

SUMATRA COPPER & GOLD PLC



ANNUAL FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2016**

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David Fowler (Managing Director)
Adi Adriansyah Sjoekri (Executive Director)
Jocelyn Severyn de Warrenne Waller (Non-Executive Director)
Gavin Arnold Caudle (Non-Executive Director)
Andrew Robb (Non-Executive Director)

COMPANY SECRETARY

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Australian Securities Exchange
Share code: SUM

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The Directors of the Company have pleasure in submitting their report together with the consolidated financial statements of the Group, being Sumatra Copper & Gold plc ('the Company' or 'the Group') and its controlled entities, for the year ended 31 December 2016.

Review of the Business

Sumatra Copper & Gold plc is a gold and silver producer and precious metals explorer in southern Sumatra, Indonesia. The Company's flagship asset is its Tembang gold-silver mine ("Tembang" or "the Project"), currently in production. The Company also has an extensive exploration portfolio with projects ranging from brownfield, near-production opportunities to strategically located green field holdings.

Sumatra Copper & Gold plc listed on the Australian Stock Exchange in 2009 (ASX: SUM).

The Company announced updated Mineral Resources and Ore Reserves in March 2014 and in April 2014 a revised Definitive Feasibility Study ("DFS") was published. The DFS was based on a five-year plan, mining Ore Reserves at a nameplate plant throughput rate of 400,000 tonnes per annum to produce a total of 169,000 ounces of gold and 1.8m ounces of silver.

In October 2014, the Company's wholly owned subsidiary, PT Dwinad Nusa Sejahtera ("DNS"), signed a senior secured debt facility of up to US\$45m ("Facility") with Nomura Singapore Limited, Indonesia Eximbank and others. An initial tranche of US\$40m was drawn down from the Facility in November 2014 and construction re-commenced at Tembang.

The Company achieved its first gold pour at Tembang in September 2015, on budget and 8 weeks ahead of schedule.

The DFS mine plan was predicated on pre-stripping open pit waste and the early rapid development of the Belinau underground mine decline to access high grade ore. However, due to the combined effect of the commissioning of the processing plant 8 weeks ahead of schedule, the earlier than anticipated ramp-up of the processing plant to nameplate capacity and a delay in the permitting and delivery of explosives, the mine plan could not be delivered as planned.

Consequently, during the first half of 2016 underground mine plans were changed to conventional top-down long hole stoping mining methods to try to accelerate access to high grade ore. This approach proved unsuccessful as additional unplanned dilution was experienced and insufficient progress was made on decline development to provide the work fronts needed for higher productivity. A new Chief Operating Officer was appointed during July 2016 and following a review of underground performance changes were made to key personnel and an interim mining method using bench cut and fill was established to allow time for the decline to progress to the bottom of the mine. This interim method is planned to be employed until the end of the first quarter of 2017 when higher production volumes at lower cost can be produced from conventional stoping methods.

During 2016, the Company produced 25,245 ounces of gold and 392,417 ounces of silver (a combined total of 30,509 gold-equivalent ounces).

In December 2016, the Company, and its wholly owned subsidiary PT Dwinad Nusa Sejahtera, entered into an amendment the Facility. This amendment will lower the cost and amount of debt, and improve short term cashflow as summarised below:

- Reduction in interest rate (including redemption premium) from 15% to 7.5%;
- Repayment of US\$10m of debt;
- Extension of maturity date from November 2017 to June 2019;
- Cancellation of 250,597,351 warrants for consideration of US\$4.05m payable in CDIs and termination of the warrant deed;
- Conversion of the outstanding redemption premium (accrued through a deferral of a portion of the interest rate) of approximately US\$5.9m into up to US\$3m of CDIs and the balance to a zero coupon, unsecured loan repayable upon maturity of the debt facility;
- Commitment by major shareholders owning US\$7m of convertible notes, plus accrued interest, to convert the notes into CDIs; and
- Deferment, without interest, of 50% of the net out-of-the-money value on the six-monthly gold and silver hedge deliveries commencing November 2016 with repayment by 30 June 2017.

The Amended Facility was signed on 30 December 2016 with conditions precedent being satisfied. The amended facility is subject to a number of conditions, which are legally binding, including:

- Completion of an equity raise of a minimum of US\$2.5m by 31 January 2017 ("Initial Equity Raise"); and

Completion of a second equity raise of a minimum of US\$12.5m by 30 June 2017 (“Major Equity Raise”); The Company’s major shareholders, Provident Minerals Pte Ltd and PT Saratoga Investama Sedaya Tbk, agreed to underwrite the Initial and Major Equity Raises. The Initial Equity Raise was completed in January 2017.

On 5 October 2016, the Group entered into a two-year VAT financing facility of up to US\$4.6m with PT Bank UOB Indonesia (“UOB”) in Indonesia. The facility is guaranteed by Provident Capital Indonesia. The proceeds of this facility are available for general working capital purposes and ongoing VAT payments and will not be used to repay the existing Working Capital Facility Agreement with the Company’s major shareholders.

Review of Strategy and Business Model

The Company is an established gold and silver producer focused on the development of precious metals projects in Indonesia. The Tembang Project, commissioned in September 2015 and currently in production, is the first production asset for the Company.

At Tembang, located in southern Sumatra, the Company’s strategy has been to define and develop sufficient Ore Reserves to finance construction of the Project with reasonable levels of equity dilution. Cash flow from operations are proposed to be reinvested to define new resources to extend mine life and increase production. Numerous targets have been developed as extensions to existing orebodies and potential new orebodies within the mining lease. The Musi Rawas tenements surrounding the Tembang Project, owned by the Group, are underexplored and provide further exploration upside for defining new targets close to Tembang.

Exploration potential at Tembang is significant in terms of extension to known mineralisation at depth, and along strike and for new discoveries. The Company anticipates that exploration success is likely to add significant value to the Company as incremental cash flows are expected to be achieved without major new capital expenditure.

The Company’s Tandai project was a major historic mining centre and offers considerable exploration upside. Further work at Tandai is planned subject to availability of funding.

Principal Risks and Uncertainties facing the Company

Overview

Risk assessment and management are fundamental components of the business in planning for the Company’s future and executing the strategy. The Group identifies, evaluates and manages significant threats and opportunities against business objectives. The Group’s risk and tolerance levels are identified by the Board of Directors and are constantly monitored against group strategic goals, targets and performance.

The key areas of risk, uncertainty and material issues facing the Group in executing its strategy and delivering on its targets are described below.

Funding

As noted above, the Company is required to source additional finances, by raising equity in the market either from its current investors or from other sources, to repay debt and fund its future activities should operational cash flows not generate sufficient free cash to fund such activities. There can be no assurance that the Company would be able to raise finance on acceptable terms or in a timely manner or at all. Failure to raise additional finance would have a material adverse effect on the Company.

Commercial viability – early stage exploration projects

With the exception of Tembang, which has Ore Reserves and Mineral Resources, the mineral projects in which the Company has an interest are at an early stage of exploration and are without Ore Reserves. No assurance can be given that these other projects will achieve commercial viability.

However, as the Company is in production at Tembang, it is in the process of further developing its exploration strategy and assessing the commercial viability of its early stage exploration projects through a structured process of evaluation.

Environment

The mineral project interests are located in Indonesia, a developing nation with a large number of ethnic and indigenous groups, whose fiscal and monetary controls, laws, policies and regulatory processes in many areas are less established than in developed nations, and where there is a wide range of policies, ideologies and attitudes between the numerous different political parties and candidates. The risks attached to exploration in a developing country, which are not necessarily present in a developed country, can impact on a range of factors such as sovereign risk, safety, security costs, ability to operate, country policy, fiscal provisions and laws, and can lead to delays or even the suspension of operations.

The Company's projects in Sumatra are located in areas where there are indigenous communities and villages, and other land users. Any exploration and potential mining activities need to appropriately consider the needs of these communities and land users and suitable land use compensation arrangements have to be agreed.

The Company's activities are subject to extensive foreign laws and regulations governing exploration, development, production, exports, taxes, labour standards, waste disposal, protection and remediation of the environment, reclamation, historical and cultural resources preservation, mine safety and occupational health, handling, storage and transportation of hazardous substances and other matters. New laws and regulations, or amendments to existing laws and regulations, could have a material adverse impact on the Company's results of operations and financial condition.

The Company seeks to mitigate and minimise these risks by employing an Environment and Community Relations Manager.

Metal Prices Volatility

The Group's main focus is gold and silver production at the Tembang Project. The market prices for these metals fluctuate widely. These fluctuations are caused by numerous factors beyond the Company's control. Causes of gold price fluctuations include the following:

- speculative positions taken by investors or traders in gold;
- changes in the demand for gold as an investment;
- changes in the demand for gold used in jewellery and for other industrial uses;
- changes in the supply of gold from production, disinvestment, scrap and hedging;
- financial market expectations regarding the rate of inflation;
- the strength of the US dollar (the currency in which the gold price trades internationally) relative to other currencies;
- changes in interest rates;
- actual or expected gold sales by central banks and the International Monetary Fund;
- gold hedging and de-hedging by gold producers; and
- global or regional political or economic events.

A sustained period of significant gold price volatility may adversely affect the Group's ability to evaluate the feasibility of undertaking new capital projects or continuing existing operations or to make other long-term strategic decisions.

Hedging Instruments on Bullion Production

In order to mitigate this risk, in October 2014 the Group entered into hedging instruments equivalent to approximately 50% of gold and silver production during the first 2 years of operation. Deliveries into the hedge commenced in November 2015 and will continue to October 2017. The hedge program represents approximately 23% and 16% respectively of the gold and silver Ore Reserves included in the Group's life of mine plan.

Mineral Resources and Ore Reserves

The Company's reported Mineral Resources and Ore Reserves are estimates only. No assurance can be given that the estimated Mineral Resources and Ore Reserves will be recovered or that they will be recovered at the rates estimated. Mineral Resource and Ore Reserve estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Mineral Resource and Ore Reserve estimates may require revision (either up or down) based upon increasing geological understanding and past operations. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain Ore Reserves uneconomic and may ultimately result in a restatement of Mineral Resources and/or Ore Reserves. Moreover, changes in short-term operating factors relating to the Mineral Resources and Ore Reserves, such as changes to the sequential development of ore bodies and the

processing of new or different ore grades, may adversely affect the Company's profitability in any particular accounting period.

Operational uncertainty

The Group's business operations are subject to risks and hazards inherent to the mining industry, including but not limited to unanticipated variations in grade and other geological problems, weather, metallurgical and other processing problems, mechanical equipment performance problems, the availability of materials and equipment, accident, labour force disruptions, force majeure factors, unanticipated transportation costs, and weather conditions, any of which can materially and adversely affect, among other things, the development of properties, production quantities and rates, costs and expenditures and production commencement dates.

The Group is in the process of increasing production levels to its target of 40,000 gold equivalent ounces to 50,000 gold equivalent ounces per annum and expects to achieve this target for the 2017 financial year with market guidance for 2017 currently set at 45,000 to 55,000 gold equivalent ounces.

The Group periodically reviews mining schedules, production levels and asset lives in its life-of-mine planning for all of its operating and development properties. Significant changes in the life-of-mine plans can occur as a result of mining experience, new ore discoveries, changes in mining methods and rates, process changes, investments in new equipment and technology, precious metals price assumptions, and other factors.

As a result of the foregoing risks, among other things, expenditures on any and all projects, actual production quantities and rates, and cash costs may be materially and adversely affected and may differ materially from anticipated expenditures, production quantities and rates, and costs, just as estimated production dates may be delayed materially, in each case especially to the extent development projects are involved. Any such event can materially and adversely affect the Group's business, financial condition, results of operations and cash flows.

Uncertainty Relating to Mine Development

The Group's ability to maintain or increase its annual production of gold will be dependent in significant part on its ability to bring new mines into production and to extend the life or expand existing mines. Although the Group utilizes the operating history of its existing mines to derive estimates of future operating costs and capital requirements, such estimates may differ materially from actual operating results at new mines or at expansions of existing mines. The economic feasibility analysis with respect to any individual project is based upon, among other things, the interpretation of geological data obtained from drill holes and other sampling techniques, feasibility studies (which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed), precious metals price assumptions, the configuration of the ore body, expected recovery rates of metals from the ore, comparable capital and operating costs, anticipated climatic conditions, estimates of labour, productivity, royalty or other ownership burdens and other factors. The Group's development projects are also subject to the successful completion of final feasibility studies, receipt of necessary permits and of adequate financing.

Key Performance Indicators

The Group is currently involved in the operation of its Tembang gold-silver mine.

The key performance indicators that can be used to assess the performance of the last financial year are:

- Gold equivalent production for 2016 was 30,509 ounces. The original guidance for 2016 was 35,000 gold equivalent ounces which was subsequently revised down in August 2016 to a range of 30,000 to 33,000 gold equivalent ounces;
- The original guidance for cash cost per ounce produced, after silver credits, was US\$750 per ounce. The actual cash cost for 2016 at US\$1,039 per ounce reflecting lower production rates than planned, and the production inefficiencies outlined in the Review of the Business;
- Movement in Ore Reserves due to depletion during 2016. Numerous targets were defined with drilling anticipated during 2017. These targets were not drilled in 2016 due to funding restrictions.

The key performance indicators for the 2017 financial year are:

- Gold equivalent production of between 45,000 and 55,000 ounces;
- Cash cost per ounce, after silver credits, of US\$731 per ounce;
- Replacement of Ore Reserves depleted during 2017.

On an ongoing basis, the Directors monitor production, operating costs, capital expenditure, cash balances and Mineral Resource and Ore Reserve reporting in accordance with the 2012 Joint Ore Reserves Committee (JORC) Code.

Financial Review

Statement of comprehensive income

The Group recorded a loss before tax for the year ended 31 December 2016 of US\$28.7m, representing US 4.14 cents per share, in comparison to net loss for the year ended 31 December 2015 of US\$45.3m representing a loss of (US 6.81) cents per share.

The Group generated revenue of US\$37.6m for the year ended 31 December 2016 (2015: US\$nil) and hedge realisation loss of US\$3.3m (2015: US\$nil).

The Group's operating loss for 2016 was US\$17.4m after recording an impairment charge of US\$4.6m (2015: US\$45.3m) and a depreciation charge of US\$8.9m (2015: US\$nil). Financing costs for 2016 were US\$14.0m including US\$7.8m on interest and redemption premium of US\$2.5m and US\$2.8m loss on refinancing.

With increased production levels and the changes to the Group's capital structure anticipated during 2017 significant improvements in financial performance are expected during 2017.

Other comprehensive income for the year ended 31 December 2016 included loss of US\$3.1m on the effective portion of changes in fair value of cash flow hedges (2015: gain of US\$4.5m).

Statement of financial position

Total assets decreased by US\$6.3m to US\$63.1m from US\$69.4m at 31 December 2015, owing to impairment charge of \$4.6m.

Total liabilities increased by US\$25.8m to US\$87.0m, from US\$61.2m at 31 December 2015. The movement in total liabilities was mainly due to loss on refinancing of US\$2.8m, an increase in accrued redemption premium of US\$2.5m, VAT loans of US\$3m, convertible loans of US\$3.4m, and an increase of trade payable and other payables of US\$2.8m.

Total equity of (US\$23.9m) at 31 December 2016 decreased by US\$32m from 31 December 2015 primarily as a result of the loss of the period of US\$29.3m. Hedging reserve associated with the hedging program decreased by US\$3m. Improved financial performance during 2017 and the equity raising and conversion of debt to equity agreed in amendment to the Facility signed during December 2016 are expected to address this negative equity position during 2017.

Statement of cash flows

During the year, cash and cash equivalents increased by US\$1.6m.

Cash outflows from operating activities of US\$1m.

Net cash outflows from investing activities for the period were US\$4.6m the cash outflow related solely to the purchase of equipment.

The net cash inflow from financing activities of US\$7.1m mainly reflects US\$3.1m of the UOB facility drawn down and US\$5.2m received as working capital loan from Saratoga and Provident. The cash outflow included interest paid of US\$4.3m.

Financing

During 2016, the Company executed several amendments to its existing Working Capital Facility Agreements with its major shareholders, Provident Minerals Pte Ltd and PT Saratoga Investama Sedaya Tbk, to provide US\$5.2m of working capital, repayable at June 2019 or immediately following repayment of the loan Facility from Nomura.

In December 2016, the Company, and its wholly owned subsidiary PT Dwinad Nusa Sejahtera, entered into an amendment of its senior secured debt facility of US\$45m ("Facility") from Nomura Singapore Limited, Indonesia Eximbank and others. This amendment will lower the cost and amount of debt, and improve short term cashflow as summarised below:

- Reduction in interest rate (including redemption premium) from 15% to 7.5%;
- Repayment of US\$10m of debt;
- Extension of maturity date from November 2017 to June 2019;
- Cancellation of 250,597,351 warrants for consideration of US\$4.05m payable in CDIs and termination of the warrant deed;
- Conversion of the outstanding redemption premium (accrued through a deferral of a portion of the interest rate) of approximately US\$5.9m into up to US\$3 m of CDIs and the balance to a zero coupon, unsecured loan repayable upon maturity of the debt facility;
- Commitment by major shareholders owning US\$7m of convertible notes, plus accrued interest, to convert the

- notes into CDIs; and
- Deferment, without interest, of 50% of the net out-of-the-money value on the six-monthly gold and silver hedge deliveries commencing November 2016 with repayment by 30 June 2017.

The Amended Facility was signed on 30 December 2016 with conditions precedent being satisfied. The amended facility is subject to a number of conditions, which are legally binding, including:

- Completion of an equity raise of a minimum of US\$2.5m by 31 January 2017 (“Initial Equity Raise”);

Completion of a second equity raise of a minimum of US\$12.5m by 30 June 2017 (“Major Equity Raise”); The Initial Equity Raise was completed in January 2017.

On 5 October 2016, the Group entered into a two-year VAT financing facility of up to US\$4.5m) with PT Bank UOB Indonesia (“UOB”) in Indonesia. The facility will be guaranteed by Provident Capital Indonesia. The proceeds of this facility are available for general working capital purposes and ongoing VAT payments and will not be used to repay the existing Working Capital Facility Agreement.

Key Management Personnel

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. For the year ended 31 December 2016, the KMP were the Directors, Managing Director (MD) and Chief Operating Officer (COO).

The following is the board composition and KMPs as at 31 December 2016:

Executive Directors:

- David Fowler (appointed Managing Director 14 April 2015)
- Adi Adriansyah Sjoekri (Director of Government Liaison, Permitting and Forestry)

Non-Executive Directors:

- Stephen Robinson
- Jocelyn Waller
- Gavin Caudle
- Andrew Robb (appointed 1 December 2016)

Executives:

- Robert Gregory – COO (appointed 1 July 2016)

Signed in Perth this 31st day of March 2017 in accordance with a resolution of the Board of Directors:



Stephen Robinson

Non-Executive Chairman

31 March 2017

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2016.

Directors

The names and particulars of the Directors of the Company who served at any time during or since the end of the financial year are:

Stephen Robinson

David Fowler

Adi Sjoekri

Jocelyn Severyn de Warrenne Waller

Gavin Caudle

Andrew Robb (*appointed 1 December 2016*)

Principal Activities

The Group's principal activity is to acquire, explore, develop and mine gold-silver and other metal deposits in Sumatra, Indonesia. The Group's principal assets are the Tembang gold-silver mine.

Business Review and Future Developments

A review of the business can be found in the Strategic Report on page 1.

The Company plans to continue the development of its Belinau underground mine this year with stoping commencing in the second quarter of 2017. Good potential exists for depth extensions at Belinau with drilling planned for the second half of 2017. Open pit mining will be focused on the Berani open pit during 2017 where there is also significant scope for the development of underground mining once open pit mining finishes. An exploration pipeline developed during 2016 will be drill tested in 2017 and there are significant new areas from which prospective targets will be generated in 2017. This will include the Tandai exploration and evaluation asset.

Dividends

The Directors do not propose the payment of a dividend for the year (2015: Nil).

Employee Policy

The Group is committed to promoting policies aimed at attracting high calibre employees to ensure the ongoing success of the business. The Group does not discriminate on the grounds of sex, age, marital status, creed, colour, race or ethnic origin. Applications for employment by disabled persons are always considered in full, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, so far as possible, be identical to that of all other employees.

Events since the Balance Sheet Date

Refer to Note 33 of the Group financial statements.

Going Concern

At 31 December 2016, the Group had cash of US\$2.5m and net current liabilities of US\$22.7m. Current liabilities include trade and other payables, and debt and financing facilities obligations. Management have prepared cash flow forecasts which are based on the Group's principal asset, the Tembang Gold-Silver Mine in Sumatra, Indonesia ("Tembang") achieving sustainable production levels to generate sufficient cash flows to fund its operations and repay debt obligations, and secure

working capital facilities. As announced on 10 January 2017, the Group met revised guidance for 2016 with production from Tembang of 30,509 gold-equivalent ounces ("AuEq oz") and saw continuous operational improvement in the Belinau underground mine in the second half of 2016. Commencement of stoping at Belinau in the second quarter of 2017 is expected to significantly increase production and reduce cash cost per ounce. Whilst the Directors are confident that the operational changes made in the last 6 months of 2016 will result in improved performance given the historic results of the mine, the operating performance of the Group will need to meet targets and deliver cash flows in line with forecasts.

During December 2016, the Group executed agreements with its lenders to amend the existing US\$45 million senior secured debt facility and warrants. Under the terms of the debt amendment the interest rate has reduced, effective December 2016, debt will be reduced by US\$10 million and the final maturity date of the debt has been extended until June 2019. The debt reduction will be funded out of the proceeds of an equity raise of a minimum of US\$12.5 million by June 2017 which will be underwritten by the Company's major shareholders. A further US\$3 million of accrued finance cost as at 31 December 2016 was converted into equity subsequent to year end with the balance of US\$3 million to remain as an unsecured bond with a 0% coupon expiring 31 December 2019. Major shareholders owning US\$7 million of convertible notes, plus accrued interest, have agreed to convert these notes into CDIs by 30 June 2017. These changes will result in a significant improvement in the Group's capital structure and reduce ongoing interest obligations. Despite securing a long-term solution to the Group's funding position, the cash flow forecasts prepared by management show a short term working capital deficit as operational performance on the mine is ramped up. Management are currently in negotiations to drawdown on the remaining undrawn UOB VAT facility and secure further short term financial support from shareholders. At the date of this report these transactions have not been finalised. In the event that some combination of the planned events fails to occur as expected the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and would need to seek additional funding in order to meet its liabilities as they fall due.

These conditions above indicate the existence of a material uncertainty which may cast doubt as to the Group's ability to continue as a going concern.

However, the Directors believe that there is a reasonable prospect of the Group generating sufficient cashflows from operations to fund its working capital requirements and anticipates that the planned equity raising and debt amendment will significantly improve its capital structure during 2017. The Directors are confident that the short term working capital facilities will be secured to support the Group as the operational performance of Tembang ramps up. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Annual General Meeting ('AGM')

This report and financial statements will be presented to shareholders for their approval at the Group's AGM. The Notice of the AGM will be distributed to shareholders with the Annual Financial Statements.

Share Capital and Share Options:

Details of changes in share capital and details of share options are given in note 24.

Directors' Remuneration:

The Remuneration Committee reviews and establishes the level of remuneration for Directors. The level of remuneration is set so as to attract the best candidates for the Board while maintaining a level commensurate with boards of similar size and type.

For details on the amount of remuneration for each Director, refer to the Key Management Personnel note to the financial statements.

Financial Risk Management

See note 28 for details on financial risk management.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare a directors' report and strategic report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance of and integrity of the Company's website is the responsibility of the directors. The director's responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to auditors

Each of the persons who are directors at the time when this report is approved, confirm that to their best of their knowledge:

- there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board



Stephen Robinson

Non-Executive Chairman

31 March 2017

INDEPENDENT AUDITORS' REPORT OPINION TO THE MEMBERS OF SUMATRA COPPER & GOLD PLC

Opinion

We have audited the financial statements of Sumatra Copper and Gold PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2016 which comprise the consolidated and parent company statements of financial position, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's and the parent company's loss for the year then ended;
- the group and parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty in relation to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made by the Directors in note 2 to the consolidated financial statements and note 1 to the parent company financial statements concerning the Group and Company's ability to continue as a going concern. At 31 December 2016, the Group held cash and cash equivalents of \$2.5 million and Group has net current liabilities of \$22.7m. The group's ability to continue as a going concern for at least the next 12 months is dependent on securing a short term working capital facility with the major shareholders and drawing down on the undrawn UOB Bank VAT facility to ensure short term liquidity. At the date of this report these transactions have not been finalised. In addition, the overall cash flow forecasts are primarily based on the Group's principal asset, the Tembang Gold-Silver Mine in Sumatra, Indonesia ("Tembang") successfully achieving sustainable production levels from the Tembang mine and generating operating cash inflows in line with current forecasts. Tembang's past performance has not met forecast. If short term financing is not secured and operating cash flows and production levels are not achieved, the group and parent company will require additional funding in order to meet their obligations as and when they fall due. As stated in note 2, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter and the financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or due to not fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Response
<p>Carrying value of Tembang mine</p> <p>Management must assess at each reporting date whether there is any objective evidence of impairment of the Group's mining assets. We noted that indicators of impairment exist, such as the Company's market capitalisation being lower than the value of its long-term assets and operating results for the year being below initial forecast.</p> <p>Management prepared a formal impairment test using the value in use (VIU) method to determine if as at 31 December 2016 the recoverable amount of the mining assets was greater than its carrying value. An impairment charge of \$4.7m was recognised as a result of this impairment test.</p> <p>This formal assessment involved significant Management judgement, which increased the risk of material misstatement.</p>	<p>We evaluated management's impairment model against the definitive feasibility study, approved reserves study and our understanding of the operations, and critically challenged the key estimates and assumptions used by management.</p> <p>Our testing included comparison of the price inputs to consensus market forecasts; re-calculation of discount rates; and critical review of the forecast cost and production profiles against historic performance and the amended mine plan.</p> <p>We performed our own sensitivity analysis over individual key inputs, together with a combination of sensitivities over such inputs, and evaluated the disclosures given in the notes to the financial statements.</p>
<p>Accounting estimates involving mining assets</p> <p>Mining assets included additions in the financial year ended 31 December 2016 of \$5.6m. A risk was considered to ensure these costs were capitalised in line with the group's accounting policy.</p> <p>Management's calculation of depreciation on mining assets involved considerable judgement, with account needing to be taken of reserve estimates, the mine plan and future capital expenditure required to mine the estimated reserves. This increased the level of estimation and judgement and therefore increased the risk of material misstatement.</p>	<p>We performed a review management's allocation of capital and operating development expenditure in the year. This was based on development metres mined, and this information has been agreed to operational reports. We performed an onsite mine visit to ensure that the mine plan provided by management was consistent with current activity.</p> <p>We have verified a sample of expenditure items to supporting documentation.</p> <p>We have critically assessed management's unit of production depreciation policy and its application, including a detailed review of the key assumptions used in the calculation.</p>

Risk	Response
<p>Accounting for the amendment of the senior secured debt facility ("Amendment")</p> <p>We considered the date of recognising the Amendment to ensure this was in line with completion of the conditions precedent in the updated loan agreement. The amended loan facility impacted upon a number of financial statement areas including loan liability, convertible loan notes, warrant derivative liabilities and the hedging instruments. Given the complexity of accounting across a number of financial statement areas the risk of material misstatement was deemed significant.</p>	<p>We performed a detailed review of the terms attached to the Amendment. We agreed the fulfilment of the conditions precedent to shareholder resolutions and correspondence between management and other stakeholders to determine that management's conclusion as to when the terms of the loan facility were triggered.</p> <p>Management has determined that the Amendment constituted a substantial change, and the carrying value of the existing loan was required to be de-recognised as if it had been extinguished and the fair value of the revised loan recognised, with the difference being realised to profit and loss. We have re-performed the change in the present value of the new loan, discounted at the original effective interest rate, and compared to the existing loan balance.</p> <p>We have reviewed management's calculation of the fair value loss on debt modification recognised to profit or loss.</p>
<p>Going concern</p> <p>When preparing the financial statements, Management and the Directors are required to make an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of signing (the period to 31 March 2018).</p> <p>At the reporting date, current liabilities exceeded current assets and during the financial year significant financing cash inflows were required to meet continual working capital requirements.</p> <p>Additional financing cash flows may be required to meet working capital requirements and remain cash positive for the forecasted period if sustainable productions levels are not reached by the group. We therefore assessed going concern as a significant audit risk.</p>	<p>We critically assessed management's financial forecast models and the key underlying assumptions, including commodity pricing, reserves, production, expenditure, cash flows associated with the amendment to the senior secured debt facility, and cash flows associated with other working capital facilities. In doing so, we considered factors such as empirical performance, external market data, and the contractual obligations under the facility agreements.</p> <p>We critically assessed management's sensitivity analysis performed in respect of key assumptions underpinning the forecasts. We performed our own sensitivities in respect of production and uncommitted capital expenditure.</p> <p>We recalculated management's covenant compliance calculations, and forecast covenant compliance calculations, and assessed the consistency of such calculations with the facility documents, and checked ongoing compliance.</p> <p>We make reference to this material uncertainty in our audit report.</p>

Risk	Response
<p>Revenue recognition</p> <p>We concluded that there was a significant audit risk surrounding revenue recognition due to the inherent risk of fraud, and the complexity linked to the terms of the contracts for the sale of gold.</p>	<p>We have reviewed the contracts for refining and the sale of gold, and assessed the point at which the risks and rewards of owning the gold pass to the customer.</p> <p>We have agreed all sales invoices in the financial year to supporting documentation, and we have considered revenue cut off of finished goods dispatched either side of year end, specifically agreeing these sales to delivery confirmation documentation.</p>
<p>Forward contract hedging instrument</p> <p>The group has entered into complex forward contracts which have been designated as hedges. As a result management is required to undertake prospective and retrospective effectiveness tests, i.e. assess the movement in fair value of hedging instruments against the movement in the hedged transaction.</p> <p>Due to the complex nature of the hedging arrangement and the fair value accounting, we considered this to be significant risk.</p>	<p>We considered the nature, scope and objectives of management's external expert engaged to value the hedging instrument. We reviewed the calculation and assumptions using our own internal specialists.</p> <p>We have reviewed the hedge effectiveness tests performed, that shows the hedge remains effective based on the current year observed commodity prices and forecast commodity prices to the hedged price.</p> <p>We assessed the likelihood that the company will produce sufficient ounces to fulfil the hedge arrangement based on our review of the economic mine model.</p>
<p>Recoverability of deferred tax asset</p> <p>The Group has recognised a deferred tax asset of \$3.75m at 31 December 2016.</p> <p>The Group had not yet reached a steady-state production level, and was yet to achieve positive operating cash flows and the projection of future taxable profits is subjective, and therefore we considered the recognition of the deferred tax asset to be an area of significant risk.</p>	<p>We have reviewed Management's deferred tax calculation, and agreed the inputs to supporting documentation.</p> <p>Management has continued to recognise the asset on the basis that sufficient and probable future taxable profits will be available. We have challenged management and assessed the likelihood that the company will generate sufficient taxable profits to utilise the deferred tax asset based on our review of the economic mine model.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the group financial statements as a whole was set at \$1,000,000. This was determined with reference to a benchmark of 1.5% of total assets of the Group for the financial year ended 31 December 2016. We consider total assets to be an appropriate basis for materiality given the development of the Group's mining assets has continued, the Group's producing mining asset is yet to reach steady state production and Group earnings before tax is volatile.

The materiality for the company financial statements as a whole was set at \$120,000. This was determined with reference to a benchmark of 8% of total expenditure of the Group for the financial year ended 31 December 2016. We consider total expenditure to be an appropriate basis for materiality given the principal activity of the company as an investment vehicle for its ownership of its subsidiaries.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of \$30,000. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Whilst Sumatra Copper and Gold plc is a Company registered in England & Wales and listed on the Australian Securities Exchange (ASX), the Group's principal operations are located in Sumatra, Indonesia. In approaching the audit we considered how the Group is organised and managed. We assessed the business as being principally a single project comprising of the PT Dwinad Nusa Sejahtera ("DNS") subsidiary entity that operates the producing Tembang gold-silver mine, and a head office function that operates the parent company.

The Group audit team performed an audit of the parent company, being the head office function, as a standalone entity, along with the consolidation.

Specific audit procedures were carried out on the DNS significant component of the Group by a BDO network firm in Indonesia.

The audit of DNS was performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative contribution to the Group's total assets.

As part of our audit strategy, as Group auditors:

- Detailed Group reporting instructions were sent to the component auditors, which included the significant areas to be covered by their work and the specific audit procedures to be performed (including areas where there was considered to be a significant risk of material misstatement as detailed above), and set out the information required to be reported to the Group audit team.
- Members of the Group audit team travelled to Indonesia during the substantive testing phase of the audit.
- The Group audit team was actively involved in the direction of the audits performed by the component auditors for Group reporting purposes, along with the consideration of findings and determination of conclusions drawn.
- The Group audit team visited the mine, attended clearance meetings with management and the component auditors, and spent significant periods of time with the component auditors during the field work and completion phases.

The remaining non-significant components of the Group were principally subject to analytical review procedures.

We set out above the risks that had the greatest impact on our audit strategy and scope.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, including the strategic report and directors' report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.



Scott Knight (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

Date: 31 March 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	31 December 2016 US\$000	31 December 2015 US\$000
Revenue	5	34,289	-
Cost of sales	6	(33,263)	-
Depreciation		(8,947)	-
Gross profit		(7,921)	-
Corporate expenses		(3,806)	(3,070)
Share based payments expense	25	(203)	201
Amortisation of derivative asset		(732)	(732)
Impairment of property, plant and equipment	15	(4,688)	(45,300)
Operating loss		(17,350)	(48,901)
Finance income	10	7	61
Finance costs	11	(14,044)	(340)
Derivative gain/(loss)	16	2,737	(570)
Net financing costs		(11,300)	(849)
Loss before income tax		(28,650)	(49,750)
Income tax (charge)/benefit	12	(743)	4,500
Loss for the year		(29,393)	(45,250)
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income net of tax will not be reclassified to profit or loss</i>			
Actuarial gain / (loss)		72	-
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		49	174
Effective portion of changes in fair value of cash flow hedges	16	(3,087)	4,463
Other comprehensive loss for the year, net of tax		(2,966)	4,637
Total comprehensive loss for the year attributable to owners of the parent		(32,359)	(40,613)
LOSS PER SHARE			
Basic loss per share (US cents per share)	13	(4.14)	(6.81)
Diluted loss per share (US cents per share)	13	(4.14)	(6.81)
Weighted basic average number of shares outstanding (000's)		710,622	664,740
Weighted diluted average number of shares outstanding (000's)		710,622	664,740

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 December 2016 US\$000	31 December 2015 US\$000
ASSETS			
Non-current assets			
Property, plant and equipment	15	39,898	48,103
Exploration and evaluation assets	14	2,623	2,522
Deferred tax assets	12	3,750	4,500
Derivative financial instruments	16	-	610
Total non-current assets		46,271	55,735
Current assets			
Cash and cash equivalents	19	2,500	890
Trade and other receivables	17	10,019	6,944
Inventories	18	3,730	2,966
Derivative financial instruments	16	610	2,878
Total current assets		16,859	13,678
TOTAL ASSETS		63,130	69,413
LIABILITIES & EQUITY			
Non-current liabilities			
Borrowings	21	45,868	40,886
Derivative financial liability	16	970	1,235
Convertible loans	22	-	1,412
Provisions	23	581	871
Total non-current liabilities		47,419	44,404
Current liabilities			
Trade and other payables	20	18,596	15,779
Borrowings	21	14,702	941
Convertible loans	22	5,507	-
Provisions	23	777	95
Total current liabilities		39,582	16,815
Total liabilities		87,001	61,219
Equity attributable to owners of the parent			
Ordinary shares	24	11,472	11,436
Share premium account	24	62,008	61,953
Other reserves		6,126	9,170
Accumulated losses		(103,477)	(74,365)
Total equity		(23,871)	8,194
TOTAL LIABILITIES AND EQUITY		63,130	69,413

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

Note	Attributable to owners of the parent							Total equity US\$000
	Ordinary shares US\$000	Share premium account US\$000	Translation reserve US\$000	Share-based payment reserve US\$000	Hedging reserve US\$000	Convertible loan reserve US\$000	Accumulated losses US\$000	
Balance as at 1 January 2016	11,436	61,953	(1,855)	5,968	4,042	1,015	(74,365)	8,194
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR								
Loss for the period	-	-	-	-	-	-	(29,393)	(29,393)
Other comprehensive income/(expense)								
Actuarial gain / (loss)	-	-	-	-	-	-	72	72
Foreign currency translation differences	-	-	49	-	-	-	-	49
Movement in fair value of hedge and derivatives	-	-	-	-	(3,087)	-	-	(3,087)
Total other comprehensive (expense)/income	-	-	49	-	(3,087)	-	72	(2,966)
Total comprehensive (expense)/income for the year	-	-	49	-	(3,087)	-	(29,321)	(32,359)
TRANSACTIONS WITH EQUITY HOLDERS								
Share issue during the period (net of share issue costs)	36	55	-	-	-	-	-	91
Share option and warrants charge during the period	-	-	-	203	-	-	-	203
Share option and warrants expired during the period	-	-	-	(209)	-	-	209	-
Total transactions with equity holders	36	55	-	(6)	-	-	209	294
Balance at 31 December 2016	11,472	62,008	(1,806)	5,962	955	1,015	(103,477)	(23,871)
Balance as at 1 January 2015	9,547	58,772	(2,029)	5,598	(421)	1,015	(29,115)	43,367
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR								
Loss for the period (restated)	-	-	-	-	-	-	(45,250)	(45,250)
Other comprehensive income/(expense)								
Foreign currency translation differences	-	-	174	-	-	-	-	174
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	4,463	-	-	4,463
Total other comprehensive (expense)/income	-	-	174	-	4,463	-	-	4,637
Total comprehensive (expense)/income for the year	-	-	174	-	4,463	-	(45,250)	(40,613)
TRANSACTIONS WITH EQUITY HOLDERS								
Share issue during the period (net of share issue costs)	1,889	3,181	-	-	-	-	-	5,070
Share option and warrants charge during the period	-	-	-	573	-	-	-	573
Options lapsed during the period	-	-	-	(203)	-	-	-	(203)
Total transactions with equity holders	1,889	3,181	-	370	-	-	-	5,440
Balance at 31 December 2015	11,436	61,953	(1,855)	5,968	4,042	1,015	(74,365)	8,194

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	31 December 2016 US\$000	31 December 2015 US\$000
Cash flows from operating activities			
Cash used in operations	26	(953)	(2,743)
Net cash flow used in operating activities		(953)	(2,743)
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,579)	(31,265)
Interest received		7	61
Interest paid		-	(3,234)
Net cash flow used in investing activities		(4,572)	(34,438)
Cash flows from financing activities			
Proceeds from issue of share capital		-	5,204
Share issue costs		-	(198)
Proceeds from issue of convertible debt	16,22	4,500	2,000
Proceeds from borrowings	21	8,317	5,500
Interest paid		(4,333)	-
Borrowing costs paid	21	(408)	(197)
Repayment of borrowings	21	(942)	(575)
Funds transferred to restricted cash account		-	(188)
Net cash inflow from financing activities		7,134	11,546
Increase(decrease)/ in cash and cash equivalents		1,609	(25,635)
Cash and cash equivalents at beginning of year		890	26,527
Foreign exchange loss on cash and cash equivalents		1	(2)
Cash and cash equivalents at end of year	19	2,500	890

The consolidated statement of flows is to be read in conjunction with the notes to the consolidated financial statements.

Sumatra Copper & Gold Plc

Notes to the Financial Statements

1. GENERAL INFORMATION

The registered number of Sumatra Copper & Gold plc (the 'Company') is 5777015. The Company was incorporated in England on 11 April 2006 in the form of a company limited by shares and was later changed to a public limited company. It is domiciled in the United Kingdom and is Australian resident for income tax purposes. The Company's shares are traded in the form of CHESS Depository Interests on the Australian Stock Exchange (ASX). The Company's registered address is 39 Parkside, Cambridge, CB1 1PN, United Kingdom.

The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The Company acts as the parent company of the Group. The Group is a gold and silver producer on the Indonesian island of Sumatra.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements of Sumatra Copper and Gold plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IRFS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements were approved by the Board of Directors on 31 March 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivatives as measured at fair value, including forward contracts designated as hedges.

The methods used to measure fair values are discussed further in note 3.

(c) Functional and presentation currency

The Group's presentational currency for the consolidated financial report is US dollars. The functional currency of the Company and the Company's subsidiary in which the Group holds the Tembang assets (PT Dwinad Nusa Sejahtera) is US dollars, and the functional currency of the Company's other foreign subsidiaries is Indonesian rupiah. The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below and in the notes.

Estimates

Note 12 – Deferred taxation

A deferred tax asset has been recognised on the basis that the Directors believe there is a reasonable and probable prospect that the Group will generate taxable profits in the future. A deferred tax asset has been recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Sumatra Copper & Gold Plc

Notes to the Financial Statements

The Group has unrecognised tax losses carried forward. These losses are held in PT Dwinad Nusa Sejahtera and do not expire. They may not be used to offset taxable income elsewhere in the Group. Tax losses can be carried forward indefinitely and the future tax rate has been considered at 30%. Refer to Note 12 for further details.

Note 15 – Provision for impairment of property, plant and equipment

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next four years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the key assumptions used to determine the recoverable amount for the CGU. These are disclosed and further explained in Note 15.

Note 15 – Depreciation of mineral property

Depreciation of the mineral property is calculated on a unit of production method expected to amortise the cost including future forecast expenditure over the expected life of the mine based on the tonnes of ore expected to be extracted, whereby the denominator is the proven and probable reserve. Any changes to these estimates may result in an increase in the depreciation charge with a corresponding reduction in the carrying value of the mineral property.

Note 28 – Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Multi Asset Pricing Systems, Black Scholes, and Fisher Black models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as time period over which to measure volatility, and the risk-free interest rate to be applied. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 28 for further disclosures.

Note 23 – Provision for rehabilitation

The Group assesses its mine rehabilitation provision at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate amount provided. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required.

Judgements

Note 15 – Commercial production

We assess each mine construction project to determine when a mine moves into commercial production. The criteria used to assess the transition are determined based on various relevant criteria to assess when the mine has moved into commercial production. Some of the criteria considered would include, but are not limited to, the following: (1) the level of capital expenditures compared to construction cost estimates; (2) the completion of a reasonable period of testing of mine plant and equipment; (3) the ability to produce minerals in saleable form (within specifications); and (4) the ability to sustain ongoing production of minerals. The Tembang mine moved into commercial production on 1st January 2016.

(e) Going Concern

At 31 December 2016, the Group had cash of US\$2.5m and net current liabilities of US\$22.7m. Current liabilities include trade and other payables, and debt and financing facilities obligations. Management have prepared cash flow forecasts which are based on the Group's principal asset, the Tembang Gold-Silver Mine in Sumatra, Indonesia ("Tembang") achieving sustainable production levels to generate sufficient cash flows to fund its operations and repay debt obligations, and secure working capital facilities. As announced on 10 January 2017, the Group met revised guidance for 2016 with production from Tembang of 30,509 gold-equivalent ounces ("AuEq oz") and saw continuous operational improvement in the Belinau underground mine in the second half of 2016. Commencement of stoping at Belinau in the second quarter of 2017 is expected to significantly increase production and reduce cash cost per ounce. Whilst the Directors are confident that the operational

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changes made in the last 6 months of 2016 will result in improved performance given the historic results of the mine, the operating performance of the Group will need to meet targets and deliver cash flows in line with forecasts.

During December 2016, the Group executed agreements with its lenders to amend the existing US\$45 million senior secured debt facility and warrants. Under the terms of the debt amendment the interest rate has reduced, effective December 2016, debt will be reduced by US\$10 million and the final maturity date of the debt has been extended until June 2019. The debt reduction will be funded out of the proceeds of an equity raise of a minimum of US\$12.5 million by June 2017 which will be underwritten by the Company's major shareholders. A further US\$3 million of accrued finance cost as at 31 December 2016 was converted into equity subsequent to year end with the balance of US\$3 million to remain as an unsecured bond with a 0% coupon expiring 31 December 2019. Major shareholders owning US\$7 million of convertible notes, plus accrued interest, have agreed to convert these notes into CDIs by 30 June 2017. These changes will result in a significant improvement in the Group's capital structure and reduce ongoing interest obligations. Despite securing a long-term solution to the Group's funding position, the cash flow forecasts prepared by management show a short term working capital deficit as operational performance on the mine is ramped up. Management are currently in negotiations to drawdown on the remaining undrawn UOB VAT facility and secure further short term financial support from shareholders. At the date of this report these transactions have not been finalised. In the event that some combination of the planned events fails to occur as expected the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and would need to seek additional funding in order to meet its liabilities as they fall due.

These conditions above indicate the existence of a material uncertainty which may cast doubt as to the Group's ability to continue as a going concern.

However, the Directors believe that there is a reasonable prospect of the Group generating sufficient cashflows from operations to fund its working capital requirements and anticipates that the planned equity raising and debt amendment will significantly improve its capital structure during 2017. The Directors are confident that the short term working capital facilities will be secured to support the Group as the operational performance of Tembang ramps up. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group.

(a) Basis of consolidation

The Group consolidated financial statements include the financial statements of Sumatra Copper & Gold plc and each of its subsidiary undertakings.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

(i) 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.

(ii) Foreign currency transactions

Transactions denominated in foreign currencies are initially recorded at the functional currency rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange differences are recognised in the statement of

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comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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.

(iii) Net investment in foreign operations

Exchange differences arising from the transaction of the net investment in foreign operations are disclosed within the translation reserve and recognised in other comprehensive income.

(iv) Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at the exchange rates that are prevailing at the balance sheet date; and
- income and expenses are translated at the average exchange rate for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in other comprehensive income. These differences are subsequently reclassified to profit or loss within the statement of comprehensive income in the period in which the operation is disposed.

(c) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment loss.

Depreciation is calculated on a straight-line basis over the following expected useful life of the assets. Computer hardware is depreciated at a rate of between 25% and 33.3% per annum, computer software, furniture and fixtures, machinery and equipment, exploration equipment, communication equipment and vehicles at a rate of 25% per annum.

Once the technical feasibility and commercial viability of the extraction of mineral resources in a particular area of interest become demonstrable, the exploration and evaluation assets attributable to that area of interest are reclassified as development assets within property, plant and equipment. All development costs subsequently incurred within that area of interest are capitalised and carried at cost and starts depreciating only when the asset is brought to use. Depreciation is calculated on a unit of production basis, whereby the denominator is the proven and probable reserves. Future forecast expenditure is included in the unit of production amortisation calculation. The Group performs impairment testing when facts and circumstances suggest that the carrying amount has been impaired. If it is determined that the asset has been impaired it is immediately written down to its recoverable amount in the statement of comprehensive income (refer note 15).

(d) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An impairment charge in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment charges are recognised in profit and loss.

An impairment charge is reversed if the reversal can be related objectively to an event occurring after the impairment charge was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. Value in use is determined as a present value of the estimated real future cash flows expected to arise from the continued use of the asset using assumptions that an independent market participant may consider. These cash flows are discounted using a real pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment charge is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment charges are recognised in profit or loss.

In respect of other assets, impairment charges recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment charge is reversed only to the extent that the asset's carrying amount exceeds the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

(e) Convertible loans

The proceeds received on issue of the Group's convertible loans are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the bond. The remainder of the proceeds are allocated to the conversion option and is recognised in the "convertible loan reserve" within shareholders' equity, net of income tax effects.

Derivatives embedded in host debt contracts, such as convertible loan notes, are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial liability out of the fair value through profit or loss.

(f) Exploration and evaluation assets

Exploration and evaluation expenditure related to an area of interest are written off as incurred except when they are carried forward as an asset in the balance sheet where the rights of tenure of an area are current and it is believed that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale.

Once the technical feasibility and commercial viability of the extraction of mineral resources in a particular area of interest become demonstrable, the exploration and evaluation assets attributable to that area of interest are tested for impairment and reclassified to property, plant and equipment.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest. Capitalised exploration and evaluation costs are written off where the above conditions are no longer satisfied and in particular when it has been determined that a commercial discovery has not been made.

The Group performs impairment testing when facts and circumstances suggest that the carrying amount has been impaired. If it is determined that the asset has been impaired, it is immediately written off in the statement of comprehensive income. This is consistent with the Successful Efforts method of accounting (IFRS 6).

(g) Inventories

Inventories include ore stockpiles, metal in circuit, doré (unrefined gold and silver bullion bars usually consisting of 90% precious metals) and bullion stocks, and consumables and are stated at the lower of cost or net realisable value. The cost of ore stockpiles and gold produced is determined principally by the weighted average cost method using related production costs.

Costs of ore stockpiles, doré and bullion stocks include costs incurred up to the point of stockpiling, such as mining and grade control costs, but exclude future costs of production. Ore extracted is allocated to separate stockpiles based on estimated grade, with grades below defined cut-off levels treated as waste and expensed. While held in physically separate stockpiles, the group blends the ore from each stockpile at an individual mine when feeding the processing plant to achieve the resultant gold content. In such circumstances, lower and higher grade ore stockpiles each represent a raw material, used in conjunction with each other, to deliver overall gold production, as supported by the relevant feed plan.

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Net realisable value of ore stockpiles is determined with reference to estimated contained gold and market gold prices applicable. Ore stockpiles which are blended together or with future ore mined when fed to the plant are assessed as an input to the gold production process to ensure the combined stockpiles are carried at the lower of cost and net realisable value. Ore stockpiles which are not blended in production are assessed separately to ensure they are carried at the lower of cost and net realisable value, although no such stockpiles are currently held.

Costs of gold doré and bullion stocks include all costs incurred up until production of an ounce of gold such as milling costs, mining costs and directly attributable mine general and administration costs but exclude transport costs, refining costs and royalties. Net realisable value is determined with reference to estimated contained gold and market gold prices.

Consumables are valued at weighted average cost after appropriate impairment of redundant and slow moving items. Consumable stock for which the group has substantially all the risks and rewards of ownership are brought onto the statement of financial position as current assets.

(h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available for sale (AFS) financial assets, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's loans and receivables, which include trade receivables and cash and cash equivalents are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

The Group does not have any non-derivative financial assets measured at fair value through profit or loss, held-to-maturity investments, or AFS financial assets at reporting date.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Non-derivative financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or financial liabilities at amortised cost, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of directly attributable transaction costs.

The Group's financial liabilities at amortised cost include trade and other payables, and loans and borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income. The Group does not have any non-derivative financial liabilities measured at fair value through profit or loss.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to manage its gold and silver price risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Hedge accounting

The group designates certain derivatives as either hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss in the statement of comprehensive income. Day one gain or loss on designation of forward contracts as a derivative hedging instrument is recognised on the statement of financial position, and amortised over the life of the instrument.

Gains and losses recognised in the cash flow hedging reserve in equity will be released to the consolidated statement of comprehensive income as the related forward hedge contract expires.

(i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Rehabilitation

Rehabilitation includes mine closure and restoration costs which include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the site. Provisions are recognised at the time that the environmental disturbance occurs.

The provision is the best estimate of the present value of the future cash flows required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the financial year.

The amount of the provision for future rehabilitation costs is capitalised as an asset and recognised in property, plant and equipment and is depreciated over the useful life of the mineral resource. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(j) Employee benefits

(i) Share based payment transactions

The Group issues equity-settled share-based payments to its employees. In accordance with IFRS 2, 'Share-based Payments', equity-settled share-based payments are measured at fair value at the date of grant. Fair value is normally measured by use of a Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. 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.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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(ii) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date, which represent present obligations resulting from employees' services provided to the reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as pension and superannuation contributions, social security, workers compensation and health insurance, as well as payroll tax.

(iii) Short-term employee benefits

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

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting date, then they are discounted to their present value.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Group has post-retirement benefits for its Indonesian employees in accordance with Indonesian labour law. A provision for employee benefits is recognised and includes the present value of the future pension plans for employees to be received on retirement.

(k) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured on delivery to the customers. Interest income is recognised as the interest accrues using the effective interest method.

The Group enters into contracts for the sale of gold. Revenue arising from gold sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured.

(l) Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Finance expenses comprise discounting of rehabilitation costs and interest expenses relating to borrowings.

(m) Borrowing costs

The Group capitalises interest costs for qualifying assets. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in the exploration and evaluation, development or construction stages. Transaction costs incurred on the establishment of loan facilities are recognised in the balance sheet and offset against the principal borrowings amount. These costs are amortised over the life of the borrowing using the effective interest rate method. Interest costs for qualifying assets are expensed to the profit and loss once the asset reaches commercial production

(n) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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.

(i) Current tax

The current income tax charge is calculated in accordance with taxation regulations in each jurisdiction that have been or are subsequently enacted by the reporting date. Current tax is based on the taxable income and tax allowable expenses reported by the Group. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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(ii) Deferred tax

Deferred income tax is provided using the liability method on unused tax losses at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets are only recognised when there is sufficient probability of future taxable profits.

(o) Share capital

Ordinary shares are classified as equity.

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

(p) Warrants

Warrants issued under equity raising have been accounted for as a derivative financial liability as the functional currency of the company is US\$ and the currency in which the warrants have been issued is A\$. They therefore break the “fixed for fixed” criteria in IAS 39 and have been recognised at fair value on the statement of financial position.

Warrants are measured at fair value at the date of grant. Fair value is measured by use of a Black-Scholes pricing model which takes into account conditions attached to the vesting and exercise of the equity instrument. Any gains and losses on subsequent re-measurement are recorded in profit or loss.

(q) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received.

(r) 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 Project Management Committee, refer note 4 for member details.

(s) Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted by the Group

There have been no new standards adopted by the group for the first time for the financial year beginning on or after 1 January 2016.

(ii) New standards, amendments and interpretations not yet adopted

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group, including IFRS 9 ‘Financial instruments: Classification and Measurement’, IFRS 15 ‘Revenue from contracts with customers’ and IFRS 16 ‘Leases’.

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4. SEGMENT INFORMATION

IFRS 8 Operating Segments requires a management approach under which segment information is presented on the same basis as that provided to the chief operating decision maker.

The Project Management Committee comprises: Non-Executive Chairman (Stephen Robinson), Executive Director (Adi Adriansyah Sjoekri), and Project Sponsor (David Fowler).

Tembang asset commenced operations during 2015 and the chief operating decision-makers were identified as the executive team, comprising of Executive Director (Adi Adriansyah Sjoekri), Chief Executive Officer (David Fowler), and Chief Operating Officer (Robert Gregory).

For the Group, internal reporting is based on the Group's two geographical markets: Australia and Indonesia. Hence segment information is reported in the same manner. The Group operates in one principal area of activity, that of exploration and development of gold tenements.

Revenue, loss before tax and net assets are all within one activity, that of gold exploration and development.

Segment information on a geographical basis includes Australia where the head office is established and Indonesia where the Tembang and Tandai projects operate. Group revenue for the year to 31 December 2016 (excluding effect of hedge realisation) was US\$37.6m (2015: US\$nil).

31 December 2016	Australia US\$000	Indonesia US\$000	Consolidated US\$000
Segment revenue	-	34,289	34,289
Operating (loss) before impairment	(1,728)	(10,934)	(12,662)
Impairment of property, plant and equipment	-	(4,688)	(4,688)
Derivative gain	2,737	-	2,737
Net financing costs	(5,908)	(8,129)	(14,037)
Loss before tax	(4,899)	(23,751)	(28,650)
Non-current assets other than financial instruments and deferred tax assets	565	41,956	42,521
Segment total assets	670	62,460	63,130
Segment total liabilities	6,177	80,824	87,001

31 December 2015	Australia US\$000	Indonesia US\$000	Consolidated US\$000
Operating (loss) before impairment	(2,286)	(1,315)	(3,601)
Impairment of property, plant and equipment	-	(45,300)	(45,300)
Derivative gain / (loss)	1,487	(732)	755
Net financing costs	(1,404)	(200)	(1,604)
Loss before tax	(2,203)	(47,547)	(49,750)
Non-current assets other than financial instruments and deferred tax assets	571	50,054	50,625
Segment total assets	610	68,803	69,413
Segment total liabilities	2,953	58,266	61,219

5. REVENUE

	31 December 2016 US\$000	31 December 2015 US\$000
Sales	37,611	-
Hedge realisation	(3,322)	-
	34,289	-

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Revenues from transactions with a single customer exceeding 10% of total revenues were as follows:

	31 December 2016 US\$000	31 December 2015 US\$000
Customer A	24,362	-
Customer B	13,249	-
	37,611	-

6. COST OF SALES

	31 December 2016 US\$000	31 December 2015 US\$000
Production stock movements	(215)	-
Operating costs	(33,048)	-
	(33,263)	-

7. LOSS BEFORE INCOME TAX

	31 December 2016 US\$000	31 December 2015 US\$000
<i>This has been arrived at after charging the following:</i>		
Auditors' remuneration	254	198
- Statutory audit of the Group Financial Statements	205	133
- Fees payable to associated firms of the auditor for audit of subsidiaries	49	34
- Fees payable to associated firms of the audit for non-audit work	-	32
Directors' remuneration (excluding share options)	660	702
Impairment of property, plant and equipment	4,688	45,300
Depreciation	8,947	66
Share based payments	203	(201)
Amortisation of derivative asset	732	732
Gain on derivative	(2,737)	(1,487)
Foreign exchange losses	308	358
Payroll and other employee related expenses	6,474	39
Legal and professional fees	164	182

8. DIRECTORS EMOLUMENTS AND INTERESTS

The Directors' remuneration for the years ended 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016 US\$000	31 December 2015 US\$000
David Fowler	331	329
Adi Sjoekri	291	317
Stephen Robinson	86	74
Jocelyn Waller	48	54
Gavin Caudle	60	60
Andrew Robb	-	-
	816	834

A total of US\$58,792 (2015: US\$74,828) post-employment contributions were paid in the year on behalf of the Directors. A total of US\$22,626 (2015: US\$23,083) was paid in respect of the highest paid director in relation to post-employment contributions.

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The movement in share option scheme held by Directors was as follows:

	Held at 1 Jan 2016 Number	Granted during the year Number	Lapsed during the year Number	Cancelled during the year Number	Held at 31 Dec 2016 Number	Exercise Price \$A	Expiry date
Adi Sjoekri	1,000,000	-	-	-	1,000,000	0.25	14/06/2017
	1,000,000	-	-	-	1,000,000		

The movement in unissued shares under performance rights held by Directors during the year was as follows:

	Held at 1 Jan 2016 Number	Granted during the year Number	Lapsed during the year Number	Cancelled during the year Number	Held at 31 Dec 2016 Number	Value at grant date \$A	Vesting date
David Fowler	2,500,000	-	(2,500,000)	-	-	0.049	1/01/2016
David Fowler	2,500,000	-	-	-	2,500,000	0.049	1/01/2017
Adi Sjoekri	2,500,000	-	(2,500,000)	-	-	0.049	1/01/2016
Adi Sjoekri	2,500,000	-	-	-	2,500,000	0.049	1/01/2017
	10,000,000	-	(5,000,000)	-	5,000,000		

The performance rights above did not vest post year end, given that the conditions were not met.

9. EMPLOYEE INFORMATION

By activity	31 December 2016 Number	31 December 2015 Number
Administration	13	8
Construction	-	33
Mining	127	28
Geology	15	49
Processing	65	68
Maintenance and infrastructure	47	52
Security	4	24
Site support	56	53
Environment	16	25
	343	340

Employee costs	31 December 2016 US\$000	31 December 2015 US\$000
Wages and salaries	5,875	3,536
Share option compensation charge	203	(201)
Social security cost	814	492
	6,892	3,827

Wages and salaries cost capitalised to property, plant and equipment was US\$780,000 (2015: \$2,854,000) and capitalised social security costs was US\$117,000 (2015: 433,000).

Key management personnel (KMP's) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. For the year ended 31 December 2016 the key management personnel were the Directors and Chief Operating Officer (COO).

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	31 December 2016 US\$000	31 December 2015 US\$000
Key management costs		
Wages and salaries	607	833
Share option compensation charge	203	197
Post-employment contributions	58	75
	868	1,105

10. FINANCE INCOME

	31 December 2016 US\$000	31 December 2015 US\$000
Bank interest income	7	61
	7	61

11. FINANCE COSTS

	31 December 2016 US\$000	31 December 2015 US\$000
Foreign exchange loss	308	338
Bank interest expense	1	2
Interest on borrowings	7,830	-
Interest and fees on convertible loan	625	-
Redemption premium	2,486	-
Loss on refinancing	2,794	-
	14,044	340

In 2016, US\$ nil (2015: US\$9.2m) relating to interest on borrowings were included within property plant and equipment.

12. INCOME TAX

(i) Analysis of charges for the year

	31 December 2016 US\$000	31 December 2015 US\$000
Current Tax		
Income tax charge/(benefit) for the period	743	(4,500)
Income tax	743	(4,500)

(ii) Factors affecting the current tax charge for the year

Reconciliation between the actual income tax expense and the product of accounting loss:

	31 December 2016 US\$000	31 December 2015 US\$000
Loss before income tax	(28,650)	(49,750)
<i>Tax calculated at domestic tax rates applicable to profits in the respective countries – Australia 30% (2015: 30%)</i>	(8,595)	(14,925)
Tax effect of		
Expenses not deductible for tax purposes	1,188	13,614
Movement in temporary differences	961	(6,326)
Difference in Indonesian tax rate	1,433	2,488
Losses carried forward not recognised	4,271	649
Income tax	743	(4,500)

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(iii) Deferred tax

At 31 December 2016, the Group had potential and unrecognised deferred tax assets as follows:

	31 December 2016 US\$000	31 December 2015 US\$000
Deferred tax asset		
Tax effect of unused tax losses recognised as a deferred tax asset	3,750	4,500
	3,750	4,500
Deferred tax asset not recognised		
Tax effect of temporary differences because of:		
Tax losses carried forward not recognised	15,203	10,932
	15,203	10,932

A deferred tax asset has been recognised on the basis that the Directors believe there is a reasonable and probable prospect that the Group will generate taxable profits in the future. A deferred tax asset has been recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised.

The Group considers that it has sufficient evidence of future taxable profits to justify the recognition of a deferred tax asset of \$3.75m at 31 December 2016 (2015: \$4.5m). The Directors consider the recent increases in the market outlook for gold and silver prices, as well as forecast taxable profits in the life of mine cash flow model, as sufficient evidence.

The Group has US\$15.2m (2015: US\$10.9m) of unrecognised tax losses carried forward, giving rise to an unrecorded deferred tax asset of US\$4.6m (2015: US\$3.3m). These losses are held in PT Dwinad Nusa Sejahtera and do not expire, they may not be used to offset taxable income elsewhere in the Group. Tax losses can be carried forward indefinitely and the future tax rate has been considered at 30%.

13. LOSS PER SHARE

	Basic loss per share		Diluted loss per share	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loss attributable to ordinary shareholders (US\$000)	(29,393)	(45,250)	(29,393)	(45,250)
Issued ordinary shares at start of the period	708,402,182	583,709,122	708,402,182	583,709,122
Effect of issue of shares	2,555,000	81,031,363	2,555,000	81,031,363
Weighted average number of shares	710,622,305	664,740,485	710,622,305	664,740,485
Loss per share in US cents per share	(4.14)	(6.81)	(4.14)	(6.81)

For fully diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive potential ordinary shares. The Group's potentially dilutive securities consist of share options, convertible loans and warrants issued. As the Group is currently loss-making, none of the potentially dilutive securities are currently dilutive.

14. EXPLORATION AND EVALUATION ASSETS

	31 December 2016 US\$000	31 December 2015 US\$000
Balance at the beginning of the period	2,522	2,781
Expenditure incurred during the year	38	-
Effect of exchange rate on assets held in foreign currencies	63	(259)
Balance at the end of the period	2,623	2,522

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15. PROPERTY, PLANT AND EQUIPMENT

	31 December 2016 US\$000	31 December 2015 US\$000
Cost		
Balance at the beginning of the period	102,521	59,207
Additions	5,582	43,317
Exchange rate movement on assets held in foreign currencies	(152)	(3)
Balance at the end of the period	107,951	102,521
Accumulated depreciation		
Balance at the beginning of the period	(54,418)	(9,052)
Depreciation charge for the year	(8,947)	(66)
Provision for impairment of property, plant and equipment	(4,688)	(45,300)
Balance at the end of the period	(68,053)	(54,418)
Net book value	39,898	48,103
<i>Breakdown of assets held under finance lease arrangements included above:</i>		
Cost		
Opening Balance	3,629	1,107
Additions	-	2,522
Balance at the end of the period	3,629	3,629

Property, Plant and Equipment includes: development assets, plant and equipment, fittings and fixtures and pre-feasibility costs mainly associated with the Tembang project.

Provision for impairment of property, plant and equipment

In December 2016, the Group identified impairment indicators such as the Company's market capitalisation being lower than the value of the long-term assets, and the mine operating at a loss, therefore impairment testing was performed on the recoverability of its assets.

The Group is an emerging gold and silver producer focused in the Indonesian Island of Sumatra currently mining its 100%-owned Tembang Project, its single asset, therefore the Group determined the Tembang project the cash generating unit (CGU) for impairment purposes. The recoverable amount of the CGU was calculated by way of the development strategy which includes a sustainable exploration program capable of maintaining a rolling 4-year Life of Mine ("LOM") plan funded from Project cash flow.

A life of mine cash flow model was prepared based on actual costs incurred to date, contracted costs, forecasts for future production and cash flows on known variables.

The mine schedules are prepared in Surpac and Excel and the model is prepared in the forecasting software RAMSYS. The model is updated periodically with knowledge gained from actual mining and production experience.

The basis for determination of the recoverable amount was:

- Gold price of US\$1,225/oz. (2015: US\$1,150/oz.) and Silver price of US\$18/oz. (2015: US\$20/oz.) – future commodity prices were based on the consensus views from market participants in the period.
- Gold and Silver production – gold and silver production forecast is based on the Group's updated Life of Mine Plan (LOM);
- Updated (LOM) is based on JORC reserves as per the DFS.
- Operating and capital cost – these costs were based on management's best estimates at the time of the impairment testing;
- Foreign exchange rates – Indonesian Rupiah to US dollar exchange rates were based on the forward curve and consensus views; and
- Discount rate – a pre-tax real discount rate of 17% (2015: 17%).

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The cash flows are based on proven and probable Ore Reserves only. The Company also believes that, with further drilling and feasibility work, the additional resources will be converted into reserves, mine life will be extended and cash flows will increase at the same rate as the gold price.

Based on this review, the Group raised a provision for impairment of US\$4.7m at 31 December 2016 (2015: \$45.3m).

(b) Security held (AISC)

The physical assets of PT Dwinad Nusa Sejahtera ('DNS') are held as security under the Senior Secured Debt Facility. Refer to Note 21 for details of this Facility.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016 US\$000	31 December 2015 US\$000
Derivative financial asset – forward contract		
Current portion of day 1 loss	610	732
Non-current portion of day 1 loss	-	610
Balance at the end of period	610	1,342
Derivative financial asset/(liability) – forward contract		
Balance at beginning of the period	2,146	(2,317)
Fair value movement for forward contract hedging instrument	(3,088)	4,463
Balance at the end of the period	(942)	2,146
Derivative financial asset/(liability) – warrant		
Balance at beginning of the period	(758)	(612)
Fair value on initial recognition	-	(218)
Fair value through the profit / (loss)	2,203	72
Balance at the end of the period	1,445	(758)
Derivative financial liability – convertible note		
Balance at beginning of the period	(477)	-
Fair value on initial recognition	(1,530)	(572)
Fair value through the profit / (loss)	534	95
Balance at the end of the period	(1,473)	(477)
Net derivative asset (liability)	(360)	2,253
<i>Derivative financial instruments</i>		
Current asset	610	2,878
Non-current asset	-	610
Non-current liability	(970)	(1,235)
	(360)	2,253

Forward contracts designated as hedges

On 22 October 2014, the wholly owned subsidiary PT Dwinad Nusa Sejahtera, entered into a senior secured debt facility with Nomura Singapore Limited and Indonesia Eximbank. The facility required that the Company entered into hedging equivalent to 50% of gold and silver production during the first 2 years of operation commencing deliveries during November 2015 to October 2017. The hedge program represents approx. 23% and 16% respectively of the gold and silver ore reserves. The subsidiary paid a premium of US\$300,000 for entering the hedging program which will be amortised over the life of the hedge.

On 31 October 2014, the Company entered into its hedging program using a capped forward structure as follows:

(a) Gold - forward contracts

42,000 ounces of gold hedged at a strike price of US\$1,108.50/oz. Where the gold price at time of delivery is below US\$1,428.50/oz the Subsidiary will receive a gold price of US\$1,108.50; where the gold price is above \$1,428.50 the Subsidiary will receive a gold price equivalent to the prevailing gold price less \$320.00/oz.

The hedge is a short forward contract and a long call. The instrument has been valued using a Multi Asset Pricing System. The two key variables applied to the model are volatility and forward curve pricing.

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(b) Silver - forward contracts

343,200 ounces of silver hedged at a strike price of US\$14.47/oz. Where the silver price at time of delivery is below US\$21.77/oz the Company will receive a silver price of US\$14.47; where the silver price is above \$21.77 the Company will receive a silver price equivalent to the prevailing silver price less \$7.30/oz.

The hedge is of a short forward contract and a long call. The instrument has been valued using a Multi Asset Pricing System. The two key variables applied to the model are volatility and forward curve pricing.

Given the total value of production hedged between gold and silver, the silver hedge has been considered an effective hedge.

The resulting US\$1m (2015: US\$2m) fair value of these contracts has been recognised in the statement of financial position as a derivative (liability)/asset. These amounts are neither past due nor impaired.

The Group have performed a retrospective and prospective effectiveness based on average gold price in period and the market consensus commodity prices to 31 November 2017 respectively, against the hedged values as above. This falls within the bright line test and therefore have been classified as effective. The change in the fair value of these derivatives of US\$3m loss (2014: US\$4m gain) has been recognised in the other comprehensive income during the year as loss on derivative financial instruments.

The Group has amended its gold hedging arrangements such that 50% of the net out-of-the money value on the six monthly deliveries commencing on 31 October 2016 will be deferred, without interest, and must be repaid by 30 June 2017. The remaining 50% of the hedging arrangements will continue to be cash settled within 3 days of the due date. The balance is to be paid subsequent to the Major Equity Raise.

Warrants

The Group issued warrants to shareholders on 8 April 2015. These have been accounted for as a derivative financial liability as the functional currency of the Company is US\$ and the currency in which the warrants have been issued is A\$. They therefore break the "fixed for fixed" criteria in IAS 39 and have been recognised at fair value on the statement of financial position.

Movement in unissued warrants during the period:

Exercise price ⁽ⁱ⁾	Held at 1 January 2016 Number	Movement during the period Number	Held at 31 December 2016 Number	Exercise date
A\$0.057 (US\$0.041) ^(a)	250,597,351	-	250,597,351	12 November 2017
A\$0.060 (US\$0.043) ^(b)	44,260,914	-	44,260,914	7 April 2017
A\$0.057 (US\$0.042) ^(c)	17,074,171	-	17,074,171	7 August 2017
	311,932,436	-	311,932,436	

(i) All options are exercisable in A\$ (presented in US\$ at 30 June 2016 rate of \$0.7448)

(a) On 21 October 2014, the wholly owned subsidiary PT Dwinad Nusa Sejahtera entered into a Senior Secured Facility with Nomura Special Investments Singapore Pte Ltd and Indonesian Exim Bank. As part of the conditions precedent the Company agreed to grant an aggregate total of 250,597,351 Warrants. The Warrants will be issued in two tranches:

(i) the first tranche of up to 222,753,201 Warrants were issued on 12 November 2014 as conditions precedent were satisfied: (a) Shareholder approval being obtained for the purposes of ASX Listing Rule 7.1; and (b) provision of the first tranche of the Nomura Facility (being US\$40m) to the Company. The total fair value of tranche 1 was US\$5.3m and has been recognised as part of borrowing cost which will be amortised over the life of the facility using the effective interest rate method.

(ii) the second tranche of up to 27,844,150 Warrants was issued on 22 September 2015 as a result of the second tranche of the Nomura Facility (US\$ 5.0m) being advanced to the Company. Increasing the total held to 250,597,351.

(b) On the 8 April 2015, the Company made a placement of CDIs to professional and sophisticated investors, raising A\$5.10m. As part of this placement the Company made an allocation of 44,260,914 warrants for no consideration. This warrant placement equalled 1 warrant per 2 CDIs to be issued under the CDI Placement. The warrants have an exercise price of A\$0.060 each, a term of two years and are non-transferrable.

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- (c) On the 7 August 2015, the Company made a placement of CDIs to professional and sophisticated investors, raising A\$1.71m. As part of this placement the Company made an allocation of 17,074,171 warrants for no consideration. This warrant placement equalled 1 warrant per 2 CDIs to be issued under the CDI Placement. The warrants have an exercise price of A\$0.057 each, a term of two years and are non-transferrable.

The following are the main terms and conditions of the Warrants on issue during the year ended 31 December 2016:

	Nomura Tranche 1	Investors 30 March 2015	Investors 4 August 2015	Nomura Tranche 2
Exercise price AU\$	\$0.057	\$0.060	\$0.057	\$0.057
Exercise price US\$	\$0.047	\$0.046	\$0.042	\$0.041
Valuation date	12 Nov 2014	8 Apr 2015	7 Aug 2015	22 Sep 2015
Option life	3 years	2 years	2 years	2 years
Expected volatility	77.00%	74.46%	73.47%	71.39%
Risk free rate	2.54%	2.74%	2.85%	2.75%
Dividend yield	0%	0%	0%	0%
Number of warrants	222,753,201	44,260,914	17,074,171	27,844,150
Total fair value of warrants in AU\$	\$4,799,360	\$168,960	\$151,282	\$599,920
Total fair value of warrants in US\$	\$3,600,000	\$122,284	\$109,490	\$450,000

Convertible loan note

The convertible notes on issue gives the noteholder the right to execute at any point prior to the maturity date of the loan facility, being 10 November 2017. By so exercising its right under this agreement the noteholder is able to convert some or all of its US denominated loan amount and outstanding interest into Sumatra's CDI's which are denominated in Australian Dollars.

Convertible loan notes were issued in the year. The embedded derivative, that must be bifurcated and accounted for separately from the debt host, fair value was estimated by the Company and recorded as a liability by reducing the carrying value of the Convertible Notes totalled US\$1.5m.

Issue of 500,000 Tranche 2 convertible notes (face value US\$0.5m) to Provident Minerals Pte Ltd issued in repayment of US\$0.5 drawn down under the Working Capital Facility. This is a non-cash transaction, and has been excluded from proceeds from issue of convertible debt in consolidated statement of cash flows.

The derivative liability is recorded at fair value with changes in fair value recognised within derivative gain/(loss).

Fair value measurement

Refer to Note 28 Financial risk management objectives and policies for details of financial liabilities' fair value measurement.

17. TRADE AND OTHER RECEIVABLES

	31 December 2016 US\$000	31 December 2015 US\$000
Trade receivables	-	622
Prepayments and other receivables	2,498	1,108
VAT and withholding tax receivable ^(a)	7,521	5,214
	10,019	6,944

- (a) *VAT and withholding tax receivable*

VAT and withholding tax receivable include recoverable Indonesian value added taxes arising from the construction of the Tembang project as well as operating expenses payments. Included within this balance is a provision for irrecoverable VAT totalling US\$888,000 (2015: US\$nil).

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18. INVENTORIES

	31 December 2016 US\$000	31 December 2015 US\$000
Consumables	1,284	705
Ore	-	108
Metal in circuit	564	835
Doré and bullion stocks	1,882	1,318
	3,730	2,966

No provision for slow moving and absolute stock at 31 December 2016 (2015: nil) was made in the year.

19. CASH AND CASH EQUIVALENTS

	31 December 2016 US\$000	31 December 2015 US\$000
Cash at bank and on hand	2,500	890
	2,500	890

Of the total cash and cash equivalent held as of 31 December 2016 the highest currency value was US\$1.987m (31 December 2015: US\$0.586m), other currencies the Company held cash in were Australian dollars, Indonesian rupiah and Pounds sterling.

20. TRADE AND OTHER PAYABLES

	31 December 2016 US\$000	31 December 2015 US\$000
Trade payables	12,009	4,712
Other taxes and social security costs	1,573	1,579
Accruals and other payables	5,014	9,488
	18,596	15,779

Accruals and other payables at 31 December 2016 reflect costs accrued in respect to Tembang operations.

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21. BORROWINGS

	UOB - VAT loan facility US\$000	Senior secured debt facility US\$000	Atlas copco financing facility US\$000	Atlas copco financing facility US\$000	Sandvik financing facility US\$000	Working capital facility US\$000	Total US\$000
Loan term (months)	24	36	36	36	36	24	
	2016 - 2018	2014 - 2018	2013 – 2016	2015 – 2018	2015 – 2018	2015 – 2017	
31 December 2016							
Borrowings							
Opening balance	-	39,348	288	486	1,205	500	41,827
Capital repayments	-	-	(288)	(172)	(482)	-	(942)
Repayment via issue of convertible note	-	-	-	-	-	(500)	(500)
Drawdowns	3,151	-	-	-	-	5,166	8,317
Interest paid	-	(4,219)	(11)	(31)	(72)	-	(4,333)
Amortised interest	178	7,399	11	31	72	139	7,830
Redemption accrued	-	2,486	-	-	-	-	2,486
Redemption transferred in	-	3,559	-	-	-	-	3,559
Capitalised interest – Mineral Property	-	(60)	-	-	-	-	(60)
Capitalised borrowing costs	(147)	(261)	-	-	-	-	(408)
Loss on refinancing	-	2,794	-	-	-	-	2,794
	3,182	51,046	-	314	723	5,305	60,570
Current	-	13,910	-	171	482	139	14,702
Non-current	3,182	37,136	-	143	241	5,166	45,868
	3,182	51,046	-	314	723	5,305	60,570
31 December 2015							
Borrowings							
Opening balance	-	32,170	601	-	-	-	32,771
Capital repayments	-	-	(313)	(29)	(232)	-	(574)
Accrued interest	-	-	-	-	-	-	-
Drawdowns	-	5,000	-	515	1,437	500	7,452
Capitalised borrowing costs	-	(638)	-	-	-	-	(638)
Amortised interest	-	2,816	-	-	-	-	2,816
	-	39,348	288	486	1,205	500	41,827
Current	-	-	288	171	482	-	941
Non-current	-	39,348	-	315	723	500	40,886
	-	39,348	288	486	1,205	500	41,827

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- (i) On 22 October 2014, the Company's wholly owned subsidiary, PT Dwinad Nusa Sejahtera ('DNS'), entered into a three-year Senior Secured Debt Facility of up to US\$45m with Nomura Special Investments Singapore and Indonesia Eximbank repayable at maturity. The Facility is to fund the commercial development of the Tembang Gold Project. The Facility is secured against a number of assets including the shares held by the Company in DNS. All other loans and advances made to DNS, the Company and its subsidiaries will be subordinated to the interests of the lenders under the Facility until all payment obligations of the Facility have been repaid.

In December 2016, the Group agreed an amended agreement with Nomura Special Investments Singapore and Indonesia Eximbank. The following are the revised key commercial terms:

- (a) Subject to the Company conducting the Initial Equity Raise of US\$2.5m by 31 January 2016:
- reduction of interest rate to 7.5%;
 - conversion of outstanding redemption premium of approximately US\$5.9m (accrued through a deferral of a portion of the interest rate) into up to US\$3m of CDIs with the balance converted to a zero coupon, unsecured loan repayable upon maturity of the debt facility;
 - cancellation of 250,597,351 warrants for consideration of US\$4.05m payable in CDIs; and termination of the warrant deed.
- (b) Subsequent to a second equity raise by the Company of a minimum of US\$12.5m by 30 June 2017 ("Major Equity Raise") repayment of US\$10m of the principal of the debt facility.

Both the Initial Equity Raise and the Major Equity Raise are conditions of the Amended Facility.

In addition, the major shareholders have agreed to:

- convert all of their convertible notes in the Company to CDIs by no later than 30 June 2017, such notes comprising US\$7m plus accrued interest; or
- should the convertible notes be redeemed prior to 30 June 2017, immediately apply the full proceeds from the redemption to a placement of CDIs at the lower of 90% of the volume weighted average price of CDIs during the 10 days immediately preceding the closing date of the Major Equity Raise and the price at which CDIs are issued in connection with the Major Equity Raise.

Management has determined that under IAS 39 the revised terms constituted a substantial change. This was based on an assessment of the present value of the new loan, discounted at the original effective interest rate, differing by more than 10%, when compared to present value of the existing loan. The salient amendments that cause this change included an interest rate reduction, extension of the maturity date, conversion of 50% of the redemption premium to equity and 50% to a zero-coupon bond, cancellation of warrants, conversion of the convertible loan notes, and the deferral of repayment on gold and silver hedges.

Under IAS 39, where a substantial change has been realised, the carrying value of an existing loan is required to be de-recognised as if it had been extinguished and the fair value of the revised loan recognised, with the difference being realised to profit and loss. This has resulted in fair value difference to profit or loss to be \$2.7m, and the fair value of the new financial liability recognised at 31 December 2016 of \$51.1m.

In addition to the above, IAS 39 states borrowing costs capitalised against the original loans and unamortised, should be accelerated and written off to profit and loss. These are included within the US\$2.7m loss noted above.

In December 2013, the Indonesian Subsidiary PT Dwinad Nusa Sejahtera, entered into a US\$1.107m 36-month financing facility with Atlas Copco Customer Finance AB, to finance an underground drill rig. A payment of US\$0.193m was made at commencement of the facility, with the remaining principal repayable in monthly equal instalments (plus interest at a fixed rate of 7.5%) with the first instalment paid December 2013.

- (ii) In May 2015, the Indonesian Subsidiary PT Dwinad Nusa Sejahtera, entered into a contract with Sandvik Mining and Construction OY to finance the purchase of 2x Sandvik Loader LH410 and 1 x Getman 2-500N. The principal amount is repayable over 36 months in equal quarterly instalments (plus interest at a fixed rate of 7.5%) with the first instalment paid August 2015.
- (iii) In October 2015, the Indonesian Subsidiary PT Dwinad Nusa Sejahtera, entered into a contract with Atlas Copco Customer Finance AB to finance the purchase of a Boomer TD. The principal amount is repayable over 36 months in equal monthly instalments (plus interest at a fixed rate of 7.5%) with the first instalment paid November 2015.
- (iv) On 16 December 2015, the Company drew down \$0.5m from Provident Minerals Pte Ltd under the Working Capital Facility. On the 28 January 2016, the Company issued 500,000 Tranche 2 convertible notes in repayment of the drawdown. This is a non-cash transaction, and has been excluded from proceeds from issue of convertible debt in

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consolidated statement of cash flows.

- (v) During 2016, the company executed a several Working Capital Facility Agreements with its major shareholders, Provident Minerals Pte Ltd and PT Saratoga Investama Sedaya Tbk, to provide US\$5.2m of working capital, repayable at June 2019 or two business days after the company has repaid the loan facility from Nomura.
- (vi) On 5 October 2016, the Company's wholly owned subsidiary, PT Dwinad Nusa Sejahtera ('DNS'), entered into a 2 years Debt Facility of up to IDR60m (or its equivalent in US dollars) with an Asian Bank operating in Indonesia. The facility will be guaranteed by Provident Capital Indonesia. The proceeds of this facility are available for general working capital purposes and ongoing VAT payments and will not be used to repay the existing Working Capital Facility Agreement.

Finance lease - lessee

	Minimum lease payments US\$000	Interest US\$000	Present value US\$000
2016			
Atlas copco financing facility			
Not later than one year	189	(18)	171
Between one and five years	148	(5)	143
	337	(23)	314
Current			171
Non-current			143
			314
Sandvik financing facility			
Not later than one year	519	(37)	482
Between one and five years	246	(5)	241
	765	(42)	723
Current			482
Non-current			241
			723
2015			
Atlas copco financing facility			
Not later than one year	500	(41)	459
Between one and five years	337	(22)	315
	837	(63)	774
Current			459
Non-current			315
			774
Sandvik financing facility			
Not later than one year	554	(72)	482
Between one and five years	765	(42)	723
	1,319	(114)	1,205
Current			482
Non-current			723
			1,205

22. CONVERTIBLE LOANS

	31 December 2016 US\$000	31 December 2015 US\$000
Convertible loan note	5,507	1,412
	5,507	1,412

Sumatra Copper & Gold Plc

Notes to the Financial Statements

Convertible loan - fair value

On 16 December 2015, the Group announced that it had obtained a US\$5m working capital facility in the form of convertible notes provided by its major shareholder Provident Minerals Pte Ltd ("Provident") ("Convertible Note Agreement"). Under the Convertible Note Agreement, Provident subscribed for a first tranche of 2m convertible notes, for a consideration of US\$2m, to be issued under the Group's available placement capacity under ASX Listing Rule 7.1 ("First Tranche"). A second tranche of up to 3m convertible notes for a consideration of US\$3m ("Second Tranche") would be issued subject to approval of the shareholders of the Group ("Shareholders"). Subsequent to the end of the quarter, approval for the Second Tranche was received at a General Meeting of Shareholders held on 11 January 2016.

The Group also entered into a working capital loan facility ("Working Capital Facility") with Provident to provide up to US\$3m, to be repaid on the earlier of the issue of the Second Tranche of convertible notes or on the maturity date of the convertible notes. During the December 2015 quarter the First Tranche of US\$2m was drawn down (Appendix 3B dated 23 December 2015) and US\$0.5m was drawn down by the Company under the Working Capital Facility.

During the year, US\$0.5m of the Second Tranche was provided by Provident. The Company used the proceeds to repay the US\$0.5m Working Capital Facility (Appendix 3B, 29 January 2016). Provident assigned the remaining US\$2.5m Second Tranche to major shareholder PT Saratoga Investama Sedaya which was drawn down by the Group.

On 31 March 2016, the Company announced an amendment to the convertible note facility for an additional \$2.0m to be jointly provided by shareholders Saratoga and Provident. The drawdown was used to fund the debt service reserve account (DSRA) commitments and interest payment due in the March 2016 Quarter under the US\$45m senior secured debt facility held by its wholly owned subsidiary PT Dwinad Nusa Sejahtera ("DNS").

These notes mature immediately after the maturity date of the US\$45m senior secured debt facility (currently maturing 10 November 2017). Interest on the convertible notes is 10% per annum and is capitalised and forms part of the face value of each convertible note.

Conversion of the notes into CHES Depository Interests (CDIs) is at the election of the Noteholder and is calculated at an exercise price of AU\$0.057 per CDI at the AU\$:US\$ exchange rate on the day proceeding the day of conversion. Capitalised interest is converted to \$AU at the exchange rate and is payable in CDIs calculated at a deemed conversion price equal to the higher of AU\$0.057 and 90% of the volume weighted average price of the Group's CDIs over the prior 10 trading days.

The convertible notes contain an American style Quanto option, giving the noteholder the right to execute at any point prior to the maturity date of the loan facility, being 10 November 2017. By so exercising its right under this agreement the noteholder is able to convert some or all of its US denominated loan amount and outstanding interest into Sumatra's CDI's which are denominated in Australian Dollars.

The derivative liability is recorded at fair value with changes in fair value recognised within derivative gain/(loss). The derivative liability is recorded at fair value with changes in fair value recognised in interest income (expense). Refer to Note 16 for further details.

23. PROVISIONS

	31 December 2016 US\$000	31 December 2015 US\$000
Provision for rehabilitation^(a)		
Balance at the beginning of the year	649	599
Provisions made during the year	(68)	50
Balance at the end of the year	581	649
Provision for employee benefits^(b)		
Balance at the beginning of the year	317	576
Net provisions made / (utilised) during the year	460	(259)
Balance at the end of the year	777	317
	1,358	966
Current	777	95
Non-current	581	871
	1,358	966

Sumatra Copper & Gold Plc

Notes to the Financial Statements

(a) Provision for rehabilitation

The provision for rehabilitation is an estimate of the value of future costs for dismantling, demobilisation, remediation and ongoing treatment and monitoring of the Tembang project. The Group uses third parties to estimate these costs. The estimate will be reviewed over time as the operation develops. The unwinding of the effect of discounting on the provision is recognised as a finance cost. In addition, the rehabilitation obligation has been recognised as an asset and will be amortised over the life of the mine.

(b) Provision for employee benefits

Provision for employee benefits includes the present value of the future pension plans for Indonesian employees to be received on retirement in accordance with Indonesian labour law.

24. ORDINARY SHARES AND SHARE PREMIUM ACCOUNT

Movement in share capital and premium for the year ended 31 December 2016:

		Number of shares	Ordinary shares US\$	Share premium account US\$
1 January 2016	Opening balance	708,402,182	11,435,696	61,953,478
18 February 2016	Issue of CDIs ^(a)	2,550,000	36,465	54,365
31 December 2016	Closing balance	710,952,182	11,472,161	62,007,843

(a) On the 18 February 2016, the Group issued 2,550,000 CDIs at a price of A\$0.05 per CDI under the Executive Short Term Incentive plan.

Movement in share capital and premium for the year ended 31 December 2015:

		Number of shares	Ordinary shares US\$	Share premium account US\$
1 January 2015	Opening balance	583,709,122	9,546,219	58,771,309
8 April 2015	Issue of CDIs ^(a)	88,521,828	1,328,269	2,427,918
7 August 2015	Issue of CDIs ^(b)	34,148,342	530,560	719,440
24 November 2015	Issue of CDIs ^(c)	2,022,890	30,648	34,811
31 December 2015	Closing balance	708,402,182	11,435,696	61,953,478

a) On the 8 April 2015, the group issued 88,521,828 CHES Depository Interests (CDIs) at a price of A\$0.058 per CDI to professional and sophisticated investors raising A\$5.10m. This issue represents approximately 13% of the total CDIs on issue subsequent to the issue of the placement. Included in the share premium account are transaction costs totalling US\$197,865.

b) On the 7 August 2015, the group issued 34,148,342 CDIs at a price of A\$0.05 per CDI to professional and sophisticated investors raising A\$1.71m. This issue represents approximately 4.8% of the total CDIs on issue subsequent to the issue of the placement.

c) The Group issued, for nil consideration, 2,022,890 CDIs totalling A\$91,030 (US\$65,459) at A\$0.045 per CDI to Juniper Capital Partners Limited for services related to the financing of the Senior Secured Debt Facility.

The nominal value of the shares in issue is £0.01 and the authorised share capital is the same as the issued shares.

25. SHARE BASED PAYMENTS

Options

Under the Group's share option scheme, share options are granted to Directors and to selected employees. The exercise price is the greater of the nominal value of the share, or an amount specified by the Board, which if granted at or around a placing must not be less than the price issued at the time of the placing. Options are conditional on the employee completing two years' service (the vesting period). Fifty per cent of the options granted are exercisable after one year and the remainder after two years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. Options have no voting or dividend rights.

Sumatra Copper & Gold Plc

Notes to the Financial Statements

Movement in unissued ordinary shares of the Company under option during the year:

Exercise price	Held at 1 January 2016 Number	Lapsed during the period Number	Held at 31 December 2016 Number	Expiry date
A\$0.25 (US\$0.20)	1,500,000	-	1,500,000	14 June 2017
	1,500,000	-	1,500,000	

Performance rights

Movement in unissued shares under performance rights during the year:

Valuation per right	Held at 1 January 2016 Number	Lapsed during the period Number	Held at 31 December 2016 Number	Vesting date
A\$0.05 (US\$0.049)	7,500,000	(7,500,000)	-	1 January 2016
A\$0.05 (US\$0.049)	7,500,000		7,500,000	1 January 2017
	15,000,000	(7,500,000)	7,500,000	

2016 Market performance objectives:

These performance rights are subjected to both service conditions and market vesting conditions. The Group is required to take into consideration the probability of reaching the target share price when estimating the fair value of these equity instruments at grant date. On this basis, the Group will continue to recognise expenses associated with providing this share based payment award to the employee as long as the service condition has been achieved, irrespective of whether the market condition is satisfied.

The fair value of services received in return for these performance rights granted are measured by reference to the fair value of the performance rights. On grant date, the estimate of the fair value of the services received is measured based on the spot price at the date of grant. The contractual life of the performance right is used as an input into this model.

Performance rights hurdles conditioned against the achievement of project milestones were not met and in accordance these rights did not vest on 1 January 2017.

The following table summarises the key data in relation to the valuation of market performance rights granted under the LTI Plan are as follows:

Performance condition	Company share price against the ASX gold index	Achievement of project milestones
Underlying spot price	A\$0.05	A\$0.05
Exercise price	A\$0.00	A\$0.00
Valuation date	29 May 2015	29 May 2015
Vesting date	1 January 2016	1 January 2017
Vesting period from grant date	7 Months	19 Months
Number of rights	7,500,000	7,500,000
Fair value per right	A\$0.05 (US\$0.049)	A\$0.05 (US\$0.049)
Valuation per performance condition	A\$375,000 (US\$287,779)	A\$375,000 (US\$287,779)
Entitled number of employees	3	3

The following describes the nature and purpose of each reserve within equity:

Share premium	Amount subscribed for share capital in excess of nominal value.
Convertible loan reserve	Amount of proceeds on issue of convertible debt relating to the equity component (i.e. option to convert the debt into share capital).

Sumatra Copper & Gold Plc

Notes to the Financial Statements

Share based payment reserve	Represents the fair value of the warrants issued and the accumulated balance of share based payment charges recognised in respect of share options granted by Sumatra Copper & Gold Plc, less transfers to retained losses in respect of options exercised, lapsed and forfeited.
Hedging reserve	Gains/losses arising on the effective portion of hedging instruments carried at fair value in a qualifying cash flow hedge.
Translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into US\$.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

26. CASH USED IN OPERATIONS

	31 December 2016 US\$000	31 December 2015 US\$000
Loss after tax	(29,393)	(45,250)
Adjustments for:		
Depreciation	8,947	66
Equity based employee transactions	294	(201)
Gain on derivative	(2,737)	(657)
Amortisation of hedge asset	732	732
Impairment of property, plant and equipment	4,688	45,300
Provisions	463	(208)
Finance income	(7)	(61)
Finance cost	13,735	1,666
Income taxes	734	(4,500)
Operating loss before working capital charges	(2,544)	(3,113)
(Increase) / Decrease in prepayments and other receivables	(3,072)	(2,479)
(Increase) in inventory consumables	(764)	-
(Decrease) / increase in trade and other payables	5,427	2,849
Cash used in operations	(953)	(2,743)

27. RELATED PARTY TRANSACTIONS

Key management personnel (KMP), or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Those entities may enter into transactions with the Company or its subsidiaries. The terms and conditions of such transactions are no more favourable than those available, or which might reasonably be expected to be available, to non-KMP related entities dealing at arm's length with the Company.

During the year ended 31 December 2016 the Company was invoiced US\$41,387 (2015: US\$49,432) by Hunter Corporate, for company secretary services. Hunter Corporate is a company associated with Susan Hunter who is the Joint Company Secretary. At 31 December 2016 amount outstanding was US\$4,009 (2015: nil).

During the year ended 31 December 2016 the Company was invoiced GBP 4,271 (2015: Nil) by Barr Ellison LLP Solicitors, for company secretary services and legal advice in the United Kingdom. Barr Ellison LLP Solicitors is an entity associated with Allison Barr who held the position of Joint Company Secretary. Mark Satterly resigned as UK Company secretary effective from 4 May 2016. As at 31 December 2016 there was no amount outstanding (2015: nil).

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. For the year ended 31 December 2016 the KMP's were the Directors, the Chief Financial Officer and the Chief Operating Officer.

Sumatra Copper & Gold Plc

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CHESS Depository Interests (CDIs) are held by Provident Minerals Pte Ltd and HSBC Custody Nominees (Australia) Limited on behalf of Provident Minerals Pte Ltd. Gavin Caudle is a director and shareholder of Provident Minerals Pte Ltd and has a relevant interest in these CDIs.

Performance rights and options awarded to David Fowler during 2016 amounted to US\$77,909. Performance rights and options are held by DCBAKE Pty Ltd Family trust, who are holding these on David Fowler's behalf.

Performance rights and options awarded to Steve Robinson during 2016 amounted to US\$nil. Performance rights and options are held by ELK Holdings Pty Ltd, who are holding these on Steve Robinson's behalf.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has exposure to liquidity risk, credit risk, market risk (including interest rate risk and foreign exchange risk) and commodity risk arising from its financial instruments.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the operation and exploration activities. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Market, liquidity and credit risks (including foreign exchange, commodity price, interest rate and counterparty risk) arise in the normal course of business. These risks are managed under Board approved treasury processes and transactions.

The principal financial instruments at the reporting date include receivables, payables, loans and borrowings, derivatives and cash.

This note presents information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, credit risk, market risk (including interest rate risk and foreign exchange risk) and commodities risk. The Group reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. It is the Group's policy to ensure and maintain a reputable credit profile by adhering to credit terms and ensuring a strong ongoing cash balance.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	Up to 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years
2016				
Trade and other payables	18,596	-	-	-
Loans and borrowings	14,375	327	384	45,484
Convertible note	5,507	-	-	-
Derivative financial instruments used for hedging	-	-	942	-
2015				
Trade and other payables	15,779	-	-	-
Loans and borrowings	2,266	2,760	50,751	394
Convertible note	-	-	-	1,412
Derivative financial instruments used for hedging	-	-	1,235	-

Sumatra Copper & Gold Plc

Notes to the Financial Statements

(b) Foreign currency risk

In common with many other businesses in Australia and Indonesia, foreign currencies play a significant role in the underlying economics of the business transactions of the Group.

The following significant exchange rates applied during the year:

	Average rate		Period end spot rate	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
IDR	13,417	13,804	13,436	13,793
AUD	1.3856	1.3828	1.3817	1.3719
GBP	0.8113	0.6518	0.8139	0.6745

Cash held by currency	31 December 2016	31 December 2015
	US\$000	US\$000
USD	1,978	587
IDR	495	237
AUD	26	49
GBP	1	17
	2,500	890

At 31 December 2016, if the US dollar had weakened/strengthened by 10% against the IDR/other currencies with all other variables held constant, the post-tax loss for the period would have been US\$0.17m higher/lower (2015: US\$0.14m), mainly as a result of foreign exchange losses/gains on translation of foreign currency denominated cash, trade payables, accruals and other liabilities. The directors believe that in the current economic environment a 10% variance is reasonable based on current trends.

(c) Credit risk

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and certain receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. All deposits are held with financial institutions that have a Standard & Poor's credit rating of AA- or better.

(d) Interest rate risk

The Group is has determined to mitigate exposure to cash flow from interest rate risk arising from loans and borrowings at variable rate, by entering into fixed interest rate borrowings. The Group's borrowings are all at fixed interest rate.

(e) Commodities risk

The Group's main focus is gold and silver mining and production from the Tembang project. The market prices for these commodities fluctuate widely. These fluctuations are caused by numerous factors beyond the Company's control. Such as: speculative positions taken by investors or gold traders, changes in the demand and supply for gold, actual or expected gold sales by central banks and The International Monetary Fund (IMF), global or regional economic events. A sustained period of significant gold price volatility may adversely affect the Group's ability to evaluate the feasibility of undertaking new capital projects or continuing existing operations or to make other long-term strategic decisions.

In order to mitigate this risk, the Group entered into a hedge program equivalent to approximately 50% of gold and silver production during the first 2 years of operation commencing deliveries during November 2015 to October 2017. At 31 December 2016 on a Gold equivalent basis, production is 53% hedged.

(f) Capital risk management

The Group regards its share capital and reserves as its equity and uses its monthly management accounts to monitor the level of cash available to plan for future fundraisings. Additionally, the Group has prepared detailed cash flow forecasts, which are compared on a monthly basis to actual expenditures.

Sumatra Copper & Gold Plc

Notes to the Financial Statements

The Board's policy in managing capital is to ensure that the Group continues as a going concern, and that its capital base is sufficiently strong so as to maintain investor, creditor and market confidence and to sustain future development of the business. The objective is to maintain a level of debt finance, determined according to prevailing commercial conditions, that provides a balance between this policy and optimising shareholder returns through the effect of gearing.

Covenants for Senior Debt Facility have been met.

(g) Financial instrument classification

Financial assets	Financial assets at fair value through profit & loss		Loans and receivables	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Cash and cash equivalents	-	-	2,500	890
Trade and other receivables (excluding VAT and prepayments)	-	-	2,106	1,483
Financial assets at fair value designated as hedges	610	3,488	-	-
Total financial assets	610	3,488	4,606	2,373

Financial liabilities	Financial liabilities at fair value through profit & loss		Financial liabilities at amortised cost	
	2016	2015	2016	2015
	US\$000	US\$000	US\$000	US\$000
Trade and other payables (excluding taxes and social security)	-	-	17,023	14,200
Loans and borrowings	-	-	60,570	41,827
Convertible loan	-	-	5,507	1,412
Derivative financial instruments	970	1,235	-	-
Total financial liabilities	970	1,235	83,100	57,439

(h) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016:

31 December 2016	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Financial assets at fair value designated as hedges: Derivative financial instruments used for hedging	-	-	610	610
Total assets	-	-	610	610

31 December 2016	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Derivative financial instruments used for hedging	-	-	942	942
Derivative financial instruments - warrants	-	(1,676)	231	(1,445)
Derivative financial instruments - convertible note	-	-	1,473	1,473
Total liabilities	-	(1,676)	2,646	970

Sumatra Copper & Gold Plc

Notes to the Financial Statements

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015:

31 December 2015	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Financial assets at fair value designated as hedges: Derivative financial instruments used for hedging	-	-	3,488	3,488
Total assets	-	-	3,488	3,488
Derivative financial instruments - warrants	-	-	758	758
Derivative financial instruments - convertible note	-	-	477	477
Total liabilities	-	-	1,235	1,235

During the year, the Nomura warrants were transferred to level 2 given an observable direct input could be obtained (2015: no transfers).

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instruments, as well as the interrelationship between key unobservable inputs and fair value, are set out in the table below.

	Valuation techniques used	Significant unobservable inputs (3 only)	Inter-relationship between key unobservable inputs and fair value (Level 3 only)
Financial assets / liabilities at fair value designated as hedges: Derivative financial instruments used for hedging	Pricing tool - Bloomberg Multi Asset Pricing System (MARS)	Valuation is based on mid-market observable data, factors include spread, counterparty margin and volatility.	An increase in volatility will result in an increase in fair value liability. Actual close out price will have a higher cost than valuation.
Financial liabilities: Warrants	Pricing tool - Black Scholes	Implied volatility - includes the historical share price volatility from the date of last equity raising where Provident and Saratoga became major shareholders of the Company (18 June 2013) until grant date.	An increase in volatility results in an increase in fair value.

	Valuation techniques used	Significant unobservable inputs (3 only)	Inter-relationship between key unobservable inputs and fair value (Level 3 only)
Derivative financial instruments - convertible note	Pricing tool - Fisher Black	Implied volatility 111% Risk free rate 1.62% (Independent valuation provided by Noah's rule)	An increase in volatility results in an increase in fair value.

There were no changes to the valuation methods during the period.

29. ULTIMATE CONTROLLING PARTY

The Group has no ultimate controlling party.

Sumatra Copper & Gold Plc

Notes to the Financial Statements

30. CONSOLIDATED ENTITIES

Entity	Country of incorporation	Class of share	31 December 2016 %	31 December 2015 %
<i>Parent entity</i>				
Sumatra Copper and Gold Plc	United Kingdom	Chess Depository Interest (CDIs)		
<i>Subsidiaries</i>				
PT Dwinad Nusa Sejahtera(a)	Indonesia	Ordinary	99.95%	99.95%
PT Nusa Palapa Minerals(a)	Indonesia	Ordinary	99.99%	99.95%
PT Bengkulu Utara Gold(a)	Indonesia	Ordinary	100%	100%
PT Musi Rawas Gold(a)	Indonesia	Ordinary	100%	100%
PT Jambi Gold(a)	Indonesia	Ordinary	100%	100%
PT Lebong Gold(a)	Indonesia	Ordinary	100%	100%
PT Kotanopan Mining(a)	Indonesia	Ordinary	98%	98%
PT Mandaling Mining(a)	Indonesia	Ordinary	98%	98%
SCG Energy Pte Ltd(b)	Singapore	Ordinary	100%	100%
SUM Singapore (Tandai) Pte Ltd(c)	Singapore	Ordinary	100%	100%

(a) Registered office: The Convergence Indonesia LT. 20 HR. RASUNA SAID KARET, SETIABUDI, JAKARTA SELATAN

(b) Registered office: 80 RAFFLES PLACE #16-20 UOB PLAZA Singapore 048624

(c) Registered office: Shenton Way 7, 06 Singapore, Singapore

31. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 31 December 2016 the parent entity of the Group was Sumatra Copper & Gold Plc. See financial statements for the parent entity.

32. COMMITMENTS AND CONTINGENCY

There are no commitments and contingencies at 31 December 2016 (2015: nil).

33. POST BALANCE SHEET EVENTS

On 30 January 2017, The Company issued 559,171,758 shares following approval at the General Meeting of Shareholders held on 13 December 2016.

The proceeds of funds raised from Equity Raise totalling US\$2.6m will be used to repay US\$2.5m of the existing Working Capital Facility with the Company's major shareholders, Provident Minerals Pte Ltd and PT Saratoga Investama Sedaya Tbk, with the balance of the net proceeds to be applied to general working capital.

On 7 March 2017, The Company has completed Security Purchase Plan (SPP). The SPP has raised proceeds of \$241,000 for a total number of 10,478,237 CDIs at issued price \$0.023.

On 7th March 2017, The Company has completed Security Purchase Plan (SPP). The SPP has raised proceeds of \$241,000 for a total number of 13,086,932 CDIs at issued price \$0.023, including 2,608,695 CDIs issued to employees as a bonus payment at a deemed issue price of \$0.023.

As announced on ASX website, the new CDIs have been issued and commenced trading on ASX on Wednesday, 8 March 2017.

SUMATRA COPPER & GOLD PLC



PARENT ENTITY FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2016**

SUMATRA COPPER & GOLD PLC | LEVEL 1, 5 ORD STREET, WEST PERTH WA 6005, AUSTRALIA
ABN 14 136 694 267
REGISTERED IN ENGLAND AND WALES | 39 PARKSIDE, CAMBRIDGE CB1 1PN UNITED KINGDOM
REGISTRATION NUMBER 5777015

Statement of Comprehensive Income

For the year ended 31 December 2016

		31 December 2016	31 December 2015
		US\$000	(restated) US\$000
Expenses			
General expenses	4	(1,525)	(2,486)
Share-based payments expense		(203)	201
Provision for impairment of property, plant and equipment		-	(2,592)
		(1,728)	(4,877)
Provision for impairment of investment in subsidiaries	10	(3,212)	(38,420)
(Provision for)/reversal of impairment of loans to subsidiaries	11	(11,444)	3,976
Operating loss	3	(16,384)	(39,321)
Derivative gain	17	2,737	182
Finance income	4	264	222
Finance costs	5	(640)	(101)
Net financing costs		2,361	303
Loss before income tax		(14,023)	(39,018)
Income tax expense	8	-	-
Loss and total comprehensive loss for the year attributable to owners of company		(14,023)	(39,018)

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

Statement of Financial Position

For the year ended 31 December 2016

		31 December 2016	31 December 2015 (restated)
	Note	US\$000	US\$000
ASSETS			
Non-current assets			
Trade and other receivables	11	-	7,841
Exploration and evaluation asset	9	565	571
Investments	10	-	3,212
Total non-current assets		565	11,624
Current assets			
Trade and other receivables		25	13
Cash and cash equivalents	12	80	39
Total current assets		105	52
TOTAL ASSETS		670	11,676
LIABILITIES			
Non-current liabilities			
Borrowings	15	-	500
Convertible loan	16	-	1,412
Derivative financial instruments	17	28	1,235
Total non-current liabilities		28	3,147
Current liabilities			
Trade and other payables	13	500	211
Provisions	14	141	95
Convertible loan	16	5,507	-
Total current liabilities		6,148	306
Total liabilities		6,176	3,453
NET ASSETS		(5,506)	8,223
Equity attributable to owners			
Ordinary shares	19	11,472	11,436
Share premium account	19	62,008	61,953
Other reserves	20	6,976	6,982
Accumulated losses		(85,962)	(72,148)
TOTAL EQUITY		(5,506)	8,223

The statement of financial position is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2016

	Ordinary shares US\$000	Share premium account US\$000	Share-based payment reserve US\$000	Convertible loan reserve US\$000	Accumulated losses US\$000	Total equity US\$000
Balance as at 1 January 2016 (restated)	11,436	61,953	5,967	1,015	(72,148)	8,223
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR						
Loss for the year and total comprehensive loss	-	-	-	-	(14,023)	(14,023)
TRANSACTIONS WITH EQUITY HOLDERS						
Share issue during the period	19 36	55	-	-	-	91
Share option and warrants charge during the period	20 -	-	203	-	-	203
Share option and warrants expired during the period	-	-	(209)	-	209	-
Total transactions with equity holders	36	55	(6)	-	209	294
Balance at 31 December 2016	11,472	62,008	5,961	1,015	(85,962)	(5,506)
Balance as at 1 January 2015	9,547	58,772	5,788	1,015	(33,130)	41,992
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR						
Loss for the year and total comprehensive loss (restated)	-	-	-	-	(39,018)	(39,018)
TRANSACTIONS WITH EQUITY HOLDERS						
Share issue during the period	1,889	3,181	-	-	-	5,070
Share option and warrants charge during the period	-	-	573	-	-	573
Options lapsed during the period	-	-	(394)	-	-	(394)
Total transactions with equity holders	1,889	3,181	179	-	-	5,249
Balance at 31 December 2015 (restated)	11,436	61,953	5,967	1,015	(72,148)	8,223

Refer to note 25 of the Group financial statements which describes the nature and purpose of each reserve within equity.

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For the year ended 31 December 2016

	Note	31 December 2016 US\$000	31 December 2015 US\$000
Cash flows from operating activities			
Cash used in operations	18	(1,120)	(2,352)
Net cash flow used in operating activities		(1,120)	(2,352)
Cash flows from investing activities			
Purchase of property, plant and equipment		-	-
Amounts repaid by / (advanced to) controlled entities		(3,339)	(5,072)
Net cash flow used in investing activities		(3,339)	(5,072)
Cash flows from financing activities			
Proceeds from issue of share capital		-	5,204
Share issue costs		-	(198)
Proceeds from borrowings		-	500
Proceeds from convertible notes	16	4,500	2,000
Borrowing cost paid		-	(176)
Net cash inflow from financing activities		4,500	7,730
Increase(decrease)/ in cash and cash equivalents		41	(94)
Cash and cash equivalents at beginning of year		39	133
Foreign exchange loss on cash and cash equivalents		-	-
Cash and cash equivalents at end of year	12	80	39

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

1. BASIS OF PREPARATION

(a) Statement of compliance

The company financial statements of Sumatra Copper and Gold plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IIFC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements were approved by the Board of Directors on 31 March 2017.

(b) Basis of measurement

The company financial statements have been prepared on the historical cost basis except for derivatives as measured at fair value.

The methods used to measure fair values are discussed further in note 2.

(c) Functional and presentation currency

The company financial report is presented in US dollars, which is the Company's presentation currency. The functional currency of the Company is measured using the currency of the primary economic environment in which that entity operates.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 9 – Exploration and evaluation asset

Impairment of exploration and evaluation asset

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset.

Assessment for impairment of assets is performed at a Group level. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the key assumptions used to determine the recoverable amount for the CGU. These are disclosed and further explained in Note 9.

Note 10 – Investments

Impairment of Investment in Subsidiaries

The carrying value of the investments is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Note 17 – Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Black Scholes and Fisher Black model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as time period over which to measure volatility, and the risk-free interest rate to be applied. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 22 for further disclosures.

Parent Entity

Notes to the financial statements

(e) Going Concern

At 31 December 2016, the Company had cash of US\$80,000 and net current liabilities of US\$6m. The Company is reliant upon its operating subsidiary generating sufficient cash to continue as a going concern. Refer to note 2 of the Group financial statements for disclosure regarding the Group's ability to continue as a going concern. This reliance on the subsidiary company indicates the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

(f) Restatement from prior years

Management has subsequently reclassified the fair value of warrants recognised under 'other comprehensive income' as at 31 December 2015. It is necessary to recognise movements in the value of share based payment warrants through the income statement and not 'other comprehensive income'.

The impact on the condensed statement of financial position for the year ended 31 December 2015 is described in the table below and has been considered in line with the requirements of IAS 1. There is no impact on the opening position for 1 January 2015 and therefore a third balance sheet has not been presented.

	31 December 2015	31 December 2015 (restated)	Adjustment
	US\$000	US\$000	US\$000
Statement of financial position			
Retained earnings (equity)	(70,843)	(72,148)	(1,305)
Other reserves	5,677	6982	1,305
Statement of comprehensive loss for the year			
Derivative gain	1,487	182	(1,305)
Other comprehensive income			
Movement in fair value of warrants	(1,305)	-	1,305

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and have been applied consistently by the Company.

(a) Foreign currency transactions

(i) Foreign currency transactions

Transactions denominated in foreign currencies are initially recorded at the functional currency rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange differences are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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.

(ii) Net investment in foreign operations

Exchange differences arising from the transaction of the net investment in foreign operations are disclosed within the translation reserve and recognised in other comprehensive income.

(b) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a

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Notes to the financial statements

measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults

An impairment charge in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment charges are recognised in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in companies that share similar credit risk characteristics.

An impairment charge is reversed if the reversal can be related objectively to an event occurring after the impairment charge was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. Value in use is determined as a present value of the estimated real future cash flows expected to arise from the continued use of the asset using assumptions that an independent market participant may consider. These cash flows are discounted using a real pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment charge is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment charges are recognised in profit or loss.

In respect of other assets, impairment charges recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment charge is reversed only to the extent that the asset's carrying amount exceeds the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised.

(c) Non-derivative financial instruments

Non-derivative financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available for sale (AFS) financial assets, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's loans and receivables, which include trade receivables and cash and cash equivalents are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

The Company does not have any non-derivative financial assets measured at fair value through profit or loss, held-to-maturity investments, or AFS financial assets at reporting date.

Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

(d) Convertible loans

The proceeds received on issue of the Company's convertible loans are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component

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Notes to the financial statements

is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option and is recognised in the "convertible loan reserve" within shareholders' equity, net of income tax effects.

Derivatives embedded in host debt contracts, such as convertible loan notes, are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial liability out of the fair value through profit or loss.

(e) Investments

Fixed asset investments are shown at cost less provision for impairment. The carrying value of the investments is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(f) Exploration and evaluation assets

Exploration and evaluation expenditure related to an area of interest are written off as incurred except when they are carried forward as an asset in the balance sheet where the rights of tenure of an area are current and it is believed that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale.

Once the technical feasibility and commercial viability of the extraction of mineral resources in a particular area of interest become demonstrable, the exploration and evaluation assets attributable to that area of interest are reclassified as property, plant and equipment.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest. Capitalised exploration and evaluation costs are written off where the above conditions are no longer satisfied and in particular when it has been determined that a commercial discovery has not been made.

(g) Employee benefits

(i) Share based payment transactions

The Company issues equity-settled share-based payments to its employees. In accordance with IFRS 2, 'Share-based Payments', equity-settled share-based payments are measured at fair value at the date of grant. Fair value is normally measured by use of a Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. 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.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(ii) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date, which represent present obligations resulting from employees' services provided to the reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at the reporting date including related on-costs, such as pension and superannuation contributions, social security, workers compensation and health insurance, as well as payroll tax.

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Notes to the financial statements

(h) Finance income and expense

Finance income comprises interest income on Intercompany loans. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Finance expenses comprise interest expenses relating to borrowings.

(i) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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.

(i) Current tax

The current income tax charge is calculated in accordance with taxation regulations in each jurisdiction that have been or are subsequently enacted by the reporting date. Current tax is based on the taxable income and tax allowable expenses reported by the Company. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

(ii) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets are only recognised when there is sufficient probability of future taxable profits.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(k) Warrants

Warrants issued under equity raising have been accounted for as a derivative financial liability as the functional currency of the company is USD and the currency in which the warrants have been issued is AUD. They therefore break the “fixed for fixed” criteria in IAS 39 and have been recognised at fair value on the statement of financial position.

Warrants are measured at fair value at the date of grant. Fair value is measured by use of a Black-Scholes pricing model which takes into account conditions attached to the vesting and exercise of the equity instrument. Any gains and losses on subsequent re-measurement are recorded in profit or loss.

(l) Borrowing costs

The Company capitalises interest costs for qualifying assets. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in the exploration and evaluation, development or construction stages. Transaction costs incurred on the establishment of loan facilities are recognised in the balance sheet and offset against the principal borrowings amount. These costs are amortised over the life of the borrowing using the effective interest rate method.

(m) Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted by the Company

There have been no new standards adopted by the Company for the first time for the financial year beginning on or after 1 January 2016.

(ii) New standards, amendments and interpretations not yet adopted

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group, including IFRS 9 ‘Financial instruments: Classification and Measurement’, IFRS 15 ‘Revenue from contracts with customers’ and IFRS 16 ‘Leases’.

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Notes to the financial statements

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	31 December 2016 US\$000	31 December 2015 US\$000
This has been arrived at after charging the following:		
Auditors' remuneration:		
Fees payable to the company's auditors for the audit of the parent company	148	99
Fees payable to the company's auditors for other services pursuant to legislation	9	34
Directors' remuneration (excluding share options)	607	702
Share based payments	203	(201)

4. FINANCE INCOME

	31 December 2016 US\$000	31 December 2015 US\$000
Intercompany income	264	220
Bank interest income	-	2
Finance income	264	222

5. FINANCE COSTS

	31 December 2016 US\$000	31 December 2015 US\$000
Interest and fees on convertible loan	625	-
Exchange losses	15	101
Finance costs	640	101

6. EMPLOYEE INFORMATION

By Activity	31 December 2016 Number	31 December 2015 Number
Administration	3	6
	3	6

	31 December 2016 US\$000	31 December 2015 US\$000
Wages and salaries	607	833
Share option compensation charge	203	197
Social security cost	58	75
	868	1,105

Key management personnel (KMP's) disclosures have been presented in Note 8 of the Group financial statements, directly or indirectly. For the year ended 31 December 2016 the key management personnel were the Directors and Chief Operating Officer (COO).

7. DIRECTORS EMOLUMENTS' AND INTERESTS

Refer to note 8 of the Group financial statements for details of Directors emoluments and interests.

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Notes to the financial statements

8. TAX

(a) Analysis of charges for the year

Current Tax	31 December 2016 US\$000	31 December 2015 US\$000
Australian tax on profits for the year	-	-
Income tax	-	-

The tax assessed for the year is higher than (2015: higher than) the small company rate of corporation tax in Australia 30%. The differences are explained below:

	31 December 2016 US\$000	31 December 2015 US\$000
Loss before income tax	(14,023)	(37,713)
<i>Tax calculated at domestic tax rates applicable to profits in the respective countries – Australia 30% (2015: 30%)</i>	(4,207)	(11,314)
Tax effect of		
Expenses not deductible for tax purposes	3,713	11,082
Losses carried forward not recognised	494	232
Income tax	-	-

(b) Deferred tax

At 31 December 2016, the Company had potential and unrecognised deferred tax assets as follows:

	31 December 2016 US\$000	31 December 2015 US\$000
Tax effect of temporary differences because of:		
Tax losses carried forward not recognised	6,610	6,116
	6,610	6,116

Deferred tax asset in respect to losses of US\$6.6m (2015: US\$6.1m) are not recognised as there is insufficient evidence that they are recoverable, giving rise to a deferred tax asset of US\$2.0m (2015:US\$1.8m). The deferred tax asset would be recoverable if the Company were to become profitable in the future.

9. EXPLORATION AND EVALUATION ASSET

	31 December 2016 US\$000	31 December 2015 US\$000
Cost		
Balance at the beginning of the year	3,233	807
Additions	-	2,426
Balance at the end of the year	3,233	3,233
Accumulated depreciation		
Balance at the beginning of the year	(2,662)	(29)
Depreciation charge for the year	(6)	(41)
Impairment of property, plant and equipment ^(a)	-	(2,592)
Balance at the end of the year	(2,668)	(2,662)
Net book value	565	571

Additions during the year ended 31 December 2015 relate to Borrowing costs capitalised under IAS23, these borrowing costs were incurred in relation to PT Dwinad Nusa Sejahtera ('DNS'), US\$45m Senior Secured Debt Facility.

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Notes to the financial statements

(a) *Provision for impairment of property, plant and equipment*

The Group identified impairment indicators such as the Company's market capitalisation being lower than the value of the long-term assets, the Group performed an impairment test on the recoverability of its assets.

Impairment of the Company's assets was assessed at a Group level. Refer to Note 15 related to the Group accounts for further information.

As the Company holds assets specific to the Tembang Project the directors are of the opinion there is no impairment for the carrying value of assets at 31 December 2016 and a provision has not been raised (2015:US\$2.6m).

10. INVESTMENTS

	Subsidiary undertakings US\$000	Associate undertakings US\$000	Total investments US\$000
As at 1 January 2016	3,212	-	3,212
Impairment of investment	(3,212)		(3,212)
Balance 31 December 2016	-	-	-
As at 1 January 2015	2,724	-	2,724
Additions	38,908	-	38,908
Impairment of investment	(38,420)		(38,420)
Balance 31 December 2015	3,212	-	3,212

During the year ended 31 December 2016 the Company identified impairment indicators with the value of the investment in and loans to subsidiaries being in excess of the net assets of the subsidiaries. Impairment was allocated on a pro rata basis between investment and loan receivable based on the carrying values of the assets.

Particulars of the Company's subsidiaries and associates are as follows:

Refer to note 30 of the Group financial statement for details of Company's subsidiaries and associates.

11. TRADE AND OTHER RECEIVABLES

	31 December 2016 US\$000	31 December 2015 US\$000
Amounts falling due after more than one year		
Amounts owed by group undertakings ^(a)	18,042	14,439
Provisions for impairment of loans to subsidiaries ^(a)	(18,042)	(11,867)
Borrowing costs incurred on behalf of subsidiary ^(b)	-	5,269
	-	7,841

(a) Amounts owed by group undertakings

Amounts owed by group undertakings represent intercompany loans to Indonesian subsidiaries. Repayment of these loans will not be received within the next 12 months.

In April 2015, the Company undertook a debt to equity conversion transferring US\$38.91m receivable from its Indonesian subsidiaries to investment in its subsidiaries. This was subsequently impaired in the year ended 31 December 2016.

During the year ended 31 December 2016 the Company identified impairment indicators with the value of the investment in and loans to subsidiaries being in excess of the net assets of the subsidiaries. Impairment was allocated on a pro rata basis between investment and loans receivable based on the carrying values of the assets.

(b) Borrowing costs incurred on behalf of subsidiary

On 22 October 2014, the Company's wholly owned subsidiary, PT Dwinad Nusa Sejahtera ('DNS'), entered into a 3 year Senior Secured Debt Facility of up to US\$45m with Nomura Singapore Limited and Indonesia Eximbank. The Facility is to fund the

Parent Entity

Notes to the financial statements

commercial development of the Tembang Gold Project. The Facility is secured against a number of assets including the shares held by the Company in DNS. Refer to Note 21 of the Group financial statements for details of the Amendment to this facility and the subsequent write off of unamortised borrowing costs required.

12. CASH AND CASH EQUIVALENTS

	31 December 2016 US\$000	31 December 2015 US\$000
Cash at bank and on hand	80	39
	80	39

13. TRADE AND OTHER PAYABLES

	31 December 2016 US\$000	31 December 2015 US\$000
Amounts falling due within one year		
Accruals and deferred income	363	172
Trade creditors	137	39
	500	211

14. PROVISIONS

	31 December 2016 US\$000	31 December 2015 US\$000
Provision for employee benefits	141	95
	141	95

15. BORROWINGS

	31 December 2016 US\$000	31 December 2015 US\$000
Working capital facility	-	500
	-	500

On 16 December 2015, the Company drew down \$0.5m from Provident Minerals Pte Ltd under the Working Capital Facility. On the 28 January 2016, the company issued 500,000 Tranche 2 convertible notes in repayment of the drawdown. Maturity is 24 months from date of issue.

16. CONVERTIBLE LOAN

	31 December 2016 US\$000	31 December 2015 US\$000
Convertible loan note	5,507	1,412
	5,507	1,412

Convertible loan - fair value

Refer to note 22 of the Group financial statement for details of the convertible loans.

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Notes to the financial statements

17. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2016 US\$000	31 December 2015 US\$000
Derivative financial asset/(liability) – warrant		
Balance at beginning of the year	(758)	-
Fair value on initial recognition	-	(830)
Fair value through the profit / (loss)	2,203	72
Balance at the end of the year	1,445	(758)
Derivative financial liability – convertible note		
Balance at beginning of the year	(477)	-
Fair value on initial recognition	(1,530)	(572)
Fair value through the profit / (loss)	534	95
Balance at the end of the year	(1,473)	(477)
Net derivative asset (liability)	(28)	(1,235)
Current liability	(28)	-
Non-current liability	-	(1,235)
	(28)	(1,235)

Warrants

Refer to note 16 of the group financial statements for further detail.

18. CASH USED IN OPERATIONS

	31 December 2016 US\$000	31 December 2015 US\$000
Loss before tax	(14,023)	(37,713)
Adjustments for:		
Depreciation	7	41
Equity based employee transactions	294	(201)
Provision for impairment of investment in subsidiaries	3,212	38,420
Provision for impairment of loans to subsidiaries	11,445	(3,976)
Provision for impairment of property, plant and equipment	-	2,592
Provisions	45	(109)
Gain on derivative	(2,737)	(657)
Interest and costs on convertible note	624	-
Financial income	(264)	(220)
Operating loss before working capital charges	(1,397)	(1,823)
(Increase) / decrease in prepayments and other receivables	(12)	(13)
(Decrease) / increase in trade and other payables	289	(516)
Cash used in operations	(1,120)	(2,352)

19. ORDINARY SHARES AND SHARE PREMIUM

Refer to Note 24 of the Group financial statements for further detail.

20. SHARE BASED PAYMENTS

Options

Refer to Note 25 of the Group financial statements for further detail.

Warrants

Refer to Note 25 of the Group financial statements for further detail.

Parent Entity

Notes to the financial statements

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company has exposure to liquidity risk, credit risk, market risk (including interest rate risk and foreign exchange risk) and commodity risk arising from its financial instruments.

The Company's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the operation and exploration activities. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Company through regular reviews of the risks.

Market, liquidity and credit risks (including foreign exchange, commodity price, interest rate and counterparty risk) arise in the normal course of business. These risks are managed under Board approved treasury processes and transactions.

The principal financial instruments as at the reporting date include receivables, payables, loans and borrowings, derivatives and cash.

This note presents information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk, credit risk, market risk (including interest rate risk and foreign exchange risk) and commodities risk. The Company reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. It is the Company's policy to ensure and maintain a reputable credit profile by adhering to credit terms and ensuring a strong ongoing cash balance.

At 31 December 2016, the Company had cash of US\$0.08m and net current liabilities of US\$6.1m. Current liabilities of US\$6.1m includes audit fees and directors' fees accrued but not yet paid.

	Up to 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years
2016				
Trade and other payables	500	-	-	-
Loans and borrowings	-	-	-	-
Convertible note	5,507	-	-	-
Derivative financial instruments	28	-	-	-
2015				
Trade and other payables	211	-	-	-
Loans and borrowings	-	-	500	-
Convertible note	-	-	-	1,412
Derivative financial instruments	-	-	1,235	-

(b) Foreign currency risk

In common with many other businesses in Australia and Indonesia, foreign currencies play a significant role in the underlying economics of the business transactions of the Company. As Sumatra Copper and Gold is limited in the transactions that are performed the directors believe that in the current economic environment a movement in the exchange rate will not have a material impact of the activities of the company.

(c) Credit risk

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, and certain receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. All deposits are held with financial institutions that have a Standard & Poor's credit rating of AA- or better.

Parent Entity

Notes to the financial statements

(d) Interest rate risk

The Company is has determined to mitigate exposure to cash flow from interest rate risk arising from loans and borrowings at variable rate, by entering into fixed interest rate borrowings. The Company's current borrowings are all fixed.

(f) Capital risk management

The Company regards its share capital and reserves as its equity and uses its monthly management accounts to monitor the level of cash available to plan for future fundraisings. Additionally, the Company has prepared detailed cash flow forecasts, which are compared on a monthly basis to actual expenditures.

The Board's policy in managing capital is to ensure that the Company continues as a going concern, and that its capital base is sufficiently strong so as to maintain investor, creditor and market confidence and to sustain future development of the business. The objective is to maintain a level of debt finance, determined according to prevailing commercial conditions, that provides a balance between this policy and optimising shareholder returns through the effect of gearing.

(g) Financial instrument classification

	Financial assets at fair value			
	through profit and loss		Loans and receivables	
	2016	2015	2016	2015
Financial assets	US\$000	US\$000	US\$000	US\$000
Cash and cash equivalents	-	-	80	39
Trade and other receivables	-	-	-	7,841
Total financial assets	-	-	80	7,880

	Financial assets at fair value		Financial liabilities at amortised	
	through profit and loss		cost	
	2016	2015	2016	2015
Financial liabilities	US\$000	US\$000	US\$000	US\$000
Trade and other payables	-	-	500	211
Loans and borrowings	-	-	-	500
Convertible loan	5,507	1,412	-	-
Derivative financial instruments	28	1,235	-	-
Total financial liabilities	5,535	2,647	500	711

(f) Fair value estimation

Refer to Note 28 in the Group financial statements for further detail

22. RELATED PARTY TRANSACTIONS

Refer to Note 27 of the Group financial statements for further detail.

23. POST BALANCE SHEET EVENTS

Refer to Note 33 of the Group financial statements for further detail.