only one distinct business segment, being that of mining operations, mineral exploration and development.

2.7 Inventory

Inventory consists in copper concentrates, ore stockpiles and metal in circuit and spare parts. Inventory is physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Cost is determined by using the FIFO method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods, based on the normal production capacity. The cost of production is allocated to joint products using a ratio of spot prices by volume at each month end. Separately identifiable costs of conversion of each metal are specifically allocated.

Materials and supplies are valued at the lower of cost or net realisable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

2.8 Assets under construction

All subsequent expenditure on the construction, installation or completion of infrastructure facilities including mine plants and other necessary works for mining, are capitalised in 'Assets under construction'. Any costs incurred in testing the assets to determine if they are functioning as intended, are capitalised, net of any proceeds received from selling any product produced while testing. Where these proceeds exceed the cost of testing, any excess is recognised in the statement of profit or loss and other comprehensive income. After production starts, all assets included in 'Assets under construction' are then transferred to the relevant asset categories.

Once a project has been established as commercially viable, related development expenditure is capitalised. A development decision is made based upon consideration of project economics, including future metal prices, reserves and resources, and estimated operating and capital costs. Capitalization of costs incurred and proceeds received during the development phase ceases when the property is capable of operating at levels intended by management.

Capitalisation ceases when the mine is capable of commercial production, with the exception of development costs which give rise to a future benefit.

Pre-commissioning sales are offset against the cost of constructing the asset.

No depreciation is recorded until the assets are substantially complete and ready for productive use.

2.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated to their estimated residual value over the estimated useful life of the specific asset concerned, or the estimated remaining life of the associated mine ("LOM"), field or lease. Depreciation commences when the asset is available for use.

The major categories of property, plant and equipment are depreciated/amortised on a Unit of Production ("UOP") and/or straight-line basis as follows:

• Buildings	UOP
• Mineral rights	UOP
• Deferred mining costs	UOP
• Plant and machinery	UOP
• Motor vehicles	5 years
• Furniture/fixtures/office equipment	5-10 years

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.9 Property, plant and equipment (continued)
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

(a) Mineral rights
Mineral reserves and resources which can be reasonably valued are recognised in the assessment of fair values on acquisition. Mineral rights for which values cannot be reasonably determined are not recognised. Exploitable mineral rights are amortised using the UOP basis over the commercially recoverable reserves and, in certain circumstances, other mineral resources. Mineral resources are included in amortisation calculations where there is a high degree of confidence that they will be extracted in an economic manner.

(b) Deferred mining costs – stripping costs
Mainly comprises of certain capitalised costs related to pre-production and in-production stripping activities as outlined below.

Stripping costs incurred in the development phase of a mine (or pit) before production commences are capitalised as part of the cost of constructing the mine (or pit) and subsequently amortised over the life of the mine (or pit) on a UOP basis.

In-production stripping costs related to accessing an identifiable component of the ore body to realise benefits in the form of improved access to ore to be mined in the future (stripping activity asset), are capitalised within deferred mining costs provided all the following conditions are met:

i. it is probable that the future economic benefit associated with the stripping activity will be realised;
ii. the component of the ore body for which access has been improved can be identified; and
iii. the costs relating to the stripping activity associated with the improved access can be reliably measured.

If all of the criteria are not met, the production stripping costs are charged to the consolidated statement of income as they are incurred.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

(c) Exploration costs
The Group expenses of Exploration and evaluation are expenditure in the period incurred.

Under the Group's accounting policy, exploration expenditure is not capitalised until the management determines a property will be developed and point is reached at which there is a high degree of confidence in the project's viability and it is considered probable that future economic benefits will flow to the Group. A development decision is made based upon consideration of project economics, including future metal prices, reserves and resources, and estimated operating and capital costs.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.

(d) Major maintenance and repairs
Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset, or part of an asset, that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, the expenditure is capitalised.

Where part of the asset was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. All other day-to-day maintenance and repairs costs are expensed as incurred.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective asset. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred.

(f) Restoration, rehabilitation and decommissioning

Restoration, rehabilitation and decommissioning costs arising from the installation of plant and other site preparation work, discounted using a risk adjusted discount rate to their net present value, are provided for and capitalised at the time such an obligation arises.

The costs are charged to the consolidated statement of income over the life of the operation through depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site disturbance, which are created on an ongoing basis during production, are provided for at their net present values and charged to the consolidated statement of income as extraction progresses.

Changes in the estimated timing of the rehabilitation or changes to the estimated future costs are accounted for prospectively by recognising an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates, provided the reduction in the provision is not greater than the depreciated capitalised cost of the related asset, in which case the capitalised cost is reduced to nil and the remaining adjustment recognised in the consolidated statement of income. In the case of closed sites, changes to estimated costs are recognised immediately in the consolidated statement of income.

2.11 Intangible assets

(a) Business combination and goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the acquired interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

The results of businesses acquired during the year are brought into the consolidated financial statements from the effective date of acquisition. The identifiable assets, liabilities and contingent liabilities of a business which can be measured reliably are recorded at their provisional fair values at the date of acquisition. Provisional fair values are finalised within 12 months of the acquisition date. Acquisition-related costs are expensed as incurred.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Permits

Permits are capitalised as intangible assets which relate to projects that are at the pre-development stage. No amortisation charge is recognised in respect of these intangible assets. Once the Group receives those permits, the intangible assets relating to permits will be depreciated on a UOP basis.

Other intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Financial assets

2.13.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's financial assets include cash and short-term deposits, trade and other receivables and derivative financial assets.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 2.18).

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.13.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.14 Financial liabilities

The Group classifies its financial liabilities in the following categories: trade and other payables, provisions, Interest-bearing loans and borrowings, deferred consideration and derivatives. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Trade and other payables

Trade and other payables are obligations to pay for goods, assets or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(b) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(c) Interest-bearing loans and borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably.

(d) Deferred consideration

Deferred consideration arises when settlement of all or any part of the cost of an agreement is deferred. It is stated at fair value at the date of recognition, which is determined by discounting the amount due to present value at that date. Interest is imputed on the fair value of non-interest bearing deferred consideration at the discount rate and expensed within interest pay able and similar charges. At each balance sheet date deferred consideration comprises the remaining deferred consideration valued at acquisition plus interest imputed on such amounts from recognition to the balance sheet date.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.14 Financial liabilities (continued)

(e) Derivatives

Derivative financial instruments are initially accounted for at cost and subsequently measured at fair value. Fair value is calculated using the Black Scholes valuation method. Derivatives are recorded as assets when their fair value is positive and as liabilities when their fair value is negative. The adjustments on the fair value of derivatives held at fair value through profit or loss are transferred to profit or loss.

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and in bank net of outstanding bank overdrafts and short-term deposits with an original maturity of three months or less.

Sales of the Group's copper are sold on a provisional basis whereby sales are recognised at prevailing metal prices when title transfers to the customer and final pricing is not determined until a subsequent date. The Group uses derivative financial instruments to reduce exposure to foreign exchange, interest rate and commodity price movements.

The Group does not use such derivative instruments for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income. Realised gains and losses on commodity derivatives recognised in profit or loss are recorded within revenue.

2.15 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

(a) An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

(b) A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.16 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.17 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.17 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not subsequently reversed. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2.18 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

At Company level, other receivables include intercompany balances.

2.19 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand and in bank including deposits held at call with banks.

2.20 Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds in the share premium account.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.21 Current and deferred income tax (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is also not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Share-based payments

The Group operates a share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value is measured using the Black Scholes pricing model. The inputs used in the model are based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations. Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

Vesting conditions are: (i) the personnel should be an employee that provides services to the Group; and (ii) should be in continuous employment for the whole vesting period of 3 years. Specific arrangements may exist with senior managers and board members, whereby their options stay in use until the end.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. (Note 24)

2.23 Rehabilitation provisions

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the consolidated income statement as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognised immediately in the consolidated income statement.

The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the consolidated statement of financial position date represents management's best estimate of the present value of the future rehabilitation costs required.

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

2. Summary of significant accounting policies (continued)

2.24 Leases (continued)

classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

2.25 Revenue recognition

(a) Sales of goods

Revenue is recognised when Atalaya has transferred to the buyer all significant risks and rewards of ownership of the goods sold. Revenue excludes any applicable sales taxes and is recognised at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to Atalaya and the revenues and costs can be reliably measured. In most instances sales revenue is recognised when the product is delivered to the destination specified by the customer, which is typically the vessel on which it is shipped, the destination port or the customer's premises.

For certain commodities, the sales price is determined on a provisional basis at the date of sale as the final selling price is subject to movements in market prices up to the date of final pricing, normally ranging from 30 to 90 days after initial booking. Revenue on provisionally priced sales is recognised based on the estimated fair value of the total consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the character of a commodity derivative. Accordingly, the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are recognised as an adjustment to revenue.

Pre-commissioning sales are offset against the cost of constructing the asset.

(b) Sales of services

The Group sells services in relation to maintenance of accounting records, management, technical, administrative support and other services to other companies. Revenue is recognised in the accounting period in which the services are rendered.

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2.27 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.28 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. No dividend has been paid by the Company since its incorporation.

2.29 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

2.30 Reclassification from prior year presentation

Certain prior year amounts have been reclassified for consistency with the financial statements for the year ended 31 December 2016.

Theses reclassifications had no effect on the reported results of the operation. During 2016, the Riotinto mine started its operations and the presentation of the consolidated income statements have been changed to allow the reader understanding of the operations of the Group.

2.31 Amendment of financial statements after issue

The board of directors has the power to amend the consolidated financial statements after issue.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

3. Financial Risk Management

3.1 Financial risk factors

Risk management is overseen by the AFRC under the board of directors. The AFRC oversees the risk management policies employed by the Group to identify, evaluate and hedge financial risks, in close co-operation with the Group's operating units. The Group is exposed to liquidity risk, commodity price risk, credit risk, interest rate risk, operational risk, compliance risk, litigation risk and currency risk arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below:

(a) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash to meet liabilities when due. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows. A breakdown of the balances is shown in Notes 25, 26, 27 and 28.

(Euro 000's)	Carrying amounts	Contractual cash flows	Less than 3 months	Between 3 – 12 months	Betwee n 1 – 2 years	Between 2 – 5 years	Over 5 years
31 December 2016							
Social security	1,741	1,741	578	1,163	-	-	-
Land options and mortgages	905	905	760	30	83	32	-
Provisions	5,092	6,577	-	54	170	209	6,144
Deferred consideration	44,346	53,000	-	-		53,000	
Derivative instrument	215	215	215	-	-	-	-
Trade and other payables	60,061	60,061	60,061	-	-	-	
	112,360	122,499	61,614	1,247	253	53,241	6,144
31 December 2015							
Social security	4,608	4,608	718	2,149	1,741	-	-
Land options and mortgages	944	944	-	789	80	75	-
Provisions	3,971	5,536	-	-	28	135	5,373
Trade and other payables	38,231	38,231	38,231	-	-	-	-
	47,754	49,319	38,949	2,938	1,849	210	5,373

(b) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the British Pound. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

(Euro 000's)	Liabilities		Assets	
	2016	2015	**2016**	2015
United States dollar	**8,684**	-	**2,143**	6,711
Great Britain pound	**172**	-	**233**	285

Sensitivity analysis

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

(Euro 000's)	Equity		(Profit) or loss	
	2016	2015	**2016**	2015
United States dollar	**654**	(671)	**654**	(671)
Great Britain pound	**(6)**	(29)	**(6)**	(29)

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(c) Commodity price risk

Commodity price is the risk that the Group's future earnings will be adversely impacted by changes in the market prices of commodities, primarily copper. Management is aware of this impact on its primary revenue stream but knows that there is little it can do to influence the price earned apart from a hedging scheme.

Commodity price hedging is governed by the Group´s policy which allows to limit the exposure to prices. The Group hedged part of its production (Note 28) during the year.

(d) Credit risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. The Group has policies to limit the amount of credit exposure to any financial institution.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum credit exposure without taking account of the value of any collateral obtained:

(Euro 000's)	2016	2015
Unrestricted cash and cash equivalent	**885**	18,578
Restricted cash	**250**	40
Cash and cash equivalents	**1,135**	18,618

Restricted cash held as of 31 December 2016 is a collateral of a bank guarantee provided to a contractor.

Other than the above, there are no collaterals held in respect of these financial instruments and there are no financial assets that are past due or impaired as at 31 December 2016.

(e) Interest rate risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

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

(Euro 000's)	2016	2015
Variable rate instruments		
Financial assets	**1,135**	18,618

An increase of 100 basis points in interest rates at 31 December 2016 would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and other equity.

	Equity		Profit or loss	
(Euro 000's)	2016	2015	2016	2015
Variable rate instruments	**11**	186	**11**	186

(f) Operational risk
Operational risk is the risk that derives from the deficiencies relating to the Group's information technology and control systems as well as the risk of human error and natural disasters. The Group's systems are evaluated, maintained and upgraded continuously.

(g) Compliance risk
Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations. The Group has systems in place to mitigate this risk, including seeking advice from external legal and regulatory advisors in each jurisdiction.

(h) Litigation risk
Litigation risk is the risk of financial loss, interruption of the Group's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Group to execute its operations.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

3. Financial Risk Management (continued)

3.2 Capital risk management

The Group considers its capital structure to consist of share capital, share premium and share options reserve. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Group issues new shares. The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The AFRC reviews the capital structure on a continuing basis.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

The Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as provisions plus deferred consideration plus trade and other payables less cash and cash equivalents.

(Euro 000's)	2016	2015
Net debt	**111,241**	29,160
Total equity	**188,562**	176,366
Total capital	**299,803**	205,526
Gearing ratio	**37.1%**	14.2%

The increase in the gearing ratio during 2016 resulted primarily from the start of operations and the build-up of trade creditors.

3.3 Fair value estimation

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

The fair value of financial instruments traded in active markets, such as publicly traded and available-for-sale financial assets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at the reporting date.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

(Euro 000's)	Level 1	Level 2	Level 3	Total
31 December 2016				
Financial assets				
Available for sale financial assets	261	-	-	261
Total	**261**	**-**	**-**	**261**
31 December 2015				
Financial assets				
Available for sale financial assets	302	-	-	302
Total	302	-	-	302

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

3. Financial Risk Management (continued)

3.4 Critical accounting estimates and judgements

The preparation of the Atalaya's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified a number of areas where significant judgements, estimates and assumptions are required.

(a) Capitalisation of exploration and evaluation costs
Under the Group's accounting policy, exploration and evaluation expenditure is not capitalised until the point is reached at which there is a high degree of confidence in the project's viability and it is considered probable that future economic benefits will flow to the Group. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.
(b) Production start date
The Group assesses the stage of each mine under development/construction to determine when a mine 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 each mine development/construction project, such as the complexity of the project and its location. 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 "Property, plant and equipment". Some of the criteria used to identify the production start date include, but are not limited to:

- Level of capital expenditure incurred compared with the original construction cost estimate;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to produce metal in saleable form (within specifications); and
- Ability to sustain ongoing production of metal.

When a mine development project moves into the production phase, the capitalisation of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements or mineable reserve development. It is also at this point that depreciation/amortisation commences.

According to the above paragraph, Management declared start of commercial production of the Riotinto mine in February 2016.

(c) Stripping costs
The Group incurs waste removal costs (stripping costs) during the development and production phases of its surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the orebodies to be mined, the latter being referred to as a stripping activity asset. Judgement is required to distinguish between the development and production activities at the surface mining operations.

The Group is required to identify the separately identifiable components or phases of the orebodies for each of its surface mining operations. Judgement is required to identify and define these components, and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments may vary between mines because the assessments are undertaken for each individual mine and are based on a combination of information available in the mine plans, specific characteristics of the orebody, the milestones relating to major capital investment decisions and the type and grade of minerals being mined. Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The Group considers the ratio of expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume of waste to the volume of ore to be the most suitable measure of production.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

3. Financial Risk Management (continued)

3.4 Critical accounting estimates and judgements (continued)

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset(s).

(d) Ore reserve and mineral resource estimates

The Group estimates its ore reserves and 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.

Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The Group uses qualified persons (as defined by the Canadian Securities Administrators' National Instrument 43-101) to compile this data. Changes in the judgments surrounding proven and probable reserves may impact as follows:

- The carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the UOP method, or where the useful life of the related assets change;
- Capitalised stripping costs recognised in the statement of financial position as either part of mine properties or inventory or charged to profit or loss may change due to changes in stripping ratios;
- Provisions for rehabilitation and environmental provisions may change where reserve estimate changes affect expectations about when such activities will occur and the associated cost of these activities;
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

(e) Impairment of assets

Events or changes in circumstances can give rise to significant impairment charges or impairment reversals in a particular year. The Group assesses each Cash Generating Unit ("CGU") annually to determine whether any indications of impairment exist. If it was necessary Management could contract independent expert to value the assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered the higher of the fair value less cost to sell and value-in-use. An impairment loss is recognised immediately in net earnings. The Group has determined that each mine location is a CGU.

These assessments require the use of estimates and assumptions such as commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted at an appropriate discount rate to determine the net present value. For the purpose of calculating the impairment of any asset, management regards an individual mine or works site as a CGU.

Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its projects.

(f) Provisions for decommissioning and site restoration costs

Accounting for restoration provisions requires management to make estimates of the future costs the Group will incur to complete the restoration and remediation work required to comply with existing laws, regulations and agreements in place at each mining operation and any environmental and social principles the Group is in compliance with. The calculation of the present value of these costs also includes assumptions regarding the timing of restoration and remediation work, applicable risk-free interest rate for discounting those future cash outflows, inflation and foreign exchange rates and assumptions relating to probabilities of alternative estimates of future cash outflows.

Notes to the consolidated financial statements (continued)

Years ended 31 December 2016 and 2015

3. Financial Risk Management (continued)

3.4 Critical accounting estimates and judgements (continued)

(f) Provisions for decommissioning and site restoration costs (continued)
Management uses its judgement and experience to provide for and (in the case of capitalised decommissioning costs) amortise these estimated costs over the life of the mine. The ultimate cost of decommissioning and timing is uncertain and cost estimates can vary in response to many factors including changes to relevant environmental laws and regulations requirements, the emergence of new restoration techniques or experience at other mine sites. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(g) Income tax
Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Judgement is also required to determine whether deferred tax assets are recognised in the consolidated statements of financial position. Deferred tax assets, including those arising from unutilised tax losses, require the Group to assess the probability that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions). To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

(h) Inventory
Net realisable value tests are performed at each reporting date and represent the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

(i) Contingent liabilities
A contingent liability arises where a past event has taken place for which the outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain events outside of the control of the Group, or a present obligation exists but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

A provision is made when a loss to the Group is likely to crystallise. The assessment of the existence of a contingency and its likely outcome, particularly if it is considered that a provision might be necessary, involves significant judgment taking all relevant factors into account.

(j) Deferred consideration
As disclosed in Note 27, the Group has recorded a deferred consideration liability in relation to the obligation to pay Astor up to €53.0 million out of excess cash from operations at Proyecto Riontinto.

The actual timing of any payments to Astor of the consideration involves significant judgment as it depends on certain factors which are out of control of management.

(k) Share-based compensation benefits
Share based compensation benefits are accounted for in accordance with the fair value recognition provisions of IFRS 2 'Share-based Payment'. As such, share-based compensation expense for equity-settled share-based payments is measured at the grant date based on the fair value of the award and is recognised as an expense over the vesting period. The fair value of such share-based awards at the grant date is measured using the Black Scholes pricing model. The inputs used in the model are based on management's best estimates for the effects of non-transferability, exercise restrictions, behavioural considerations and expected volatility.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

4. Business and geographical segments

Business segments

The Group has only one distinct business segment, being that of mining operations, which include mineral exploration and development.

Geographical segments

The Group's mining activities are located in Spain. The commercialization of the copper concentrates produced in Spain is carried out in Cyprus. Corporate costs and administration costs are based in Cyprus. Intercompany transactions within the Group are on arm's length basis in a manner similar to transaction with third parties. Accounting policies used by the Group in different locations are the same as those contained in Note 2.

2016 (Euro 000's)	Cyprus	Spain	Other	Total
Sales	**98,768**	**-**	**-**	**98,768**
Earnings/(loss) before Interest, Impairment, Tax, Depreciation and Amortisation	**(3,665)**	**19,067**	**(9)**	**15,393**
Depreciation/amortisation charge	**(14)**	**(11,278)**	**-**	**(11,292)**
Impairment of land options not exercised	**-**	**(903)**	**-**	**(903)**
Finance income	**-**	**41**	**-**	**41**
Finance cost	**(495)**	**(2,218)**	**-**	**(2,713)**
Net foreign exchange loss	**377**	**(1,042)**	**(1)**	**(666)**
(Loss)/profit before tax before share of loss of associate	**(3,797)**	**3,667**	**(10)**	**(140)**
Share of loss of associate				**(10)**
Tax credit				**12,187**
Profit for the year				**12,037**
Total assets	**18,687**	**282,247**	**4**	**300,938**
Total liabilities	**(17,742)**	**(94,605)**	**(29)**	**(112,376)**
Depreciation of property, plant and equipment	**14**	**8,629**	**-**	**8,643**
Amortisation of intangible assets	**-**	**2,649**	**-**	**2,649**
Total additions of non-current assets	**2**	**87,094**	**-**	**87,096**

2015 (Euro 000's)	Cyprus	Spain	Other	Total
Earnings/(loss) before Interest, Tax, Depreciation and Depreciation/amortisation	(1,122)	(4,914)	78	(5,958)
Depreciation/amortisation charge	(18)	(134)	-	(152)
Net foreign exchange loss	(4,602)	(116)	(3)	(4,721)
Finance income	2	36	-	38
Finance costs	(4,093)	(239)	-	(4,332)
(Loss)/profit before tax and disposal of subsidiaries	(9,833)	(5,367)	75	(15,125)
Profit on disposal of subsidiaries				53
Profit on disposal of subsidiary/ associate				92
Tax charge				(30)
Loss for the year				(15,010)
Total assets	17,000	207,138	6	224,144
Total liabilities	219	47,520	39	47,778
Depreciation of property, plant and equipment	18	134	-	152
Total additions of non-current assets	125	105,763	-	105,888

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

5. Other income

(Euro 000's)	2016	2015
Other income	**235**	86
Gain on sale of property,plant and equipment	**4**	-
Sales of services	**53**	49
	292	135

Other income amounting to €235k (2015: €86k) is mainly due to the sale of scrap.

6. Expenses by nature

(Euro 000's)	2016	2015
Operating costs	**64,223**	-
Impairment charge on land options not exercised	**903**	-
Employee benefit expense (Note 7)	**13,542**	11,702
Compensation of key management personnel (Note 32.1)	**2,375**	1,585
Auditors' remuneration – audit	**204**	164
- prior year audit	**17**	7
- other	**38**	8
Other accountants' remuneration	**8**	45
Consultants' remuneration	**698**	282
Depreciation of property, plant and equipment (Note 13)	**8,643**	152
Amortisation of intangible assets (Note 14)	**2,649**	123
Travel costs	**101**	103
Share option-based employee benefits	**56**	71
Shareholders' communication expense	**264**	331
On-going listing costs	**163**	347
Legal costs	**981**	656
Other expenses/(capitalisation)	**997**	(9,331)
Total cost of operation, administration, share based benefits, care and maintenance, exploration and impairment	**95,862**	6,245

7. Employee benefit expense

(Euro 000's)	2016	2015
Wages and salaries	**10,154**	9,014
Social security and social contributions	**2,890**	2,358
Employees' other allowances	**22**	330
Bonus to employees	**476**	-
	13,542	11,702

The average number of employees and the number of employees at year end by office are:

Number of employees	Average		At year end	
	2016	2015	2016	2015
Spain	**307**	**264**	**325**	303
Cyprus	**3**	**3**	**3**	3
Total	**310**	**267**	**328**	306

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

8. Finance income

(Euro 000's)	2016	2015
Interest income	**41**	38
	41	38

Interest income relates to interest received on bank balances.

9. Finance costs

(Euro 000's)	2016	2015
Interest expense:		
Debt to department of social security (Note 25) and other interest	**252**	**239**
Interest on copper concentrate prepayment [(1)]	**143**	**-**
Deferred consideration	**2,123**	**-**
Convertible note	**-**	**1,178**
Bridge loan	**-**	**1,232**
Accretion expense on convertible note	**-**	**31**
Bridge loan financing expenditure	**-**	**1,342**
Loss on fair value on conversion of the convertible note	**-**	**310**
Net foreign exchange hedging expense – Note 28.1	**195**	**-**
	2,713	**4,332**

[(1)] Interest rate US$ 6 months LIBOR + 2.75%

10. Tax charge

(Euro 000's)	2016	2015
Income tax	**16**	24
(Over)/under provision previous years	**(7)**	6
Deferred tax asset due to losses available against future taxable income (Note 18)	**(8,276)**	-
Deferred tax related to utilization of losses for the year (Note 18)	**475**	-
Deferred tax income relating to the origination of temporary differences (Note 18)	**(4,593)**	-
Deferred tax expense relating to reversal of temporary differences (Note 18)	**198**	-
	(12,187)	30

The tax on the Group's results before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

(Euro 000's)	2016	2015
Loss before tax	**(150)**	(14,980)
Tax calculated at the applicable tax rates	**(18)**	(2,448)
Tax effect of expenses not deductible for tax purposes	**31**	815
Tax effect of tax loss for the year	**318**	1,786
Tax effect of allowances and income not subject to tax	**(191)**	(123)
Over provision for prior year taxes	**(7)**	-
Tax effect of utilisation of exhaustion factor reserve	**(124)**	-
Deferred tax (Note 18)	**(12,196)**	-
Tax (credit)/charge	**(12,187)**	30

Due to tax losses sustained in the current and previous years, no tax liability arises on the Group. Under current legislation, tax losses may be carried forward and be set off against taxable income of the following years. As at 31 December 2016, the balance of tax losses available for offset against future taxable profits amounted to €48.6million (2015: €50.4 million).

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

10. Tax (continued)

(Euro 000's) Tax year	Cyprus	Spain	Total
2007	-	1,268	1,268
2008	-	5,175	5,175
2009	-	3,498	3,498
2010	-	5,642	5,642
2011	-	6,576	6,576
2012	2,456	1,967	4,423
2013	5,172	2,381	7,553
2014	4,106	3,509	7,615
2015	4,051	640	4,691
2016	2,134	-	2,134
	17,919	30,656	48,575

Cyprus

The corporation tax rate is 12.5%. Under certain conditions interest income may be subject to defence contribution at the rate of 30% . In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter. Due to tax losses sustained in the year and previous years, no tax liability arises on the Company. Under current legislation, tax losses may be carried forward and be set off against taxable income of the five succeeding years.

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

Spain

The corporation tax rate is between 25% and 30%. The recent Spanish tax reform approved in 2014 reduces the general corporation tax rate from 30% to 28% in 2015 and to 25% in 2016, and introduces, among other changes, a 10% reduction in the tax base subject to equity increase and other requirements. Due to tax losses sustained in the current and previous years, no tax liability arises in the Company. Under current legislation, tax losses may be carried forward and be set off against taxable income of the eighteen succeeding years.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

11. Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

(Euro 000's)	2016	2015
Parent company	**(2,536)**	(9,675)
Subsidiaries	**14,573**	(5,335)
Profit/(loss) attributable to equity holders of the parent	**12,037**	(15,010)
Weighted number of ordinary shares for the purposes of basic earnings/(loss) per share ('000)	**116,680**	83,658
Basic profit/(loss) per share (cents)	**10.3**	(17.9)
Weighted number of ordinary shares for the purposes of fully diluted earnings/(loss) per share ('000)	**117,545**	83,658
Fully diluted profit/(loss) per share (cents)	**10.2**	(17.9)

There are 365,354 warrants (Note 23) and 500,000 options (Note 24) (2015: 473,061 warrants and 931,654 options) which have been included when calculating the weighted average number of shares for 2016. These were excluded in 2015 because they had an antidilutive effect.

12. Company's analysis of profit for the year

(Euro 000's)	2016	2015
Loss from operations	**(2,536)**	(19,145)
Reversal of intercompany balances previously impaired	**97,243**	9,625
Profit/(loss) for the year	**94,707**	(9,520)

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

13. Property, plant and equipment

THE GROUP

(Euro 000's)	Land and buildings	Plant and equipment	Mineral rights	Assets under construction[4]	Deferred mining costs[3]	Other assets[2]	Total
2016							
Cost							
At 1 January 2016	**39,061**	**23,046**	**950**	**94,525**	**10,334**	**1,026**	**168,942**
Additions	**1,121[1]**	**15,983**	**-**	**-**	**13,848**	**164**	**31,116**
Reclassifications	**6**	**104,287**	**-**	**(93,959)**	**(10,334)**	**-**	**-**
Reclassifications - intangibles	**-**	**1,614**	**(50)**	**-**	**-**	**(247)**	**1,317**
Disposals	**-**	**-**	**-**	**-**		**(37)**	**(37)**
Written off	**-**	**-**	**(900)**	**-**		**(68)**	**(968)**
At 31 December 2016	**40,188**	**144,830**	**-**	**566**	**13,848**	**838**	**200,370**
Depreciation							
At 1 January 2016	**-**	**-**	**-**	**-**	**-**	**518**	**518**
Charge for the year	**1,736**	**4,932**	**-**	**-**	**1,758**	**217**	**8,643**
Reclassifications	**-**	**141**	**-**	**-**	**-**	**(141)**	**-**
Reclassifications - intangibles	**-**	**-**	**-**	**-**	**-**	**(81)**	**(81)**
Disposals	**-**	**-**	**-**	**-**	**-**	**(25)**	**(25)**
Impairment	**-**	**-**	**900**	**-**	**-**	**3**	**903**
Written off	**-**	**-**	**(900)**	**-**	**-**	**(68)**	**(968)**
At 31 December 2016	**1,736**	**5,073**	**-**	**-**	**1,758**	**423**	**8,990**
Net book value at 31 December 2016	**38,452**	**139,857**	**-**	**566**	**12,090**	**415**	**191,380**
2015							
Cost							
At 1 January 2015	35,797	29,087	-	-	-	1,086	65,970
Reclassifications	(707)	(5,883)	950	5,640	-	-	-
Additions	3,971[1]	-	-	88,885	10,334	72	103,262
Disposals	-	(158)	-	-	-	(132)	(290)
At 31 December 2015	39,061	23,046	950	94,525	10,334	1,026	168,942
Depreciation							
At 1 January 2015	-	158	-	-	-	498	656
Charge for the year	-	-	-	-	-	152	152
Disposals	-	(158)	-	-	-	(132)	(290)
At 31 December 2015	-	-	-	-	-	518	518
Net book value at 31 December 2015	39,061	23,046	950	94,525	10,334	508	168,424

[1] Rehabilitation provision (Note 26).
[2] Includes motor vehicles, furniture, fixtures and office equipment which are depreciated over 5-10 years.
[3] Stripping costs
[4] Net of pre-commissioning sales

The above fixed assets are located in Cyprus and Spain.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

13. Property, plant and equipment (continued)

THE COMPANY

(Euro 000's)	Plant and equipment	Other assets[1]	Total
2016			
Cost			
At 1 January 2016	**-**	**109**	**109**
Additions	**-**	**1**	**1**
Disposals	**-**	**(37)**	**(37)**
Written off	**-**	**(5)**	**(5)**
At 31 December 2016	**-**	**68**	**68**
Depreciation			
At 1 January 2016	**-**	**68**	**68**
Charge for the year	**-**	**14**	**14**
Disposals	**-**	**(25)**	**(25)**
Written off	**-**	**(5)**	**(5)**
At 31 December 2016	**-**	**52**	**52**
Net book value at 31 December 2016	**-**	**16**	**16**
2015			
Cost			
At 1 January 2015	158	235	393
Additions	-	1	1
Disposals	(158)	(127)	(285)
At 31 December 2015	-	109	109
Depreciation			
At 1 January 2015	158	177	335
Charge for the year	-	18	18
Disposals	(158)	(127)	(285)
At 31 December 2015	-	68	68
Net book value at 31 December 2015	-	41	41

[1] Includes motor vehicles, furniture, fixtures and office equipment which are depreciated over 5-10 years.

Certain land plots required for Proyecto Riotinto (the "Project Lands") are affected by pre-existing liens and embargos derived from unpaid obligations of former Project operators or owners (the "Pre-Existing Debt").

a) In May 2010 the Group signed an agreement with the Department of Social Security in which it undertook to repay, over a period of 5 years, the €16.9 million Pre-Existing Debt to the Department of Social Security in exchange for a stay of execution proceedings for recovery of this debt against these Project Lands (the "Social Security Agreement"). Originally payable over 5 years, the repayment schedule was subsequently extended until June 2017. The Group has met all of its obligations to date under the Social Security Agreement, having paid as at 31 December 2016 a total of €15.2 million, with a remainder of €1.7 million to be paid in accordance with the Agreement that finalises on 30 June 2017. The Group granted a mortgage to guarantee the payment of a total debt of €6,436,661,and two embargos to guarantee the two payments of a total debt of €6,742,039 and €10,472,612 respectively in favor of Social Security's General Treasury.

b) The Project Lands are also subject to a lien in the amount of €5 million created in 1979 to secure the repayment of certain government grants that were in all likelihood paid at the relevant time by former operators. Relevant court proceedings have been followed to strike this lien from title, given that in the opinion of the Company the right of the government to reclaim this Pre-Existing Debt has expired due to the relevant statute of limitations and the Company is currently waiting for the court decision to be issued.

c) The Project Lands are also affected by the following Pre-Existing Debt liens: A €400,000 mortgage to Oxiana Limited (that will be paid in due course) and a mortgage of €222,000 pre-existing on lands acquired by the Company in August 2012 which has been paid in full.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

13. Property, plant and equipment (continued)

d) Other land plots owned by the Company, but not required for Proyecto Riotinto (the "Non-Project Lands"), are affected by a Pre-Existing Debt lien of €10.5 million registered by the Junta de Andalucía. In the event execution proceedings were commenced against the Non-Project Lands, the Company would either negotiate a settlement or allow the execution to proceed in total satisfaction of the Pre-Existing Debt in question

During 2016 an option expired which was previously granted to Inland Trading 2006, S.L. and Construcciones Zeitung, S.L. for the acquisition of certain mining rights and recorded €900,000 as an impairment charge in the profit and loss account.

The Group capitalised during the year personnel cost amounting to €916,094. No borrowing cost were capitalised in the period.

In the condensed interim consolidated financial statements for the three months ended 31 March 2016, 30 June 2016 and 30 September 2016 the deferred mining costs amounted to €1,519,397, €5,129,509 and €5,129,509 accordingly, whether based on the annual financial statements these amounts should be €2,028,678, €6,715,000 and €10,528,269 accordingly.

In the condensed interim consolidated financial statements for the three months ended 31 March 2016, 30 June 2016 and 30 September 2016 the accumulated amortization of deferred mining costs amounted to €NIL, whether based on the annual financial statements these amounts should be €33,562, €223,686 and €811,887 accordingly.

14. Intangible assets

THE GROUP

(Euro 000's)	Permits of Rio Tinto Project	Acquisition of mineral rights	Licences, R&D and Software	Goodwill	Total
2016					
Cost					
On 1 January 2016	**20,158**	**-**	**-**	**9,333**	**29,491**
Additions	**42,244**(1)	**-**	**1,334**	**-**	**43,578**
Reclassifications – Property, plant and equipment	**(1,614)**	**-**	**297**	**-**	**(1,317)**
Other reclassifications	**(28)**	**-**	**54**	**-**	**26**
At 31 December 2016	**60,760**	**-**	**1,685**	**9,333**	**71,778**
Provision for impairment					
On 1 January 2016	**-**	**-**	**-**	**9,333**	**9,333**
Charge for the year	**2,607**	**-**	**42**	**-**	**2,649**
Reclassifications – Property, plant and equipment	**-**	**-**	**81**	**-**	**81**
At 31 December 2016	**2,607**	**-**	**123**	**9,333**	**12,063**
Net book value at 31 December 2016	**58,153**	**-**	**1,562**	**-**	**59,715**
2015					
Cost					
On 1 January 2015	17,655	310	-	10,023	27,988
Additions	2,503	-	-	123	2,626
Disposals/closure of subsidiaries	-	(310)	-	(813)	(1,123)
At 31 December 2015	20,158	-	-	9,333	29,491
Provision for impairment					
On 1 January 2015	-	310	-	10,023	10,333
Charge for the year	-	-	-	123	123
Disposal/closure of subsidiaries	-	(310)	-	(813)	(1,123)
At 31 December 2015	-	-	-	9,333	9,333
Net book value at 31 December 2015	20,158	-	-	-	20,158

(1) This addition relate to the deferred consideration as at 1.2.2016 (Note 27)

The useful life of the intangible assets is estimated to be not less than fourteen years from the start of production (the revised Reserves and Resources statement which was announced in July 2016 has increased the life of mine to 16 ½ years).

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

14. Intangible assets (continued)

The ultimate recoupment of balances carried forward in relation to areas of interest or all such assets including intangibles is dependent on successful development, and commercial exploitation, or alternatively sale of the respective areas.

The Group conducts impairment testing on an annual basis unless indicators of impairment are present at the reporting date. In considering the carrying value of the assets at Proyecto Riotinto, including the intangible assets and any impairment thereof, the Group assessed the carrying values having regard to (a) the current recovery value (less costs to sell) and (b) the net present value of potential cash flows from operations. In both cases, the estimated net realisable values exceeded current carrying values and thus no impairment has been recognised. Goodwill of €9,333,000 arose on the acquisition of the remaining 49% of the issued share capital of Atalaya Riotinto Minera S.L.U. ("ARM") back in September 2008. This amount was fully impaired on acquisition, in the absence of the mining license back in 2008.

On 21 January 2015, the Company completed the purchase of the remaining 5% of the issued share capital of Eastern Mediterranean Minerals (Cyprus) Ltd ("EMM"), held by Hellenic Mining Public Company Ltd, for a consideration of €7,500. The purchase of the non-controlling interest resulted in a goodwill of €123,490. This goodwill was immediately impaired. The Company currently holds only 10% of the issued share capital of EMM following the sale of 90% of the issued share capital of EMM on 8 September 2015 (Note 21).

15. Investment in subsidiaries

(Euro 000's)	2016	2015
THE COMPANY		
Opening amount at cost	**3,572**	3,576
Transfer to investment in associate (Note 16)	**-**	(4)
Closing amount at cost	**3,572**	3,572

Subsidiary companies	Date of incorporation/ acquisition	Principal activity	Country of incorporation	Effective proportion of shares held
Eastern Mediterranean Resources (Caucasus) Ltd(1)	11 Nov 2005	Exploration	Georgia	100%
Georgian Mineral Development Company Ltd(1)	27 Dec 05/11 Feb 2006	Exploration	Georgia	100%
EMED Mining Spain S.L.U.	12 Apr 2007	Exploration	Spain	100%
Atalaya Riotinto Minera S.L.	12 Apr 07/30 Sep 08	Mining	Spain	100%
EMED Marketing Ltd	08 Sep 2008	Marketing	Cyprus	100%
Atalaya Riotinto Project (UK) Ltd(2)	10 Sep 2008	Holding	United Kingdom	100%
Eastern Mediterranean Exploration and Development S.L.U.	3 Dec 2012	Exploration	Spain	100%

As security for the obligation on ARM to pay consideration to Astor under the Master Agreement and the Loan Assignment Agreement, EMED Holdings (UK) Limited has granted pledges to Astor Resources AG over the issued capital of ARM and granted a pledge to Astor over the issued share capital of Eastern Mediterranean Exploration and Development S.L.U. and the Company has provided a parent company guarantee.

(1) The Group has started the liquidation process for the company.

(2) On 16 February 2017, Emed Holdings (UK) Ltd changed its name to Atalaya Riotinto Project (UK) Ltd.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

16. Investment in associate

(Euro 000's)	2016	2015
THE GROUP		
At 1 January	**10**	-
Profit on disposals from subsidiary/associate	**303**	256
Transfer from investment in subsidiaries (Note 15)	**-**	4
Share of results of associate before tax	**(313)**	(250)
At 31 December	**-**	10
THE COMPANY		
At 1 January	**4**	**-**
Transfer from investment in subsidiaries (Note 15)	**-**	**4**
At 31 December	**4**	**4**

In December 2014, Atalaya entered into a conditional Earn-in Agreement with Prospech Ltd ("Prospech"), a private Australian exploration company, in relation to two exploration licences held by Atalaya's 100% owned Slovak subsidiary, Slovenske Kovy s.r.o. ("SLOK"). The agreement became effective in March 2015.

Prospech met its investment obligations by the end of 2016, earning the agreed 81% interest in SLOK. During 2017, the parties will enter into a joint venture agreement, which will provide that, in the event that the Company dilutes to 5% or less in SLOK and a Bankable Feasibility Study of a discovery recommends commencement of mining, the Company will have the option to convert its interest to a net smelter royalty at the rate of 1.0% for a 5% interest.

Company name	Principal activities	Country of incorporation	Effective proportion of shares held at 31 December 2016
Slovenske Kovy s.r.o.	Exploration and development	Slovakia	19%

The Group had significant influence in Slovenske Kovy s.r.o, even though it holds less than 20% of the voting rights, as the work program and exploration budgets for the Exploration Expenditure of the Joint Venture are developed and approved by the Supervisory Board of Directors of the Joint Venture, prior to any exploration being undertaken. The Supervisory Board of Directors of the Joint Venture consisted of two directors of the Group and two directors nominated by Prospech Limited up to 31 January 2017 which changed to one director of the Group and two directors nominated by Prospech Limited

The Group's significant aggregate amounts in respect of the investment in associate are as follows:

(Euro 000's)	2016	2015
Non-current assets	**6**	9
Current assets	**9**	21
Current liabilities	**(89)**	(89)
Net liabilities (100%)	**(74)**	(59)
Group's share of net liabilities – (2016:19%, 2015:49%)	**(14)**	(29)
Loss from continuing operations/Total comprehensive loss (100%)	**(771)**	(305)
Group's share of loss and total comprehensive loss (19% and 49%)	**(313)**	(250)

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

17. Investment in joint venture

Company name	Principal activities	Country of incorporation	Effective proportion of shares held at 31 December 2015
Recursos Cuenca Minera S.L.	Exploitation of tailing dams and waste areas resources	Spain	50%

ARM has entered into a 50/50 joint venture with Rumbo to evaluate and exploit the potential of the class B resources in the tailings dam and waste areas at Proyecto Riotinto. Under the joint venture agreement, ARM will be the operator of the joint venture, will reimburse Rumbo for the costs associated with the application for classification of the Class B resources and will fund the initial expenditure of a feasibility study up to a maximum of €2 million. Costs are then borne by the joint venture partners in accordance with their respective ownership interests. Half of the costs paid by ARM in connection with the feasibility study can be deducted from any royalty which may fall due to be paid.

The Group's significant aggregate amounts in respect of the joint venture are as follows:

(Euro 000's)	2016	2015
Intangible assets	**94**	94
Trade and other receivables	**1**	21
Cash and cash equivalents	**20**	1
Trade and other payables	**(114)**	(114)
Net assets	**1**	2
Revenue	**-**	-
Expenses	**(1)**	(1)
Net loss after tax	**(1)**	(1)

18. Deferred tax

(Euro 000's)	Consolidated statement of financial position 2016	Consolidated statement of financial position 2015	Consolidated income statement 2016	Consolidated income statement 2015
THE GROUP				
Deferred tax asset				
Deferred tax asset due to losses available against future taxable income (Note 10)	**8,276**	**-**	**12,196**	**-**
Deferred tax related to utilization of losses for the year (Note 10)	**(475)**	**-**	**-**	**-**
Deferred tax income relating to the origination of temporary differences (Note 10)	**4,593**	**-**	**-**	**-**
Deferred tax expense relating to reversal of temporary differences (Note 10)	**(198)**	-	**-**	-
Deferred tax asset (net)	**12,196**	-		
Deferred tax income (Note 10)			**12,196**	**-**

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilised.

During the year, the Group recognised €122 million in net deferred tax assets as it was determined that it is probable that sufficient future taxable profits will be available to the Group to benefit from the losses carried forward.

In addition to recognised deferred income tax asset, the Group has unrecognised tax losses of €17.9 million (2015: €18,6) that are available to carry forward for 5 years against future taxable income of the group companies in which the losses arose, and €Nil (2015: €31.8) which are available to carry forward indefinitely against future losses. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in companies that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future to support (either partially or in full) the recognition of the losses as deferred income tax assets.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

19. Inventories

(Euro 000's)	2016	2015
THE GROUP		
Materials and supplies	**5,647**	-
Work in progress	**548**	-
	6,195	-

Materials and supplies relate mainly to machinery spare parts. Work in progress represents ore stockpiles, which is ore that has been extracted and is available for further processing.

As of 31 December 2016, all concentrates produced were sold. Accordingly, the inventory for copper concentrates as of reporting date was nil (2015 –€ nil). During the year the Group recorded cost of sales amounted to €88.8 million (2015 – nil).

20. Trade and other receivables

(Euro 000's)	2016	2015
THE GROUP		
Non-current trade and other receivables		
Deposits	**206**	-
	206	-
Current trade and other receivables		
Trade receivables	**15,082**	-
Receivables from related parties (Note 32.3 and 32.4)	**2,092**	6,596
Deposits and prepayments	**522**	1,114
VAT	**11,187**	7,970
Other receivables	**967**	952
	29,850	16,632
THE COMPANY		
Receivables from own subsidiaries	**230,235**	225,634
Impairment of receivables from own subsidiaries	**-**	(97,243)
Deposits and prepayments	**506**	508
VAT	**352**	336
Other receivables	**52**	846
	231,145	130,081

The fair values of trade and other receivables approximate to their carrying amounts as presented above.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

21. Available-for-sale investments

(Euro 000's)	2016	2015
THE GROUP & THE COMPANY		
At 1 January	**302**	984
Loss transferred to reserves (Note 24)	**(41)**	(682)
At 31 December	**261**	302

Company name	Principal activities	Country of incorporation	Effective proportion of shares held at 31 December 2016
Mining Group Slovakia s.r.o	Holder of exploration licence in Slovakia	Slovakia	30%
Eastern Mediterranean Minerals Ltd	Holder of exploration licences in Cyprus	Cyprus	10%
KEFI Minerals Plc	Exploration and development mining company listed on AIM	UK	1.8%

In July 2015, Atalaya Mining sold 70% of its holding in Mining Group Slovakia,s.r.o. (ex. EMED Slovakia s.r.o.), holder of the Biely Vrch Exploration Licence that hosts a gold resource to FDP Real Estate & Investments a. s. ("FDP"), a private Slovak company. FDP has undertaken all of the running costs of Mining Group Slovakia, whilst Atalaya Mining retained a 30% free-carried equity in Mining Group Slovakia and a director. The sale consideration was €3,000 resulting to a consolidated profit of €3,000. Atalaya Mining does not exercise significant influence over the company.

On 25 August 2015, the Company sold 90% of the shares in Eastern Mediterranean Minerals Group ("EMM") - Eastern Mediterranean Minerals (Cyprus) Limited and its subsidiaries; Tredington Ventures Limited and Winchcombe Ventures Limited - owners of a geo-scientific database and holder of ten Exploration Licences in Cyprus, to Semarang Enterprises Ltd, a Cyprus company. The sale consideration was €100,000 resulting in a consolidated profit of €49,950. 50% of the purchase consideration was paid on sign off and the remaining 50% is to be paid by 25 August 2017. In the event that a bankable feasibility study of any discovery recommends commencement of mining, each party shall contribute their pro-rata share of project expenditure and the Company may or may not elect to contribute and, instead, convert its 10% equity to a 1.5% Net Smelter Royalty.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

22. Cash and cash equivalents

(Euro 000's)	2016	2015
THE GROUP		
Cash at bank and in hand	**1,135**	18,618

As of 31 December 2016, the Group's operating subsidiary held €250k (2015: €40k) as a collateral for bank guaranties, which has been classified as restricted cash.

Cash and cash equivalents denominated in the following currencies:		
Euro - functional and presentation currency	**783**	18,163
Great Britain Pound	**233**	285
United States Dollar	**119**	170
	1,135	18,618

THE COMPANY		
Cash at bank and on hand	**320**	4,246

Cash and cash equivalents denominated in the following currencies:		
Euro - functional and presentation currency	**86**	3,951
Great Britain Pound	**229**	285
United States Dollar	**5**	10
	320	4,246

23. Share capital

	No. of Shares*	Share capital	Share Premium	Total
Authorised	'000's	Stg£ 000's	Stg£ 000's	Stg£ 000's
Ordinary shares of Stg £0.075 each*	200,000	15,000	-	15,000

Issue Date	Price (Stg£)	Details		000's	Euro 000's	Euro 000's	Euro 000's
Issued and fully paid							
Balance at 1 January 2015				47,995	4,409	149,823	154,232
25 June 15	1.425*	Share placement	a)	68,684	7,223	130,017	137,240
		Share issue costs		-	-	(2,920)	(2,920)
		Warrant issue costs		-	-	(122)	(122)
		Derivative element of conversion of convertible note		-	-	440	440
Balance at 31 December 2015 / 31 December 2016				**116,679**	**11,632**	**277,238**	**288,870**

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

23. Share capital (continued)

Authorised capital

On 23 June 2015, the shareholders approved the increase of the authorised share capital of the Company from Stg £5,500,000 to Stg £15,000,000 by the creation of 3,800,000,000 new ordinary shares of Stg £0.0025 each in the capital of the Company ranking pari passu with the existing ordinary shares of Stg £0.0025 each in the capital of the Company.

*Following the Company's EGM on 13 October 2015, the consolidation of ordinary shares came into effect on 21 October 2015, whereby all shareholders received one new ordinary share of nominal value Stg £0.075 for every 30 existing ordinary shares of nominal value Stg £0.0025. As a result, the Company's authorised share capital is now 200,000,000 ordinary shares of Stg £0.075 each.

Issued capital

2016

There was no share capital issue during 2016.

2015

a) On 25 June 2015, 68,684,020 shares at Stg £0.075 were issued at a price of Stg £1.425. Upon the issue an amount of €130,017,000 was credited to the Company's share premium reserve.

Warrants

2016

No warrants were issued in 2016.

2015

During the year, the Company issued 262,569 warrants, at exercise price Stg £1.425, to Group's advisers. Warrants, noted below, expire three or five years after the grant date and have exercise prices ranging from Stg £1.425 to Stg £3.150.

Details of share warrants outstanding as at 31 December 2016:

Grant date	Expiry date	Exercise price – Stg £	Number of warrants
02 July 2012	01 July 2017	3.150	33,332
22 August 2012	21 August 2017	2.550	69,453
24 June 2015	24 June 2018	1.425	262,569
			365,354

	Weighted average exercise price Stg £	Number of warrants
At 1 January 2016	1.93	**473,061**
Less warrants expired during the year	2.40	**(107,707)**
Outstanding warrants at 31 December 2016	1.80	**365,354**

The estimated fair values of the warrants were calculated using the Black Scholes option pricing model. The inputs into the model and the results are as follows:

Grant date	Weighted average share price Stg£	Weighted average exercise price Stg£	Expected volatility	Expected life (years)	Risk free rate	Expected dividend yield	Estimated fair value Stg£
02 Jul 2012	3.150	3.150	71.46%	5	2.0%	Nil	0.840
22 Aug 2012	2.550	2.550	85.50%	5	2.0%	Nil	0.900
24 June 2015	1.425	1.425	64.40%	3	2.0%	Nil	0.330

The volatility has been estimated based on the underlying volatility of the price of the Company's shares in the preceding twelve months.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

24. Other reserves

THE GROUP AND THE COMPANY

(Euro 000's)	Share option	Bonus share	Available-for-sale investments	Total
At 1 January 2015	5,973	44	(202)	5,815
Bonus shares issued in escrow	-	101	-	101
Recognition of share based payments	152	-	-	152
Change in value of available-for-sale investments (Note21)	-	-	(682)	(682)
Warrants issue costs	122	-	-	122
At 31 December 2015	**6,247**	**145**	**(884)**	**5,508**
Bonus shares issued in escrow	**-**	**63**	**-**	**63**
Recognition of share based payments	**137**	**-**	**-**	**137**
Change in value of available-for-sale investments (Note21)	**-**	**-**	**(41)**	**(41)**
At 31 December 2016	**6,384**	**208**	**(925)**	**5,667**

Details of share options outstanding as at 31 December 2016:

Grant date	Expiry date	Exercise price – Stg £	Share options
20 Mar 2014	19 Mar 2019	3.60	200,000
20 Mar 2014	19 Mar 2019	3.60	200,000
1 June 2014	31 May 2019	2.70	100,000
Total			**500,000**

	Weighted average exercise price Stg £	Share options
At 1 January 2016	3.23	**931,654**
Less options expired during the year	3.01	**(431,654)**
31 December 2016	3.42	**500,000**

No options were issued in 2016 and 2015. Details of options granted after 31 December 2016 are set out in Note 35 to the Financial Statements.

In general, option agreements contain provisions adjusting the exercise price in certain circumstances including the allotment of fully paid Ordinary Shares by way of a capitalisation of the Company's reserves, a sub division or consolidation of the Ordinary Shares, a reduction of share capital and offers or invitations (whether by way of rights issue or otherwise) to the holders of Ordinary Shares.

The estimated fair values of the options were calculated using the Black Scholes option pricing model. The inputs into the model and the results are as follows:

Grant Date	Weighted average share price Stg£	Weighted average exercise price Stg£	Expected volatility	Expected life (years)	Risk Free rate	Expected dividend yield	Estimated Fair Value Stg£
1 June 2014	2.700	2.700	62.9%	5	2.0%	Nil	0.597
20 Mar 2014	3.600	3.600	64.2%	5	2.0%	Nil	0.705

The volatility has been estimated based on the underlying volatility of the price of the Company's shares in the preceding twelve months.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

25. Trade and other payables

THE GROUP

(Euro 000's)	2016	2015
Non-current trade and other payables		
Social security[1]	**-**	1,741
Land options	**115**	155
	115	1,896
Current trade and other payables		
Trade payables	**49,309**	37,106
Payable to related parties (Note 32.4)	**12**	-
Copper concentrate prepayment[2]	**8,684**	-
Social security*	**1,741**	2,867
Land options and mortgage	**790**	789
Accruals	**1,826**	1,124
Tax liability	**16**	24
Other	**230**	1
	62,608	41,911

THE COMPANY

(Euro 000's)	2016	2015
Current trade and other payables		
Accruals	**649**	217
Payable to own subsidiaries	**1,193**	-
Other	**229**	-
	2,071	217

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

(1) On 25 May 2010 ARM recognised a debt with the Social Security's General Treasury in Spain amounting to €16.9 million that was incurred by a previous owner in order to stop the execution process by Public Auction of the land over which Social Security had a lien. €15.2 million has been repaid to date. Originally payable over 5 years, the repayment schedule was renegotiated in July 2013 with the General Treasury in Spain and was extended until June 2017.

(2) In September 2016, the Group signed a $14 million prepayment funding with Transamine Trading, S.A. ("Transamine"). The funding will be settled by 31 December 2018 via deductions from payments received from sales. Terms of the funding are market conditions bearing an interest of LIBOR + 2.75% interest.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

26. Provisions

THE GROUP

(Euro 000's)	Rehabilitation costs
1 January 2015	-
Additions	3,971
31 December 2015 (Note 13)	3,971
Revision of discount rate	**732**
Revision of estimates	**296**
Accretion expense	**93**
31 December 2016 (Note 13)	**5,092**

(Euro 000's)	2016	2015
Non-Current	**5,092**	3,971
Current	**-**	-
Total	**5,092**	3,971

Rehabilitation provision represents the accrued cost required to provide adequate restoration and rehabilitation upon the completion of production activities. These amounts will be settled when rehabilitation is undertaken, generally over the project's life.

The discount rate used in the calculation of the net present value of the provision as at 31 December 2016 was 1.87%, which is the 15-year Spain Government Bond rate (2015: 2,349% - 20-year Spain Government Bond rate). An inflation rate of 1.5% was applied on annual basis.

The expected payments for the rehabilitation work is as follows:

(Euro 000's)	Between 1 – 5 Years	Between 6 – 10 Years	Between 10 – 15 Years	More than 15 Years
Expected payments for rehabilitation of the mining site	273	126	2,658	2,035

27. Deferred consideration

In September 2008, the Group moved to 100% ownership of ARM (and thus full ownership of Proyecto Riotinto) by acquiring the remaining 49% of the issued capital of ARM. At the time of the acquisition, the Group signed a Master Agreement (the "Master Agreement") which includes deferred consideration of €43.8 million (the "Deferred Consideration") and potential up-tick payments of up to €15.9 million depending on the price of copper (the "Up-tick Payment"), in consideration of (a) all parties accepting the legal structure of ARM (formerly Emed Tartessus); (b) the validity of various agreements entered into prior to the Master Agreement; and (c) the provision of indemnities by Astor and its agreement not to pursue litigation.

The obligation to pay the Deferred Consideration and the Up-tick Payments is subject to the satisfaction of the following conditions (the "Conditions"): (a) all authorisations to restart mining activities in Proyecto Riotinto having been granted by the Junta de Andalucía ("Permit Approval"); and (b) the Group securing a senior debt finance facility for a sum sufficient to restart mining operations at Proyecto Riotinto ("Senior Debt Facility") and being able to draw down funds under the Senior Debt Facility.

Subject to satisfaction of the Conditions, the Deferred Consideration and the Up-tick Payments are payable over a period of six or seven years (the "Payment Period"). In addition to satisfaction of the Conditions, the Up-tick Payments are only be payable if, during the relevant period, the average price of copper per tonne is US$6,614 or more (US$3.00/lb).

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

27. Deferred consideration (continued)

The Company also entered into a credit assignment agreement with a related company of Astor, Shorthorn AG, pursuant to which the benefit of outstanding loans were assigned to the Company in consideration for the payment of €9.1 million to Shorthorn (the "Loan Assignment"). Payment under the Loan Assignment is also subject to satisfaction of the Conditions and is payable in instalments over the Payment Period.

As security, inter alia, for the obligation to pay the Deferred Consideration, the Up-tick Payments and the Loan Assignment to Astor, EMED Holdings (UK) Limited has granted pledges to over the issued capital of ARM and the Company has provided a parent company guarantee.

As at the date of this report, the Permit Approval condition has been satisfied. However, the Group has not entered into arrangements in connection with a Senior Debt Facility and, in the absence of drawdown of funds by the Group pursuant to a Senior Debt Facility, the Conditions have not been satisfied.

On 6 March 2017, judgment in the case brought by ("Astor Case") was handed down in the High Court of Justice in London (the "Judgment"). On 31 March 2017 declarations were made by the High Court which give effect to the Judgment.

In summary, the High Court found that the Deferred Consideration did not start to become payable when Permit Approval was granted. In addition, the intra-group loans by which funding for the restart of mining operations was made available to ARM did not constitute a Senior Debt Facility so as to trigger payment of the Deferred Consideration. Accordingly, the first instalment of the Deferred Consideration has not fallen due.

Astor failed to show that there had been a breach of the all reasonable endeavours obligation contained in the Master Agreement to obtain a Senior Debt Facility or that the Group had acted in bad faith in not obtaining a Senior Debt Facility. While the Court confirmed that the Group was not in breach of any of its obligations, the Master Agreement and its provisions remain in place. Accordingly, other than up to US$10 million a year which may be required for non-Proyecto Riotinto related expenses, ARM cannot make any dividend, distribution or any repayment of the money lent to it by companies in the Group until the consideration under the Master Agreement (including the Deferred Consideration) has been paid in full.

As a consequence, the Judgment requires that, in accordance with the Master Agreement, ARM must apply any excess cash (after payment of operating expenses, sustaining capital expenditure, any senior debt service requirements and up to US$10 million (for non-Proyecto Riotinto related expenses)) to pay the consideration due to Astor (including the Deferred Consideration and the amount of €9.1 million payable under the Loan Assignment) early. The Court confirmed that the obligation to pay consideration early out of excess cash does not apply to the Up-tick Payments and the Judgment notes that the only situation in which the Up-tick Payments could ever become payable is in the unlikely event that mining operations stop at Proyecto Riotinto and a Senior Debt Facility is then secured for a sum sufficient to restart mining operations.

While the Judgment confirms that the cash sweep provisions of the Master Agreement require ARM to repay the Loan Assignment early, it does not extend to the credit assignment agreement which is governed by Spanish law. The Judgment therefore does not provide any clarity on whether the Conditions have been met in respect of payment of Loan Assignment and there remains significant doubts concerning the legal obligation to pay the Loan Assignment pursuant to the terms of the credit assignment agreement.

Previously, the Company had not recognised the Deferred Consideration in the initial purchase price allocation on the basis that the payment of the amounts was not considered probable. The High Court judgment of 6 March 2017 required the Group to revisit its estimates and assumption as at and for the year ended 31 December 2016. Accordingly, the Group has recorded the liability at fair value using a discount rate on an estimated excess cash flow of Atalaya Riotinto Minera, S.L.U. The fair values disclosed are provisional as of 31 December 2016 due to the complexity of the Master Agreement, and the inherently uncertain nature of the assumptions to calculate the future cash flows of Atalaya Riotinto Minera, S.L.U. The fair values have been applied as a modification of the original purchase price allocation. As such, the fair values are capitalised during the year ended 31 December 2016 as part of the Company's intangible assets under "Permits of the Rio Tinto Project" (Note 14).

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

27. Deferred consideration (continued)

THE GROUP

The main assumptions of the net present value are as follows:

Gross amount: €53,000,000
Discount rate: 5.5%

Net present value: € 44,346,167.81

THE COMPANY

The main assumptions of the net present value are as follows:

Gross amount: €9,116,617.30
Discount rate: 5.5%

Net present value: € 7,359,395.05

When determining the net present value of the Deferred Consideration, the Company has used historical facts and future assumptions, based on opinions and estimates on the excess cash to be generated at Atalaya Riotinto Minera, S.L.U.

Many of these assumptions are based on factors such as commodities prices, cost of operations, future settlements on current and future trade creditors and debtors and other events that are not within the control of Atalaya.

28. Derivative instruments

28.1. Foreign exchange contract

As at 31 December 2016, Atalaya had certain short term foreign exchange contracts. The contracts were in an unrealised loss position which was recorded as a finance cost in the income statements (2016 - €0.2 million), the corresponding receivable amount recorded in other receivables. The relevant information of the contracts is as follows:

Foreign exchange contracts – Euro/USD

Period	Contract type	Amount in USD	Contract rate	Strike
June 2016 - March 2017	FX Forward - Put	5,000,000	1.0955	n/a
	FX Forward – Call	10,000,000	1.0955	1.0450

The counter parties of the foreign exchange agreements are third parties.

28.2. Commodity contract

In 2016, Atalaya signed the following short term commodity contracts, for copper, with a third party:

Period	Commodity	Contract type	FMT (Fine metric tonnes)	Strike price US$/FMT
August 2016	Copper	Forward	2,113	4,960
September 2016	Copper	Forward	1,090	4.845

The agreements were closed at the maturity date with a gain of €0.5 million, which has been recorded as revenue during the year. As at 31 December 2016, the Group had no open positions.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

29. Convertible note

THE GROUP AND THE COMPANY

(Euro 000's)	2016 Debt component	2016 Derivative component	2015 Debt component	2015 Derivative component
1 January	-	-	13,952	130
Accrued interest	-	-	1,178	-
Accretion expense	-	-	31	-
Foreign exchange	-	-	894	-
Fair value of the derivative component	-	-	-	(130)
Repayment	-	-	(16,055)	-
31 December	-	-	-	-

On 12 July 2013 the Company issued Convertible Notes (the "Notes") in the amount of GBP 9,582,000 of which GBP 7,026,800 was subscribed by XGC and Stg £2,555,200 was subscribed by Orion. The Notes had an original term of 18 months to 12 January 2015 (the "Maturity Date"). As part of the Loan agreed on 24 December 2014 with the Note holders and others, the Maturity Date of the Notes was extended to be the earlier of 30 March 2015 and the date on which the Loan was due for payment. On 27 March 2015, by virtue of the extension of the maturity date of the Loan, the maturity date was extended to be the earlier of 30 June 2015 and the date of which the Loan was due for repayment. The Notes carried a coupon of 9% per annum in the first 12 months and 11% thereafter. Interest was capitalised every three months and rolled up, payable either on the Maturity Date or the earlier conversion or redemption of the Notes.

Within the period of 10 business days prior to the Maturity Date, the Note holders could have elected to convert all outstanding principal and accrued interest of their Notes into ordinary shares of 0.25 pence each in the Company ("Ordinary Shares"). Note holders could also have elected to convert their Notes following the Company seeking to redeem the Notes or a potential business sale or change of control of the Company. In addition, the Notes would have automatically converted into new Ordinary Shares at the time the Company (or any of its subsidiaries) made its first drawdown (the "Drawdown Date") from a facility made available by senior financial institutions for the restart of operations at the Company's Proyecto Riotinto in Andalucía, Spain. Where the Notes automatically converted on funds being made available under a senior secured debt facility, the conversion price of the Notes was the lower of 9 pence per share and the VWAP of a Company share on AIM for the 20 immediately preceding trading days immediately preceding the Drawdown Date. In all other cases, the Notes would have converted at 9 pence per share.

The Company may have elected to redeem for cash the principal and accrued interest of the Notes at any time between 12 July 2014 (first anniversary of the date of issue) and the first to occur of the Drawdown Date or Maturity Date upon giving the holders of the Notes not less than 15 business days' notice. A Note holder could have chosen to convert their Notes into Ordinary Shares rather than have them redeemed but if they did so it would have been at a price of 9 pence per share and was not conditional on the Drawdown Date occurring. The Notes benefited from security interests granted by the Company over the share capital of EMED Holdings (UK) Limited and EMED Marketing Limited as well as certain intra-group debts owing to the Company. In addition, the Company and certain of its subsidiaries had undertaken not to further encumber their assets or share capital, save in certain circumstances, including in connection with the proposed senior debt facility required in order to restart operations at Proyecto Riotinto.

The Notes were subject to certain standard events of default following which Note holders could have elected to immediately redeem their Notes and accrued interest.

Assuming that the Notes converted in full at a conversion price of 9 pence per share (including the conversion of 21 months' accrued interest) the Note Holders would have received 125,494,668 shares. The Company paid intermediary fees of Stg£192,000 on the issuance of these Notes. The Notes were considered hybrid financial instruments comprising a Note liability and a conversion feature for Ordinary Shares ("the Conversion Feature"). As the conversion price (9 pence) was denominated in a currency other than the Company's functional currency, the Conversion Feature was considered to be a derivative financial instrument and was measured at fair value through profit or loss.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

29. Convertible note (continued)

On 25 June 2015, in connection with the Subscription, Placing and Open Offer to raise Stg £64.9 million announced on 28 May 2015, the liability to pay the outstanding principal of the Notes together with accrued interest up to and including 15 May 2015 was satisfied by the issue of 241,668,731 shares for the conversion of the Notes at 4.75 pence per share.

30. Acquisition and disposals of subsidiaries

There were no acquisitions during 2016 and 2015.

There were no disposals during 2016.

During 2015, there were three disposals of subsidiaries - see Notes 16, 17 and 21.

31. Wind-up of subsidiaries

There were no operations wound-up during 2016 and 2015.

32. Related party transactions

The following transactions were carried out with related parties:

32.1 Compensation of key management personnel

The total remuneration and fees of Directors (including Executive Directors) and other key management personnel was as follows:

(Euro 000's)	2016	2015
Directors' remuneration and fees	**696**	592
Directors' bonus	**500**	-
Directors' bonus shares	**63**	101
Contractual entitlements upon resignation	**83**	292
Share option-based benefits to directors	**56**	56
Key management personnel fees	**444**	505
Key management bonus	**500**	-
Share option-based and other benefits to key management personnel	**33**	39
	2,375	1,585

Share-based benefits

The directors and key management personnel have not been granted options or bonus shares during 2016 (Note 24). Charges in 2016 relate to options issued in prior years which vest over a three-year period.

32.2 Transactions with shareholders

(Euro 000's)	2016	2015
Trafigura PTE LTD ("Trafigura") – Sales of goods (pre-commissioning sales offset against the cost of constructing assets)	**2,452**	10,954
Trafigura– Sales of goods	**26,351**	-
Orion Mine Finance (Master) Fund I LP ("Orion") – Sales of goods	**3,526**	-
	32,329	10,954

XGC has been granted an offtake over 49.12% of life of mine reserves as per the NI 43-101 report issued in September 2016. Similarly, Orion has been granted an offtake over 31.54% and Trafigura 19.34% respectively of life of mine reserves as per the same NI 43-101 report. In November 2016, the Group was notified and consented the novation of the Orion offtake agreement as Orion reached an agreement with a third party to transfer the rights over the concentrates.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

32. Related party transactions (continued)

32.3 Year-end balances with related parties

(Euro 000's)	2016	2015
Receivable from related party (Note 20):		
Fundacion Atalaya Riotinto	**12**	-
Recursos Cuenca Minera S.L.	**56**	55
	68	55

The above balances bear no interest and are repayable on demand.

32.4 Year-end balances with shareholders

(Euro 000's)	2016	2015
Trafigura – Debtor balance (Note 20)	**2,024**	6,541
Orion – Creditor balance (Note 25)	**(12)**	-

The above debtor balance arising from the pre-commissioning sales of goods bear no interest and is repayable on demand.

33. Contingent liabilities

Judicial and administrative cases

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable.

The Company has been named a defendant in several legal actions in Spain, the outcome of which is not determinable as at December 31, 2016. No provision for these claims has been reflected in these financial statements

On 23 September 2010, ARM was notified that the Andalucían Water Authority ("AWA") had initiated a Statement of Objections and Opening of File (the "Administrative File 2010") following allegations by third parties of unauthorised industrial discharges from the Tailings Management Facility ("TMF") at the Rio Tinto Copper Mine in the winter months of late 2010 and early 2011. These assertions are judicial (alleging negligence) and administrative (alleging damage to the environment) in nature. At that time, the Company owned 33% of the TMF and the owners of the remaining 67% are co-defendants (Rumbo and Zeitung).

In December 2011, the judicial claims were dismissed in the initial discovery phase by the appeals Court (upholding a lower court decision) finding that the controlled discharges of excess rainwater were force majeure events carried out to protect the stability of the TMF, thereby ensuring public safety and protection of the environment (the "Court Decisions").

Given that all judicial claims were dismissed in the very early stages of the court´s investigation, no formal charges were ever made against ARM or against any of its Directors or Officers.

Now that the Court Decisions are final, the Administrative File 2010, which can only result in a monetary sanction against the co-defendants, was re-opened in 2012. The defence arguments successfully used in a later case which has been dismissed on 11 February 2015 (see below) will be used in the defence of Administrative File 2010 and the management is positive that they will be accepted.

On January 2, 2013 ARM, Rumbo and Zeitung were notified of a Resolution of Fine and Damages (in a total amount of €1,867,958.39). In February 2013 ARM appealed this Resolution and the Court has agreed that the Fine and Damages amount be secured by a mortgage over certain properties owned by ARM until the final decision on the alleged discharges is known.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

33. Contingent liabilities (continued)

In the Company's view, no "industrial discharge" took place, but rather a force majeure controlled discharge of excess rainwater accumulated in the TMF since industrial operations ceased in the early 2000´s with no actual damage to the environment having taken place. In the Company's view it is unlikely that any fine or sanction will be imposed against ARM once the Administrative File 2010 reaches its final conclusion after all appeals are exhausted in approximately 3-5 years.

On 28 January 2016, the Court ruled in favour of ARM, Rumbo and Zeitung. On 26 April 2016 the Court issued a final decree by which the 28 January 2016 ruling was declared final.

On 20 January 2014, ARM was notified that the Huelva Territorial Delegation of the Ministry of Environment (which has absorbed the former AWA) had initiated another disciplinary proceeding for unauthorised discharge (the "Administrative File 2013") of administrative nature following allegations by the administration of alleged unauthorised industrial discharges from the TMF at the Rio Tinto Copper Mine during the heavy rains occurred from 7 March to 25 April 2013. The Administration has proposed the amount of €726,933.30 as compensation for alleged damages to the environment ("Public Water Domain") and a fine of between €300,507 and €601,012. On 11 February 2015, the Huelva Territorial Delegation of the Ministry of Environment dismissed the case. On 13 May 2015, the Huelva Territorial Delegation of the Ministry of Environment re-opened the Administrative File 2013. Written allegations were submitted on 30 May 2015. On 29 March 2016 the Huelva Territorial Delegation of the Ministry of Environment dismissed finally and without further recourse the Administrative File 2013.

On 19 February 2015, ARM was notified that the Huelva Territorial Delegation of the Ministry of Environment had initiated another disciplinary proceeding for unauthorised discharge (the "Administrative File 2014") which has proposed a fine of between €300,507 and €601,012. On 10 March 2015 the Company submitted the relevant defence arguments.

The Junta de Andalucía notified ARM of another disciplinary proceeding for unauthorised discharge in 2014. ARM submitted the relevant defence arguments on 10 March 2015 but has had no response or feedback from the Junta de Andalucía since the submissions. Based on the time that has lapsed without a response, it is expected that the outcome of this proceedings will also be favourable for ARM. Once the necessary time has lapsed, ARM will ask for the Administrative File to be dismissed.

34. Commitments

There are no minimum exploration requirements at Proyecto Riotinto. However, the Group is obliged to pay municipal land taxes which currently are approximately €235,000 per year in Spain and the Group is required to maintain the Riotinto site in compliance with all applicable regulatory requirements.

As part of the consideration for the purchase of land from Rumbo, ARM has agreed to pay a royalty to Rumbo subject to commencement of production of $250,000 in each quarter where the average price of LME copper or the average copper sale price achieved by the Group is at least $2.60/lb. No royalty is payable in respect of any quarter where the average copper price for that quarter is below this amount and in certain circumstances any quarterly royalty payment can be deferred until the following quarter. The royalty obligation terminates 10 years after commencement of production. No payments made in 2016 (2015 – nil). Commencement of production is defined as being the first to occur of processing of ore at a rate of nine million metric tonnes per annum for a continuous period of six months or the date that is 18 months after the first product sales from Proyecto Riotinto.

ARM has entered into a 50/50 joint venture with Rumbo to evaluate and exploit the potential of the class B resources in the tailings dam and waste areas at Proyecto Riotinto (mainly residual gold and silver in the old gossan tailings). Under the joint venture agreement, ARM will be the operator of the joint venture, will reimburse Rumbo for the costs associated with the application for classification of the Class B resources and will fund the initial expenditure of a feasibility study up to a maximum of €2 million. Costs are then borne by the joint venture partners in accordance with their respective ownership interests. Half of the costs paid by ARM in connection with the feasibility study can be deducted from any royalty which may fall due to be paid.

Notes to the consolidated financial statements

Years ended 31 December 2016 and 2015

34. Commitments (continued)

At Proyecto Riotinto, the Group had four year options with each of Zeitung and Inland for the purchase of certain land plots adjacent to the mine at a purchase price of €4,202,000 (expiry date 31 July 2016) and €4,648,000 (expiry date 2 August 2016) respectively. The completion of the infill drilling programme, assays and updating of the block model provided the Group with a better understanding of the mineralisation. Based on these results, the Group took the view that the options on the said land plots were no longer necessary and opted not to exercise them.

35. Events after the reporting period

Touro Project

On 23 February 2017, the Company announced that it had exercised an option to acquire 10% of the share capital of Cobre San Rafael S.L., ("CSR"), a wholly owned subsidiary of Explotaciones Gallegas S.L. ("EG"), part of the F. GOMEZ Group. This is part of an earn-in agreement (the "Agreement"), which will enable the Company to acquire up to 80% of CSR.

Following the acquisition of the initial 10% of CSR's share capital, the agreement included the following four phases:

- Phase 1 – The Company paid €0.5 million to secure the exclusivity agreement and will continue to fund up to a maximum of €5 million to get the project through the permitting and financing stages.
- Phase 2 – When permits are granted, the Company will pay €2 million to earn-in an additional 30% interest in the project (cumulative 40%).
- Phase 3 – Once development capital is in place and construction is underway, the Company will pay €5 million to earn-in an additional 30% interest in the project (cumulative 70%).
- Phase 4 – Once commercial production is declared, the Company will purchase an additional 10% interest in the project (cumulative 80%) in return for a 0.75% Net Smelter Return (NSR) royalty, with a buyback option.

The Agreement has been structured so that the various phases and payments will only occur once the project is de-risked, permitted and in operation.

Astor case

On 6 March 2017, judgement in the Astor Case was handed down in the High Court of Justice in London (the "Judgment"). On 31 March 2017 declarations were made by the High Court giving effect to the Judgment. A summary of the Judgement and its impact in the Financial Statements of the Company have been provided in the Directors' Report on page 5 and in Note 27.

Share options

In March 2017, the Group announced that 900,000 share options were granted to Persons Discharging Managerial Responsibilities and management, of which 800,000 were in accordance with the incentive share option plan and 100,000 were under a contractual entitlement. These included 150,000 share options granted to a Director, as disclosed in the Directors' Report. The key information of the share options granted is:

Grant date	Expiry date	Exercise price – Stg £	Share options
23 Feb 2017	23 Feb 2022	1.44	900,000

Cancelation of the FX hedging agreement

In February 2017, the Group entered into certain foreign exchange hedging contracts to offset the agreements in force as of 31 December 2016 (Note 28). The contracts were signed with the same financial institution and resulted in a loss of €9k which was recorded as financial expense during 2017.

Changed of name of Emed Holdings (UK) Ltd and incorporation of Atalaya Touro (UK) Ltd

In February 2017, Emed Holdings (UK) Ltd changed its name to Atalaya Riotinto Project (UK) Ltd. In March 2017, the Group incorporated Atalaya Touro (UK) Ltd to hold the investment in the Touro Project.