



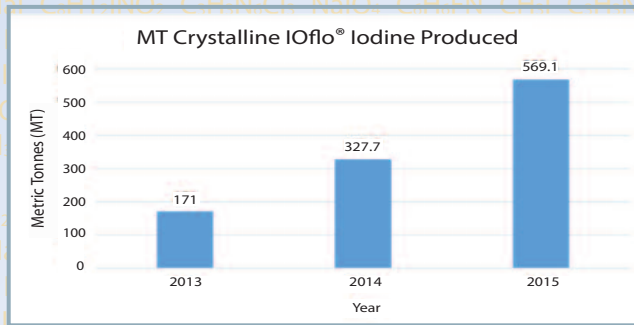
IOFINA plc

# Annual Report & Accounts 2015





# 2015: Record Iodine Production



## 2014

### Highlights:

- Produced 328 metric tonnes of crystalline IOflo® iodine, a 91 per cent increase compared to 2013
- Completed IO#4, IO#5 and IO#6, each utilising improved automation design
- Developed a turnkey design for anticipated mini WET® IOsorb® technology plants
- Improved production costs with target of \$20 per kilogram of crystallised iodine
- Significantly reduced SG&A expenses

## 2015

### Highlights:

- Produced 569.1 metric tonnes of crystalline IOflo® iodine, a 73 per cent increase compared to 2014
- Closed IO#1 Proof of concept plant to focus operations in our core area in Oklahoma
- Continued focus on operational excellence and plant level cost reductions
- Record sales of iodine
- Second largest North American iodine manufacturer
- Continued pursuit of water rights permit in the state of Montana

## 2016

### First Quarter 2016:

- Produced 124.6 metric tonnes of crystalline IOflo® iodine
- Record quarterly sales of iodine and specialty halogen derivatives to global consumers through Iofina Chemical

### Expectations:

- 250-270 metric tonnes production target for 1H 2016
- Working with partners to mitigate risk of regulations to brine injections due to seismic activity in Oklahoma to ensure brine supply
- Actively exploring iodine production expansion opportunities with current and new partners
- Iofina Chemical expected to consume and sell record levels of iodine in 2016



Iofina Chemical: Covington, Kentucky



**Contents**

COMPANY INFORMATION .....	2
CHAIRMAN’S STATEMENT.....	3
FINANCIAL REVIEW .....	10
DIRECTORS’ BIOGRAPHIES .....	12
STRATEGIC REPORT .....	13
DIRECTORS’ REPORT .....	17
CORPORATE GOVERNANCE STATEMENT.....	20
INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF IOFINA PLC .....	23
GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	25
GROUP CONSOLIDATED BALANCE SHEET .....	26
GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY .....	27
GROUP CONSOLIDATED CASH FLOW STATEMENT .....	28
COMPANY BALANCE SHEET .....	29
COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY .....	30
COMPANY CASH FLOW STATEMENT .....	31
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....	32

**COMPANY INFORMATION**

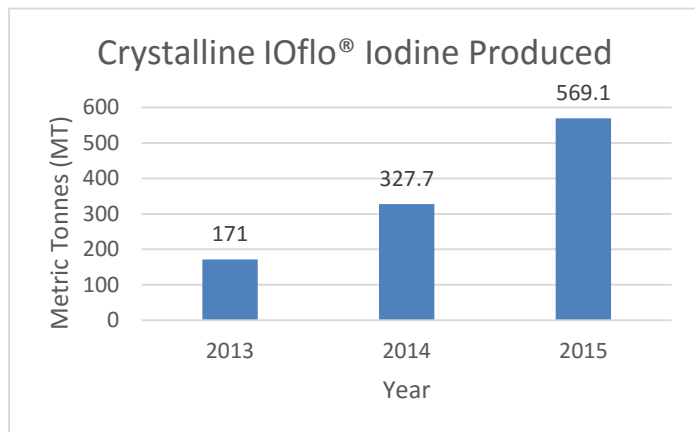
Directors	L J Baller T M Becker W D Bellamy
Secretary	Simon Holden
Company number	05393357
Registered office	1 King Street London EC2V 8AU
Auditor	RSM UK Audit LLP 25 Farringdon Street London EC4A 4AB
Nominated Adviser	finnCap Ltd 60 New Broad Street London EC2M 1JJ
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Registrar	Capita Registrars 34 Beckenham Road Kent BR3 4TU
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**CHAIRMAN’S STATEMENT**

The period under review proved to be a year of operational success, against a continued backdrop of iodine price declines and the emergence of seismic activity in the Group’s core area in Oklahoma. Despite these uncontrollable factors, the Group recorded strong iodine production volumes in 2015, improved efficiencies and substantially reduced plant level operational costs. The Group also consumed and sold record volumes of iodine through Iofina Chemical (“IC”) and entered new markets along with new products. Overall the Board is pleased with the progress made during 2015 and is looking forward in 2016 and beyond to maximise production at current IOsorb® plants, continue conservative controlled long-term expansion, and is planning for a more robust expansion once iodine prices return to previous historic levels.

The Group produced a record level of iodine at its IOsorb® plants of 569.1 metric tonnes (“MT”) of crystalline iodine for the full year of 2015 (2014: 327.7 MT), a like for like increase of 73%. In order to achieve this, the Group focused on its core area in Oklahoma where five IOsorb® plants are located and, in the second quarter of 2015, decided to shut down the Texas operations which included the IO#1 “proof of concept” IOsorb® plant following the Group’s operational review. The lack of volume of brine water at this site, coupled with the iodine price were the main determining factors in the Board’s decision. In Oklahoma, the Board made the strategic decision to focus on supply side reduction in raw material costs, the strengthening of its work force, and on reducing plant level operational costs. The Group was successful in driving down costs but was challenged by uncontrollable variables including declining iodine prices to around \$25 per kg at year-end of 2015. Most of the cost reductions were absorbed by the decline in the iodine prices.

While oil and natural gas prices do not affect the Group directly, they do affect our partners and their financial stability, drilling plans, reserve based lending and field development. Well drill times were reduced from circa three to one week, with full cost savings realized by partners. These savings helped the operators to continue to drill



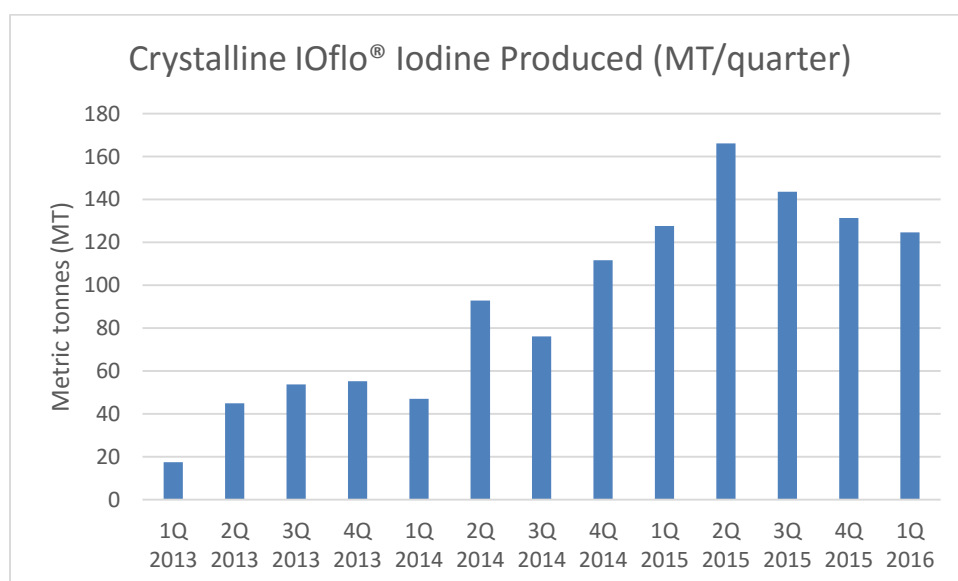
aggressively with fewer drilling rigs, while waiting to tie in these newly completed wells at a later date. At the end of 2015 our partners had three drilling rigs in operation in the Group’s core operating area. U.S. Natural Gas prices fell in 2015 and closed the year at \$2.21 MCF. U.S. crude oil closed 2015 at \$37.04 per barrel (\$53.27 year end 2014). Brent crude, the global oil benchmark, fell 35% to end the year at \$37.28 per barrel (\$57.33 year end 2014). Oil prices capped a second year as one of the worst-performing commodities, as a global glut of crude continued to weigh on the market.

In November, a new challenge emerged for our oil and gas partners that directly affected the Group. This challenge resulted from the Oklahoma Corporation Commission (“OCC”), the State oil and gas regulatory agency, reducing the ability to reinject brine water into injection wells in a broad area

which included much of our core area due to seismic activity. This area was expanded in the first quarter of 2016 to include more than a 10,000 sq. mile area of northwest and central Oklahoma with a reduction of injection volumes by up to 40 per cent. The OCC has issued thirteen directives over the past year asking disposal well operators injecting brine into the Arbuckle layer, which is the deepest sedimentary rock layer throughout much of Oklahoma, to either cut volumes, plug back well depths or shut in wells altogether. The OCC's latest directives include four phases of curtailing disposal volumes throughout central and north-western Oklahoma. The fourth stage in the northwest Oklahoma plan was completed at the end of April, and the final phase for the central area is scheduled for the end of May. Fortunately, the Board had already been pursuing plans to maximise the underperforming IOSorb® plants by tapping into the producer’s main brine pipeline networks that is routed between injection sites. This allows the Group to be less associated with a particular Salt Water Disposal injection well (“SWD”). The Group brought forward this solution to include all IOSorb® sites that may benefit. This solution requires a minimal capital expenditure to the Group while ensuring that the Group’s IOSorb® plants, at a minimum, maintain current levels of brine processing and ideally expand volumes at some of our IOSorb® plants. Even with the OCC restrictions and a slowdown of new well drilling rates in the Group’s core area, there remains an abundance of brine for the Group’s current plants and potential future sites.

**Iofina Resources**

The Board is pleased with the significant strides made by the team, which resulted in another strong operational year for Iofina Resources (“IR”). The Group established record production of 569.1 MT of crystalline iodine, despite extensive downtime due to having four SWD’s down for workovers. Most notably, IO#2 was down for almost three weeks in August and IO#4 was offline for 64 days as a result of a rebuild of our partner’s SWD site. Further efficiency gains and operational and organizational improvements have resulted in a more stable and productive workforce. OPEX costs in 2015 came in below budgeted estimates.



The Group has undertaken a major Environmental, Health & Safety (“EH&S”) Initiative with the hiring of a dedicated field person directing the effort. The Group continued to improve its relationship with existing partners despite several personnel changes at various levels in these organizations. The Group continues to explore for new locations in Oklahoma, Texas, New Mexico, and California and is actively leasing in certain potential expansion areas. Furthermore, the Group is in active discussions with potential partners including oil and gas operators, SWD operators, and water treatment and reuse companies. Smaller operators continue to drill in known high iodine concentrated areas. The Group continues to have discussions with these operators as potential partnerships for the drilling and operating of SWDs. The Group has received unsolicited calls inquiring about the economics of iodine extraction. The Group believes this is in part due to the drop in oil and gas price and the operators searching for additional revenue.

The increased seismic activity in Oklahoma continues to provide challenges to our production goals. The Group continues to work on plans in conjunction with our partners, to ensure our supply of brine is delivered in 2016. The Group is optimistic that this can be done by tying into the main lines of the operator’s water transfer systems (WTS) at IOsorb® sites. This should prove to be a better design for these large scale WTS.

As reported in November, a magnitude 4.7 earthquake hit in NW Oklahoma in our area of operations. This event prompted the OCC to shut down 2 disposal wells, which are not directly associated with our IOsorb® plants, and curtail injection volumes on the other SWDs in a 10 mile radius of the seismic event by 40%. Subsequently in 2016, a larger area of approximately 10,000 square miles in northwest and central Oklahoma has been subject to further restrictions. There have been numerous and sometimes confusing news reports as to the cause of this recent seismic activity. There is no doubt seismic activity has increased dramatically as has the number of injection wells and the amount of produced water being injected. The research to determine the precise cause for this increase is ongoing. The industry is collectively working on mitigating the impact of injection curtailments on oil and gas production. Simply put the water has to go somewhere. There were 36 earthquakes greater than 4.0 in the state of Oklahoma in 2015 compared to 14 in 2014.

In the nine counties in north-central Oklahoma, earthquake activity has slowed over the past year. The area averaged 46 magnitude-3.0 or greater earthquakes per month at the start of 2015. That number dropped to 33 per month by the end of the year and to 28 per month in early 2016. While the earthquake activity has slowed in central Oklahoma, the trend has headed the other direction in the north-western part of the state, where the number of magnitude-3.0 or greater tremors has jumped from 34 per month in early 2015 to 37 per month by the end of 2015 and to 52 per month in early 2016. The most recent activity has centred on the newly identified Galena Fault northwest of Fairview. Seventy-five to eighty-five per cent of all the energy released by this seismic activity this or last year has been in the area near the towns of Waynoka and Fairview. Oklahoma is crisscrossed with ancient fault lines, but most of the faults have been unmapped and unstudied until the past two years, when the Oklahoma Geological Survey led an effort to identify the thousands of cracks deep below the Oklahoma soil. Production companies collect extensive data on the often small areas where they are searching for oil and natural gas. As part of the effort to better understand and address the earthquake emergence, companies have turned their data over to the geological survey, which has compiled updated fault maps. Near the town of Fairview, many faults are newly identified. The geological survey is working with oil and natural gas companies in the area to help

complete the fault map in the area and gain a clearer picture of what is causing the most recent outbreak. Regulators also are watching the area and the rest of northern and central Oklahoma to see what effect new rules will have on the seismic activity. Regulatory efforts have focused on SWD's drilled into and through the Arbuckle layer.

The OCC has taken more than twenty-five actions over the past three years, and the response will continue to evolve with the science and the research. The state's overall seismic activity rate has slowed over the past year along with declining saltwater disposal volumes. While some of that reduction in volumes may be from new regulations, much is likely a result of low oil prices which has led oil and natural gas companies to slow activity throughout much of the state, especially in northwest Oklahoma's Mississippi Lime. New regulations over the past year require companies to gather daily information on disposal volumes and pressures. Ongoing research projects are studying the way pressure moves through rock layers and interacts with existing faults.

The increased regulatory and public scrutiny of injection wells could result in further curtailments and potential shut-ins of injection wells across the state. Within the Group's area of focus, operators are already laying new pipelines to alleviate certain bottle-necks in their WTS. They are looking at recompleting their SWD's into different zones other than the Arbuckle. The Operators in the Group's Core Area are planning on completing 5 to 10 wells a month in 2016 and to move more water in the focus area. One Operator in the Group's core area recently acquired an additional 20,000 acres in an area of potentially iodine rich brine. The point is that these are significant oil and gas operations and these current restrictions of injection volumes will simply become a part of operating injection wells in Oklahoma.

There is ample iodine rich produced water in our Core Area produced by our partners of which Iofina only processes a portion of the total supply. The Group's task is to provide as much water as possible to each of our IOsorb® plants with minimal capital expenditures.

Iodine prices, like most commodities, are low with respect to historical trends. Future iodine production expansion using the Company's IO#1 equipment, mobile IOsorb® technology or other means is being explored. Regulatory uncertainty, iodine demand, and iodine pricing are a few of the factors the Group considers before committing to expansion.

The Group's legacy property, the Atlantis Field, is still being maintained in northern Montana. The economics to develop this field to produce iodine and natural gas are favourable; however they currently are not viewed as favourably as additional IOsorb® plants.

Separately, the non-core Atlantis Water Depot project had an unfavourable ruling on our water permit which was initially granted and subsequently denied in June of 2015. There was a Judicial Review Hearing held 24 February 2016 in Helena Montana. The ruling, while not certain, is expected in late Q2 2016.

### **Iofina Chemical**

On a positive note, Iofina Chemical ("IC") was successful in strong, continued sales of Iofina produced IOflo® Iodine to strategic markets globally. Iodine consumption at IC was the most in the Group's history. Our non-iodine derivative business was very successful in 2015 recording record sales of our fluorinated compounds. These non-iodine derivatives are an important part of Iofina's



diversification strategy. During 2015 IC was awarded a significant long-term contract for one of its non-iodine based products with regular yearly quantities. IC is traditionally a first half weighted business and this was true in 2015 and is likely in 2016. IC is well positioned for 2016 and anticipates record iodine consumption and raw iodine sales in 2016.

The period under review at IC did, however, bring challenges to match record sales from 2014. The continued declining price of iodine made it difficult to repeat the 2014 efforts, but the overall usage of iodine in its derivatives increased in 2015. The competitive nature of the iodine business has placed pressure on total revenue and margins. With the drop of iodine prices from circa \$30/kg in Q1 2015 to \$25/kg by the end of 2015, revenue did decline year over year.

That said expansion of sales in Asia and South America continue to add to IC's global diversification. IC has developed a reputation as a quality driven organization that is able to meet and exceed customer requirements and deliver goods in a timely manner. Stability of the Company's main raw material, iodine, through vertical integration of Iofina Resources ("IR") produced iodine, allows IC to provide its customers with the confidence of supply in the dynamic iodine and iodine derivative marketplace.

IC's continued efforts in new product development, along with its improvement of current processes, will help drive its future growth. IC is committed to investing in R&D, and is continually developing new processes in order to offer new products in a safe, efficient and economical manner. Recent R&D has focused on a series of iodine based products that have a synthesis route related to one another thus providing a pathway for numerous new products for the Group.

The Group continues to seek-out and utilize iodine through alternative sources like process streams for recycling. IC uses unique technology to isolate and reuse high-purity iodine from these sources. Together, through its global reach, both IC and IR continue to seek out traditional and non-traditional iodine sources for the Group.

IC is a Chemstewards® certified facility, and strives for continual improvement while focusing on meeting our customers' needs and doing so in a safe and environmentally conscious manner. Using the technology for the Group's iodine production at IR which isolates a resource that is otherwise not realized has helped in these environmentally conscious efforts.

### **Iodine Market**

The Group has seen some recent iodine price stabilisation in Q1 2016, during which the US dollar has generally weakened, and believes supply of iodine is becoming equilibrated. In 2015 a Chilean iodine producer curtailed all iodine production and SQM, the world's largest iodine producer, closed some higher cost iodine production. While it is not certain, the Board sees less downside risk in the near term for iodine prices.

That said, the global demand for iodine and iodine derivatives continued to grow at modest rates of approximately 3-4% in 2015 while the price of iodine continued to fall throughout 2015. Most of the world's iodine consumption growth is occurring in developing countries where advances in medical treatments and LCD screen usage top the list of iodine growth applications. At year-end 2015 prices for large quantities of prilled iodine were near \$25/kg. Globally, the largest iodine producer has indicated that they intend to not lose market share. As a result of producers striving to maintain or

grow market share, prices continued lower in 2015 and early 2016. An additional factor of weakening iodine prices over the past year was the strengthening of the US dollar versus Japanese and Chilean currencies where a majority of the world's iodine is produced.

### **Safety and Environmental Sustainability**

The Group's core business of iodine production utilizes brine water lifted during oil and gas production, which is generally considered a waste stream by the oil and gas manufacturers. By removing iodine from this stream, the Group isolates a valued product that otherwise would be unrealized. As a corporate policy, Iofina promotes health, safety, and environmental sustainability in its working practices and seeks to minimise, mitigate or remedy any harmful effects from the Group's operations on personnel and the environment at each of its operational sites.

In 2015 IR hired a full-time EH&S manager in its core area of Oklahoma to further our commitment to safe and environmentally conscious operations. IC is a Chemstewards® certified facility. At all of our operating facilities, the Group is committed to continual improvement of our health, safety, and environmental programs and practices. Management routinely reviews audits, policies and internally developed matrices to ensure we are meeting or exceeding regulations at the Group's operations.

### **Outlook**

2015 continued the Group's focus on operational excellence where record iodine was produced by Iofina Resources and record iodine was consumed to make iodine derivatives at Iofina Chemical. Cash balances ended 2015 at over \$4.15million with a significant increase in inventory to \$6.39 million (2014: \$3.55 million) as the Group built a strategic inventory for crystalline IOflo® iodine sales. Iodine and iodine derivative inventory levels were written down during the course of the year as iodine prices declined and these write-downs contributed negatively to the Group's 2015 results.

As we look into 2016 and beyond, an immediate task for the Group is to ensure brine supply to our IOSorb® plants in the wake of recent OCC restrictions so that we maximize iodine production. Iofina and its partners are cooperatively implementing these plans to mitigate any current or future risk of brine supply in our core area.

Our decision in 2015 to slow expansion plans was a prudent choice given the state of iodine prices and the overall supply/demand ratio in the iodine market. Looking forward, the Board continues to implement a strategy of conservative, controlled expansion in the near term while also planning for a more robust expansion using our various IOSorb® technologies once iodine prices return to historic levels. While it is still too early to decisively conclude, the recent stabilization of iodine prices is seen by the Board as a positive sign. We continue to focus on expansion opportunities in the Group's core area whilst also exploring other avenues for expansion.

The Board recognizes the debt instruments are currently due to mature in mid-May 2017. The Board is actively working towards solutions and is encouraged by the progress it is making and confident it can negotiate a positive outcome.

Sales of iodine, iodine derivatives and other specialty chemicals globally are anticipated to grow for the Group in 2016. Being a producer of iodine with multiple iodine manufacturing plants and vertically integrating this iodine into iodine based products gives Iofina's customers confidence in

product supply. Investing in new product development provides additional up side to our sales and margins.

The Board is excited for 2016 and the clarity it may bring to our business model with the eventual stabilisation and rebound of iodine prices. The Group will continue to optimise, control costs and move forward our vision of growth.

A handwritten signature in blue ink, appearing to read "Lance J. Baller".

Lance J Baller  
Non-Executive Chairman  
Iofina plc  
6 May 2016

## FINANCIAL REVIEW

### Summary year on year

- Revenue declined by 21% from \$25.85m to \$20.33m
- Gross profit improved by 64% from \$2.64m to \$4.34m
- Loss before tax fell by 51% from \$6.71m to \$3.31m
- Cash balances declined by \$2.81m from \$6.97m to \$4.16m
- Capital investment was \$1.39m (2014: \$6.22m)

### Trading results

Revenue fell following further reductions in the market price for iodine and strong competition for market share. However gross profit improved from \$2.64m (10.2% of sales) in 2014 to \$4.34m (21.3% of sales) in 2015. The principal factor behind this improvement was an approximately 35% reduction in average manufacturing and royalty cost of raw iodine produced at the Group's five plants. This in turn reflected an increase of 73% in iodine produced, from 328 to 569 metric tonnes, while raw materials, labour and overheads consumed cost less than in 2014. 2015 was the first full year of operation for four of the five plants, and significant improvements in operations were achieved, a process that is ongoing.

### Loss before tax

Administrative expenses were overall in line with 2014 except for an increase of \$0.43m in unabsorbed manufacturing cost. This reflected a shortfall of activity at the Group's chemical plant in relation to normal operating capacity. There was no impairment expense in 2015 compared to charges of \$2.52m in 2014, of which \$1.21m related to the decommissioning of the Group's IO1 plant, and \$1.31m to non-core leases and non-operational plant and machinery belonging to the Montana Atlantis Field project. Finance expense is \$0.31m higher in 2015, due mainly to a full year's interest on the \$5.0m convertible note issued on 30 April 2014. It should be noted that for 2015 a full year's interest actually payable on the two convertible notes in issue amounted to approximately \$1.20m, and approximately an additional non-cash \$0.60m was added to this amount in respect of notional discount arising from the capitalisation of a sum for the equity conversion feature of the notes.

### Working capital

The decline of \$2.81m in cash balances year on year was matched by an increase in inventories of \$2.84m. The majority of this increase relates to raw iodine, and was due to time taken in finding the best channels of distribution when the price of iodine was at a low. Raw iodine inventories have fallen substantially as sales have been made during the first quarter of 2016.



**Capital investment**

The Group incurred \$0.77m of expenditure on plant and equipment improvements at both its iodine extraction plants and its chemical processing plant. A further \$0.25m was spent on property rights and services related to the Montana Water Depot project, and \$0.34m on additional leaseholds in areas of interest outside the areas serving the current iodine extraction plants.

A handwritten signature in blue ink that reads "Malcolm Lewin".

**Malcolm Lewin**

Chief Financial Officer

Iofina plc

6 May 2016

## **DIRECTORS' BIOGRAPHIES**

### **Lance J. Baller, Non-Executive Chairman**

Mr. Baller was co-founder, CEO and President of Iofina Plc prior to his departure for health reasons in June 2013. Mr. Baller was the Group's Finance Director from 2007 until his appointment as CEO in 2010. Mr. Baller returned as Chairman in April 2014. Mr. Baller is the former managing partner of The Elevation Fund and Elevation Capital Management. Mr. Baller is the former managing partner of Shortline Equity Partners, Inc., a mid-market merger and acquisitions consulting and investment company in the United States. He has actively served on the investment, audit, corporate governance and compensation committees, while on the board of directors of companies in Asia and North America. Mr. Baller is also a former vice president of mergers and acquisitions, financing and corporate development at Integrated Biopharma, Inc., and prior to this a vice president of the investment banking firms UBS AG and Morgan Stanley. He has served as Chairman to various companies and has led successful restructurings. Mr. Baller is on the board of trustees of Index Funds and also serves as the chairman of the audit committee and as the audit committee financial expert under the Sarbanes-Oxley Act of the United States for Index Funds.

### **Dr. Thomas M. Becker, Chief Executive Officer**

Dr. Becker was named President/CEO of Iofina Chemical in March 2010. Previously, Dr. Becker was the Vice President of Research and Development at H&S/Iofina Chemical. Iofina bought H&S in July 2009. Dr. Becker has conducted extensive research in both inorganic and organic halogen based chemistry. Dr. Becker has written a magnitude of published technical papers in his career. Prior to H&S Dr. Becker worked as an Oak Ridge Scholar on behalf of the US EPA and for various other chemical manufacturing companies. Dr. Becker earned a BS in Chemistry from Indiana University, and a PhD in Chemistry from the University of Cincinnati. He has extensive experience in scale-up of chemical processes from laboratory to pilot to full scale production and is the inventor on several chemical patents/patent applications. Dr. Becker is a member of the Board of Governors of the Society of Chemical Manufacturers and Affiliates ("SOCMA").

### **Dr. William D. Bellamy, Non-Executive Director**

Dr. Bellamy is the former Senior Vice President of the Water Business Group at CH2M HILL, Inc. ("CH2M"), a company he has worked at for 30 years until his recent retirement. CH2M is one of the largest consulting engineering companies in the world, providing leadership and strategic direction for the water business and application of technologies worldwide. Dr. Bellamy has participated in energy and sustainability forums, including as a panellist at the World Future Energy Conference in Abu Dhabi, the World Bank Sustainable Cities Symposium and the Future of Water Economic Forum. Dr. Bellamy serves as Professor of Practice at the University of Wyoming, where he teaches graduate courses and is responsible for securing grants and research funding in the areas of water resources, water treatment and sustainable energy development. Dr. Bellamy has a PhD in Civil Engineering from Colorado State University, an MSc in Civil (Environmental) Engineering from the University of Wyoming and a BSc in Electrical (Bio-Medical) Engineering from the University of Wyoming.

## STRATEGIC REPORT

### Principal activities and review of the business

Iofina plc (“Iofina” or the “Company”) is the holding company of a group of companies (the “Group”) involved in the exploration and production of iodine with complete vertical integration into the specialty chemical iodine derivatives business. Iodine in brine water sourced from oil and gas operators is used as a raw material for the production of iodine at the Company’s IOsorb® plants. Halogen based derivatives are produced at and sold through Iofina Chemical with the major raw material being the Company’s produced iodine. Additionally, raw iodine sales outside the Group are an additional revenue stream.

Iodine is a rare element that is produced only in a few countries in the world, with approximately 90 percent produced from Chile (60 percent) and Japan (30 percent). Through the Group’s wholly owned subsidiary, Iofina Chemical Inc., the Group is vertically integrated into the iodine derivatives market and the crude iodine sales market.

The Group’s proprietary Wellhead Extraction Technology® (WET®) and WET® IOsorb® methods enable the co-production of iodine from brine. The Directors of the Company believe that Iofina’s unique business model for the production of iodine by utilizing produced brine from third party oil and gas producers is advantageous for continued raw material sourcing and minimized expansion capex costs. Continued substantial production and sales of non-iodine halogen derivatives has allowed for some diversification for Iofina in a time where iodine prices have continued to fall in 2015. The Company in 2015 has invested to expand its capacity of its non-iodine based products.

### Key Performance Indicators

The directors review a range of financial indicators to assess and manage the Group’s performance, including the following:

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
Revenue from sales of iodine and iodine derivatives	\$14,169,530	\$17,669,865
Revenue from non-iodine products	\$6,159,527	\$8,179,062
Total revenue	\$20,329,057	\$25,848,927
Total pounds of product shipped	1,812,974	1,942,000
Metric tonnes of crystallised iodine produced	569	328
IOsorb® plants in operation (year-end)	5	6

### Objectives

At the end of 2015 the Group has five operating iodine production facilities after the Group shut down its ‘proof of concept’ plant IO1 in Q2 2015. While the theoretical capacity of these plants is very high, the practical capacity of the plants is somewhat lower. Practical capacity takes into account multiple causes of downtime, including weather, repairs and maintenance, inadequate brine (low parts per million of iodine, heavily contaminated brine or little to no supply), power outages

and other conditions. Continued operating experience will result in more accurate practical capacity operating targets as well as techniques for maximising practical capacity.

In 2015 the primary focus was to maximise production and manage costs as iodine prices continued to fall throughout 2015. With increased regulation due to seismic activity in our core area, efforts at the end of 2015 and into 2016 focused on brine reduction risk due to regulations of specific Salt Water Disposal sites ('SWD'). In order to mitigate these risks, the Group, and its partners, are working cooperatively to allow brine supply to our plants above the water injected to the onsite SWD. The Group into 2016 continues to expand its global iodine sales network.

Timing of future iodine production growth and expansion projects will be dependent on various factors including the stability or increase of iodine prices and the regulatory landscape with respect to brine injection. Iofina Chemical continues to expand capacities of current products and is developing new halogen based compounds.

The Atlantis Water Depot Project is awaiting a judicial review on the unanticipated reversal of the water permit and a ruling is expected in the next few months. Assuming a favourable ruling for the Group, financing will be required for the project. Such financing could be obtained through multiple channels, possibly including joint ventures with others.

### **Principal risks and uncertainties**

Iofina plc is subject to a number of risks and uncertainties, which could have a material effect on its business, operations or future performance, including but not limited to:

**Exploration:** Exploration for resources involves significant risk. There is no assurance that commercial quantities of resources can be recovered from the Group's current acreage or that resources will be discovered from the Group's future acreage. The Group continues to evaluate opportunities to integrate its IOSorb<sup>®</sup> process into its own oil and gas operation, as well as others throughout the world. By continuing an aggressive water testing program and active exploration utilising geology and data analytics, we are constantly evaluating new potential locations for iodine extraction.

**Environmental:** The Group's operations are subject to the environmental risks inherent in the exploration industry. The Group is subject to environmental laws and regulations in connection with all of its operations. Although the Group intends to be in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other circumstances that could expose the Group to extensive liability. Accordingly, the Group promotes wherever possible environmental sustainability in its working practices and seeks to minimise, mitigate or remedy any harmful effects from the Group's operations on the environment at each of its operational sites. The regulations on brine injections into the Arbuckle geological formation in the Group's core area due to seismic activity, have effected Iofina's and its partners' operations. The Group and its partners continue to implement strategies to minimize the effect of iodine rich brine due to these regulations. Moving forward the Group and its partners will continue to monitor these risks and act accordingly.

**Price volatility:** The demand for, and prices of, iodine and natural gas are highly dependent on a variety of factors including international supply and demand, the level of consumer product



demand, the price and availability of alternatives, actions taken by governments and international cartels and global economic and political developments. International prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in iodine and natural gas prices and, in particular, a material decline in the price of iodine and natural gas would have a material adverse effect on the Group's business, financial condition and operations assuming production is achieved by the Group's production and exploration activities. Declining iodine prices have had a significant impact on the profit margins in 2015. Current, and historically low, gas and iodine prices have prevented us from capitalising on the properties in Montana.

**Key customers:** There are a limited number of potential customers who purchase many of the products of the Group's chemical business, which makes relationships with these customers, as well as the success of those customers' businesses, critical to the Group's success. The loss of one or more major customers could harm the business, operating results and financial condition of the Group. Iofina is continuing to diversify its customer base in its Chemical subsidiary. In addition, Iofina works closely with all of its customers to develop strong relationships, with a significant focus on ensuring that its products and services meet the needs of its customers and are of the highest quality. In 2015, 26 percent (2014: 36 percent) of revenue recognised was attributable to one long term customer, a distributor. Relations with this customer are good.

**Regulation:** The businesses are subject to various significant international, federal, state and local regulations currently in effect and scheduled to become effective in the near future, including but not limited to environmental, health and safety and import/export regulations. These regulations are complex, change frequently, can vary from country to country, and have increased over time. Iofina may incur significant expense in order to comply with these regulations or to remedy violations of them.

Any failure by Iofina to comply with applicable government regulations could result in non-compliant portions of our operations being shut down, product recalls or impositions of civil and criminal penalties and, in some cases, prohibition from distributing our products or performing our services until the products and services are brought into compliance, which could significantly affect our operations.

The Group closely monitors regulations across its businesses to ensure that it complies with the relevant laws and regulations. While Iofina does not believe that it is non-compliant with any laws or regulations, any instances of non-compliance would be brought to the attention of the appropriate authorities as soon as possible.

#### **Going concern**

The directors recognize that the convertible notes described in note 20 are currently due to mature on 15 May 2017. The directors are actively working towards concluding arrangements that will at a minimum continue the level of funding provided by these notes, and are confident that a successful and timely outcome can be negotiated. On this basis the directors consider that at its current stage of development the Group does not need to raise additional funds in order to realise its business plan. The Group has prepared forecasts and projections on the foregoing basis that indicate there are adequate resources to continue in operational existence for the foreseeable future. For these

reasons, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

On behalf of the board

A handwritten signature in blue ink, appearing to read "Lance J. Baller".

**Lance J. Baller**

Non-Executive Chairman

Iofina plc

6 May 2016

## **DIRECTORS' REPORT**

The directors present their report and financial statements for the year ended 31 December 2015.

### **Strategic report**

In accordance with S414C (11) of the Companies Act 2006: included in the Strategic Report on pages 13 to 16 is the review of the business and principal risks and uncertainties. This information would have otherwise been required by Schedule 7 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 to be contained in the Directors' Report.

### **Post balance sheet events**

There were no material events arising after the balance sheet date that need to be reflected in these financial statements.

### **Directors' responsibilities for the preparation of the financial statements**

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 loss of the Group for that period.

In preparing the Group and Company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Iofina plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Results and dividends**

The results for the year are set out in the consolidated statement of comprehensive income and detailed in the Financial Review.

The directors do not recommend payment of a dividend.

### **Financial instruments and risk management**

Note 14 details the risk factors for the Group and the degree to which it is appropriate to use financial instruments to mitigate risks.

### **Directors**

The directors who served during the year and subsequently were as follows:

Lance J. Baller, Non-Executive Chairman

Dr. William D. Bellamy Non-Executive Director

Dr. Thomas M. Becker, Chief Executive Officer and President

T. Michael Coddington, Finance Director, Executive Director, resigned 27 October 2015

Neil K. Hekking, Chief Financial Officer, appointed 28 October 2015, resigned 15 February 2016.

### **Statement as to disclosure of information to the auditor**

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.



**Auditor**

RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP) has indicated its willingness to continue in office.

On behalf of the Board

A handwritten signature in blue ink, appearing to read "Tom Becker".

**Dr. Thomas M. Becker**

Chief Executive Officer and President  
6 May 2016

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of the Company (“Board”) acknowledges that adhering to rules of good corporate governance is in the best interests of the Company and its shareholders. All the Directors remain committed to high standards of corporate governance and consider that the Board progressively adopts best practices. The following sections describe how the Board has applied the principles that they consider relevant to a company of Iofina’s size and stage of development.

### **Board structure and committees**

The Board currently comprises one executive director and two non-executive directors. The roles of Chairman and Chief Executive Officer are separate, ensuring a division of responsibilities at the head of the Company. The Non-Executive Chairman conducts Board and shareholder meetings and ensures all directors are properly briefed. The Board is responsible for formulating, reviewing and approving the Company’s strategy, budgets and major items of capital expenditure.

Board meetings are scheduled to take place at least quarterly, with additional meetings to review and approve significant transactions. The Board is provided with Board papers before each Board meeting, of which there were six in the year. The Company Secretary’s services are available to all members of the Board. If required, the directors are entitled to take independent advice and if the Board is informed in advance, the Company will reimburse the cost of the advice. The appointment and removal of the Company Secretary is a decision for the Board as a whole.

Non-executive directors, with the exception of the Chairman, are appointed on a contract with a three month notice period. The Chairman and the executive directors are appointed on a contract with a twelve month notice period. All directors are subject to re-election. Each year, one third of the directors are subject to re-election by rotation. New directors are subject to re-election at the first AGM after their appointment.

At the year end, the Board comprised the Non-Executive Chairman, the Chief Executive, the Chief Financial Officer, and one other non-executive director.

### **Remuneration Committee and policy**

The Remuneration Committee is composed of two non-executive directors: L J Baller (Chairman), and W D Bellamy. It is responsible for the terms and conditions and remuneration of the executive directors and senior management. The Remuneration Committee’s policy is that directors’ remuneration be commensurate with services provided by them to the Company. The Remuneration Committee may consult external agencies when ascertaining market salaries. All matters concerning the remuneration of executive directors, including the award of bonuses and share options, are considered by the Remuneration Committee.

The remuneration and terms and conditions of appointment of the non-executive directors are set by the Board. No director or member of the senior management is permitted to participate in discussions or decisions concerning his own remuneration. A member of the Remuneration Committee will be available at the AGM to answer any shareholder questions.

### **Audit Committee**

The Audit Committee is comprised of two non-executive directors: L J Baller (Chairman) and W D Bellamy. The Committee monitors the adequacy of the Group's internal controls and provides the opportunity for the external auditor to communicate directly with the non-executive directors.

The Audit Committee also ensures that the external auditor is independent via the segregation of audit related work from other accounting functions and measures applicable fees with similar auditors.

### **Relations with shareholders**

The Group gives high priority to its communication with shareholders by means of an active investor relations programme. This is achieved through correspondence and extensive corporate information. In addition, the Group visits its main institutional investors on an ongoing basis and makes available to all shareholders, free of charge, its Interim and Annual Reports from the Group's head office and on its website. At the AGM the shareholders are given the opportunity to question members of the Board.

### **Internal controls**

The Board acknowledges its responsibility for the Group's system of internal control, including suitable monitoring procedures. There are inherent limitations in any system of internal control, and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The Group's control environment is the responsibility of the Group's directors and managers at all levels. The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to the operational management, including key risk assessment. Investment policy, acquisition and disposal proposals and major capital expenditure are authorised and monitored by the Board.

The Group operates a comprehensive budgeting and financial reporting system and, as a matter of routine, compares actual results with budgets, which are approved by the Board.

Management accounts are prepared for the Group on a monthly basis. Material variances from budget are thoroughly investigated. In addition, updated forecasts are prepared, at least quarterly, to reflect actual performance and the revised outlook for the year.

The Board considered the usefulness of establishing an internal audit function and decided, in view of the size of the Group, it was not cost-effective to establish. This will be kept under review.

### **SOCIAL RESPONSIBILITY STATEMENT**

The Group supports the growing awareness of social, environmental and ethical matters when considering business practices. See <http://iofina.com/community/social-responsibility> for an outline of the policies in place that guide the Group and its employees when dealing with social, environmental and ethical matters in the workplace.

### Directors' remuneration

Remuneration provided to each director was as follows:

	2015			2014		
	Salary	Bonus	Total \$	Salary	Bonus	Total \$
Lance Baller	107,477	-	107,477	5,123	-	5,123
Dr. Thomas M. Becker	207,692	-	207,692	61,487	-	61,487
Michael Coddington	102,904	-	102,904	79,214	-	79,214
Neil Hekking	24,923	-	24,923	-	-	-
William Bellamy	30,000	-	30,000	-	-	-
Dr. Chris E. Fay	-	-	-	35,430	-	35,430
Jeffrey P. Ploen	-	-	-	12,205	-	12,205
Paul S. Chase-Gardener	-	-	-	12,505	-	12,505
Forest D. Dorn	-	-	-	66,346	-	66,346
George Lantz	-	-	-	77,814	-	77,814
Gary Gatchell	-	-	-	76,307	-	76,307
<b>Total</b>	<b>\$472,996</b>	<b>-</b>	<b>\$472,996</b>	<b>\$426,431</b>	<b>-</b>	<b>\$426,431</b>

No pension contributions were paid on behalf of the directors in 2014 or 2015.

The interests of the directors in office as at 31 December 2015 in the shares of the Company at the end of the financial year and the beginning of the financial year or date of appointment, if later, were as follows:

	31 December 2015	1 January 2015
L J Baller (1)	4,500,000	4,500,000
Dr. T M Becker	-	-
N Hekking	-	-
W D Bellamy	-	-

(1) Comprised of beneficial ownership of shares.

In addition to these shares Dr. T M Becker was granted options for 250,000 shares on 2 July 2010 with an exercise price of 30 pence. No other director has any interests in options in the Company. No directors exercised options in 2015. The impact on the results of share options issued to the directors is set out in note 5.

On behalf of the Board



**Dr. Thomas M. Becker**

Chief Executive Officer and President

6 May 2016



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOFINA PLC**

We have audited the Group and parent Company financial statements (“the financial statements”) on pages 25 to 64. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

### **Respective responsibilities of directors and auditor**

As more fully explained in the Directors’ Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council’s website at <http://www.frc.org.uk/auditscopeukprivate>.

### **Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the Group’s and the parent’s affairs as at 31 December 2015 and of the Group’s loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

GRAHAM RICKETTS (Senior Statutory Auditor)

For and on behalf of RSM UK AUDIT LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor  
Chartered Accountants  
25 Farringdon Street  
London  
EC4A 4AB  
6 May 2016

## GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
Revenue	3	20,329,057	25,848,927
Cost of sales	4	<u>(15,991,489)</u>	<u>(23,207,595)</u>
<b>Gross profit</b>		<b>4,337,568</b>	<b>2,641,332</b>
Administrative expenses	4	(5,909,321)	(5,375,630)
Impairment expense	4	–	(2,522,696)
Finance expense	6	(1,755,450)	(1,450,882)
Finance income	7	<u>16,302</u>	<u>2,385</u>
<b>Loss before taxation</b>	4	<b>(3,310,901)</b>	<b>(6,705,491)</b>
Taxation	8	<u>334,413</u>	<u>56,359</u>
<b>Loss for the year attributable to owners of the parent</b>		<b><u>\$(2,976,488)</u></b>	<b><u>\$(6,649,132)</u></b>
<b>Other comprehensive income – items that may subsequently be reclassified through profit or loss</b>			
Foreign currency differences on translating foreign operations		<u>(13,269)</u>	<u>32,368</u>
<b>Other comprehensive income for the year, net of income tax</b>		<b><u>(13,269)</u></b>	<b><u>32,368</u></b>
<b>Total comprehensive income for the year attributable to equity holders of the parent</b>		<b><u>\$(2,989,757)</u></b>	<b><u>\$(6,616,764)</u></b>
Basic and diluted loss per share attributable to equity holders of the parent	9	<u>\$(0.023)</u>	<u>\$(0.052)</u>

All activities are classed as continuing.

The accompanying notes form part of these financial statements.

## GROUP CONSOLIDATED BALANCE SHEET

	Note	31 December 2015 \$	31 December 2014 \$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	4,813,948	5,009,249
Goodwill	11	3,087,251	3,087,251
Property, plant and equipment	12	23,350,798	24,050,560
<b>Total non-current assets</b>		<b>31,251,997</b>	<b>32,147,060</b>
<b>Current assets</b>			
Inventories	13	6,558,521	3,552,232
Trade and other receivables	15	2,853,274	3,918,010
Cash and cash equivalents	16	4,156,776	6,966,733
<b>Total current assets</b>		<b>13,568,571</b>	<b>14,436,975</b>
<b>Total assets</b>		<b>\$44,820,568</b>	<b>\$46,584,035</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	4,210,709	3,290,734
Deferred consideration	19	240,000	120,000
<b>Total current liabilities</b>		<b>4,450,709</b>	<b>3,410,734</b>
<b>Non-current liabilities</b>			
Deferred tax liability	18	330,541	664,954
Deferred consideration	19	120,000	240,000
Convertible note	20	19,173,266	18,780,750
<b>Total non-current liabilities</b>		<b>19,623,807</b>	<b>19,685,704</b>
<b>Total liabilities</b>		<b>\$24,074,516</b>	<b>\$23,096,438</b>
<b>Equity attributable to owners of the parent</b>			
Issued share capital	21	2,292,683	2,292,683
Share premium		48,991,647	48,991,647
Share-based payment reserve		1,634,390	1,634,390
Equity reserve		2,133,501	1,885,289
Retained earnings		(28,378,721)	(25,402,233)
Foreign currency reserve		(5,927,448)	(5,914,179)
<b>Total equity</b>		<b>\$20,746,052</b>	<b>\$23,487,597</b>
<b>Total equity and liabilities</b>		<b>\$44,820,568</b>	<b>\$46,584,035</b>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 6 May 2016.



**Dr. Thomas M. Becker**

**Chief Executive Officer and President**

Company number: 05393357

The accompanying notes form part of these financial statements.

## GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders of the parent						Total equity
	Share capital	Share premium	Share-based payment reserve	Equity reserve	Retained earnings	Foreign currency reserve	
	\$	\$	\$	\$	\$	\$	
<b>Balance at 1 January 2014</b>	<b>2,288,106</b>	<b>48,919,023</b>	<b>1,728,798</b>	<b>569,771</b>	<b>(18,753,101)</b>	<b>(5,946,546)</b>	<b>28,806,051</b>
<b>Transactions with owners</b>							
Share issues	4,577	72,624	–	–	–	–	77,201
Equity component of notes	–	–	–	1,315,518	–	–	1,315,518
Share-based payments	–	–	(94,408)	–	–	–	(94,408)
<b>Total transactions with owners</b>	<b>4,577</b>	<b>72,624</b>	<b>(94,408)</b>	<b>1,315,518</b>	<b>–</b>	<b>–</b>	<b>1,298,311</b>
<b>Loss for the year attributable to owners of the parent</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(6,649,132)</b>	<b>–</b>	<b>(6,649,132)</b>
<b>Other comprehensive income</b>							
Exchange differences on translating foreign operations	–	–	–	–	–	32,367	32,367
<b>Total comprehensive income attributable to owners of the parent</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(6,649,132)</b>	<b>32,367</b>	<b>(6,616,765)</b>
<b>Balance at 31 December 2014</b>	<b>\$2,292,683</b>	<b>\$48,991,647</b>	<b>\$1,634,390</b>	<b>\$1,885,289</b>	<b>\$(25,402,233)</b>	<b>\$(5,914,179)</b>	<b>\$23,487,597</b>
<b>Transactions with owners</b>							
Adjustment to equity component of notes	–	–	–	248,212	–	–	248,212
<b>Total transactions with owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>248,212</b>	<b>–</b>	<b>–</b>	<b>248,212</b>
<b>Loss for the year attributable to owners of the parent</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,976,488)</b>	<b>–</b>	<b>(2,976,488)</b>
<b>Other comprehensive income</b>							
Exchange differences on translating foreign operations	–	–	–	–	–	(13,269)	(13,269)
<b>Total comprehensive income attributable to owners of the parent</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,976,488)</b>	<b>(13,269)</b>	<b>(2,989,757)</b>
<b>Balance at 31 December 2015</b>	<b>\$2,292,683</b>	<b>\$48,991,647</b>	<b>\$1,634,390</b>	<b>\$2,133,501</b>	<b>\$(28,378,721)</b>	<b>\$(5,927,448)</b>	<b>\$20,746,052</b>



## GROUP CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Cash flows from operating activities</b>		
Loss before taxation	(3,310,901)	(6,705,491)
Adjustments for:		
Depreciation	1,778,823	1,732,751
Amortization	268,375	268,375
Capital construction costs in progress expensed	237,162	–
Impairment expense	–	2,522,696
Share based (credit)	–	(94,408)
Finance income	(16,302)	(2,385)
Unwinding of discount on convertible note	640,730	550,434
	<u>(402,113)</u>	<u>(1,728,028)</u>
<b>Changes in working capital</b>		
Decrease/(increase) in trade and other receivables	1,064,736	(1,287,959)
(Increase)/decrease in inventories	(3,006,289)	3,349,995
Increase/(decrease) in trade and other payables	919,974	(530,297)
<b>Net cash outflow from operating activities</b>	<u>(1,423,692)</u>	<u>(196,289)</u>
<b>Cash flows from investing activities</b>		
Interest received	16,302	2,385
Acquisition of intangible assets	(335,750)	(254,644)
Acquisition of property, plant and equipment	(1,053,548)	(5,963,042)
Investment sales and maturities	–	6,198,821
<b>Net cash outflow from investing activities</b>	<u>(1,372,996)</u>	<u>(16,480)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of convertible note	–	5,000,000
Proceeds from the issue of ordinary share capital	–	77,201
<b>Net cash inflow from financing activities</b>	<u>–</u>	<u>5,077,201</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,796,688)</b>	<b>4,864,432</b>
Effects of foreign exchange	(13,269)	32,367
	<u>(2,809,957)</u>	<u>4,896,799</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>6,966,733</u>	<u>2,069,934</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$4,156,776</u>	<u>\$6,966,733</u>

## COMPANY BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	31 December 2015 \$	31 December 2014 \$
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiary undertakings	26	17,199,362	17,199,362
Loan to subsidiaries	26	39,245,534	40,852,019
<b>Total non-current assets</b>		<b>56,444,896</b>	<b>58,051,381</b>
<b>Current assets</b>			
Trade and other receivables	15	6,481	15,019
Cash and cash equivalents	16	61,319	47,790
<b>Total current assets</b>		<b>67,800</b>	<b>62,809</b>
<b>Total assets</b>		<b>\$56,512,696</b>	<b>\$58,114,190</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	365,447	217,417
<b>Total current liabilities</b>		<b>365,447</b>	<b>217,417</b>
<b>Non-current liabilities</b>			
Convertible note	20	19,173,266	18,780,750
<b>Total liabilities</b>		<b>19,538,713</b>	<b>18,998,167</b>
<b>Equity attributable to the owners of the parent</b>			
Issued share capital	21	2,292,683	2,292,683
Share premium		48,991,647	48,991,647
Share-based payment reserve		1,634,390	1,634,390
Equity reserve		2,133,501	1,885,289
Retained earnings		(12,335,776)	(9,958,793)
Foreign currency reserve		(5,742,462)	(5,729,193)
<b>Total equity</b>		<b>36,973,983</b>	<b>39,116,023</b>
<b>Total equity and liabilities</b>		<b>\$56,512,696</b>	<b>\$58,114,190</b>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 6 May 2016.



**Dr. Thomas M Becker**  
**Chief Executive Officer and President**  
 Company number: 05393357

## COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders of the parent						
	Share capital	Share premium	Share based payment reserve	Equity reserve	Retained earnings	Foreign currency reserve	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2014</b>	<b>2,288,106</b>	<b>48,919,023</b>	<b>1,728,798</b>	<b>569,771</b>	<b>(7,971,167)</b>	<b>(5,727,964)</b>	<b>39,806,567</b>
<b>Transactions with owners</b>							
Share issue	4,577	72,624	–	–	–	–	77,201
Equity component of note	–	–	–	1,315,518	–	–	1,315,518
Share-based payment	–	–	(94,408)	–	–	–	(94,408)
<b>Total transactions with owners</b>	<b>4,577</b>	<b>72,624</b>	<b>(94,408)</b>	<b>1,315,518</b>	<b>–</b>	<b>–</b>	<b>1,298,311</b>
<b>Loss attributable to owners of the parent</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,987,626)</b>	<b>–</b>	<b>(1,987,626)</b>
<b>Other comprehensive income</b>							
Exchange differences on translating foreign operations	–	–	–	–	–	(1,229)	(1,229)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,987,626)</b>	<b>(1,229)</b>	<b>(1,988,855)</b>
<b>Balance at 31 December 2014</b>	<b>\$2,292,683</b>	<b>\$48,991,647</b>	<b>\$1,634,390</b>	<b>\$1,885,289</b>	<b>\$(9,958,793)</b>	<b>\$(5,729,193)</b>	<b>\$39,116,023</b>
<b>Transactions with owners</b>							
Equity component of note	–	–	–	248,212	–	–	248,212
<b>Total transactions with owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>248,212</b>	<b>–</b>	<b>–</b>	<b>248,212</b>
<b>Loss attributable to owners of the parent</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,376,983)</b>	<b>–</b>	<b>(2,376,983)</b>
<b>Other comprehensive income</b>							
Exchange differences on translating foreign operations	–	–	–	–	–	(13,269)	(13,269)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,376,983)</b>	<b>(13,269)</b>	<b>(2,390,252)</b>
<b>Balance at 31 December 2015</b>	<b>\$2,292,683</b>	<b>\$48,991,647</b>	<b>\$1,634,390</b>	<b>\$2,133,501</b>	<b>\$(12,335,776)</b>	<b>\$(5,742,462)</b>	<b>\$36,973,983</b>

## COMPANY CASH FLOW STATEMENT

	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Cash flows from operating activities</b>		
Loss before taxation	(2,376,983)	(1,987,626)
Adjustments for:		
Share based (credit)	–	(94,408)
Unwinding of discount on convertible note	640,730	550,434
	<u>(1,736,253)</u>	<u>(1,531,600)</u>
<b>Changes in working capital</b>		
Decrease/(increase) in other receivables and prepayments	8,538	(4,796)
Increase/(decrease) in trade and other payables	148,030	(33,006)
	<u>156,568</u>	<u>(37,802)</u>
<b>Net cash outflow from operating activities</b>	<b>(1,579,685)</b>	<b>(1,569,402)</b>
<b>Cash flows from investing activities</b>		
Loan from/ to subsidiaries	1,606,483	(3,667,553)
	<u>1,606,483</u>	<u>(3,667,553)</u>
<b>Net cash inflow/(outflow) from investing activities</b>	<b>1,606,483</b>	<b>(3,667,553)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of convertible note	–	5,000,000
Proceeds from the issue of ordinary share capital	–	77,201
	<u>–</u>	<u>5,077,201</u>
<b>Net cash inflow from financing activities</b>	<b>–</b>	<b>5,077,201</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>26,798</b>	<b>(159,754)</b>
Effects of foreign exchange	(13,269)	–
	<u>13,529</u>	<u>(159,754)</u>
<b>Cash and cash equivalents at beginning of year</b>	<b>47,790</b>	<b>207,544</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$61,319</b>	<b>\$47,790</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Accounting policies

The Company is a public limited company incorporated and domiciled in the United Kingdom. The Company is listed on the AIM Market of the London Stock Exchange.

The registered office is located at 1 King Street, London, EC2V 8AU. The principal activities of the Company are that of investment holdings in subsidiaries engaged in the production of iodine and iodine derivatives.

#### a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee ('IFRIC') as adopted by the European Union ('EU') and the Companies Act 2006 applicable to companies reporting under IFRS.

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

#### b) New standards and interpretations

New standards, amendments to published standards and interpretations to existing standards effective in 2015 and adopted by the Group:

Standard description	Date of adoption	Impact on initial application
IFRIC 21 Levies	17 June 2014	This is an Interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets on the accounting for levies imposed by governments. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
Annual Improvements to IFRSs 2011-2013 Cycle	1 January 2015	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard description	Date of adoption	Impact on initial application
Annual Improvements to IFRSs 2010-2012 Cycle	1 February 2015	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
Amendments to IAS 19: Defined Benefit Plans: Employee	1 February 2015	The amendments allow fixed contributions to be recognised as a reduction in the service cost in the

Contributions		period in which the employee's services are rendered, instead of being attributed to periods of service as a 'negative benefit'.
Amendments to IAS 1: Disclosure Initiative	1 July 2016	Amended to further clarify the concept of materiality, namely that it is applicable to the financial statements as a whole, not just the primary statements and that it applies to specific disclosures required by an IFRS and, therefore, an entity does not have to disclose information required by an IFRS if that information would not be material.
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016	Clarifies that preparers should not use revenue-based methods to calculate charges for the depreciation or amortization of items of property, plant and equipment or intangible assets.
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	Introduces guidance as to how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 Business Combinations. Proposes that a joint operator should apply the relevant principles for business combinations accounting in IFRS 3 and other relevant IFRSs when accounting for these acquisitions.
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016	Bearer plants brought into the scope of IAS 16 because their operation is similar to manufacturing. Initial measurement at cost, then accounting choice either cost or revaluation model may be applied to each class of bearer plant. Related agricultural produce remains in scope of IAS 41.
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.
Amendments to IAS 27: Equity Method in Separate Financial Statements	1 January 2016	Restoration of the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities*	1 January 2016	Clarifies that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. This clarification extends to the equity method for entities that are subsidiaries and that hold interests in associates and joint ventures.



		IFRS 12 clarifies that an investment entity is not excluded from the scope of the standard.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017	Clarifies deferred tax on unrealised losses generated by debt instruments carried at fair value.
Amendments to IAS 7: Disclosure Initiative *	1 January 2017	The amendments clarify and improve information provided to users of financial statements about an entity's financing activities.
IFRS 9 Financial Instruments*	1 January 2018	Replacement to IAS 39 and is built on a logical, single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics. Also addresses the so-called 'own credit' issue and includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.
IFRS 15 Revenue from Contracts with Customers*	1 January 2018	Introduces requirements for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue and provides or improves guidance for transactions that were not previously addressed comprehensively and for multiple-element arrangements.
IFRS 16 Leases*	1 January 2019	The new standard recognises a leased asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease.

\*not yet endorsed in the EU

The Group does not consider that any of the above changes to Standards will have a material effect on the financial statements when adopted.

### c) Presentation of financial statements

The financial statements have been prepared on the historical cost convention.

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements.

#### **d) Revenue recognition**

Revenue consists of sales of iodine derivatives, iodine, chemicals and ancillary products. Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied, excluding VAT, rebates and trade discounts.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the costs incurred or to be incurred can be measured reliably and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group manufactures and sells a range of iodine derivatives and specialty chemicals. Sales of goods are recognised when a Group entity has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied and collectability is reasonably assured.

#### **e) Research and development expenditures**

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Costs that are directly attributable to the development phase of a new customised chemical manufacturing process or development of a natural gas/iodine field are recognised as intangible assets provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred. In 2015, all research and development expenditures were expensed as incurred.

#### **f) Going concern**

The directors recognize that the convertible notes described in note 20 are currently due to mature on 15 May 2017. The directors are actively working towards concluding arrangements that will at a minimum continue the level of funding provided by these notes, and are confident that a successful

and timely outcome can be negotiated. On this basis the directors consider that at its current stage of development the Group does not need to raise additional funds in order to realise its business plan. The Group has prepared forecasts and projections on the foregoing basis that indicate there are adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

#### **g) Basis of consolidation and investments in subsidiary undertakings**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2015. Subsidiaries are wholly owned entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The Group obtains and exercises control through voting rights. The acquisition method of accounting is used to account for the purchase of subsidiaries by the Group. On acquisition, the subsidiary's assets and liabilities are recorded at fair value, reflecting their condition at the date of acquisition.

The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

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, unless the losses provide an indication of impairment of the assets transferred.

Amounts reported in the financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Investments in subsidiary undertakings are stated in the parent company balance sheet at cost less provision for any impairment losses

#### **h) Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group's accounting policies. Acquisition costs are expensed as incurred.

Goodwill represents the excess of the fair value of consideration payable in a business combination over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any excess of identifiable net assets over the fair value of consideration is recognised in profit or loss immediately after acquisition.

### **i) Foreign currency**

The vast majority of the Group's business is denominated in U.S. Dollars, which is the functional currency of the entities. Therefore, U.S. Dollars is the presentational currency for the Group financial statements.

Transactions denominated in foreign currencies are translated at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit and loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of changes in equity, otherwise such gains and losses are recognised in profit and loss.

On disposal of a foreign operation for which the presentational and functional currencies were different in previous periods, the cumulative translation differences are transferred to profit and loss as part of the gain or loss on disposal. The US Dollar/Pounds Sterling exchange rate averaged 1.528 in 2015 and at 31 December 2015 was 1.476 (2014: 1.559).

### **j) Intangible assets**

#### **Deferred exploration and evaluation costs**

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred.

Once a legal right has been obtained, exploration and evaluation costs are capitalised on a project-by-project basis, pending determination of the technical feasibility and commercial viability of the project. Costs incurred include appropriate technical and administrative overheads.

Deferred exploration costs are carried at historical cost less any impairment losses recognised. If an exploration project is successful, the related expenditures will be transferred to development assets and amortized over the estimated life of the reserves on a unit of production basis.

The recoverability of deferred exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves, the ability of the Group to obtain the necessary financing to complete the development of reserves and future profitable production or proceeds from the disposal thereof.

### **Undeveloped leasehold costs**

Undeveloped leasehold costs relate to the costs of acquiring brine leases in respect of the surface and mineral rights of landowners in areas of interest outside of those currently connected to the Group's operating plants.

These costs are capitalised as exploration and evaluation assets and are carried at historical cost less any impairment losses recognised. If areas leased provide brine to operating plants, the related costs are transferred to the relevant plants and amortized over the lives of those plants.

### **Other intangible assets**

Other identifiable intangible assets arose from the acquisition of H&S Chemical in 2009. These assets were valued by an external, independent valuation firm. Based on the type of asset, the useful life of each asset was estimated. The value of each identifiable intangible asset is amortized evenly over its useful life. The following useful lives are applied:

- WET® patent: 15 years
- Customer relationships: 10 years
- Patent portfolio: 8 years
- EPA registrations: 2 years

Amortization is included within administrative expenses.

### **Goodwill**

Goodwill represents the excess of the fair value of consideration in a business combination over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

## **k) Property, plant and equipment**

Property, plant and equipment are stated at historical cost, net of depreciation and any provision for impairment. Cost includes purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as employee costs relating to construction, site preparation, installation and testing.

Depreciation is provided at rates calculated to write off the depreciable amount of each asset on a straight line basis over its expected useful life, as follows:

- Montana Atlantis plant and equipment: 10-20 percent per annum
- Buildings: 2.5 percent per annum
- Equipment and machinery:
  - IOSorb Plants 5 percent per annum
  - Vehicles and office equipment 20 percent per annum
  - Computer equipment 33% per annum

Reviews of the estimated remaining lives and residual values of individual productive assets are made annually.

Freehold land is not depreciated.

## **I) Financial instruments**

### **Financial liabilities**

#### **Trade and other payables**

Trade and other payables are initially recognised at fair value and subsequently measured at amortized cost using the effective interest rate method.

#### **Convertible loan notes**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Interest-bearing loans are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortized cost and finance charges, including premiums payable on settlement, redemption or conversion, are recognised in profit or loss over the term of the instrument using the effective rate of interest.

Instruments where the holder has the option to redeem for cash or convert into a pre-determined quantity of equity shares are classified as compound instruments and presented partly as a liability and partly as equity.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The difference between the proceeds of issue and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Transaction costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar nonconvertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan note.

### **Financial assets**

Cash and cash equivalents represent short term, highly liquid investments with an original maturity of fewer than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. At the end of 2015, all cash accounts were in 100 percent liquid accounts.



Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

#### **m) Impairment**

Whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, that asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise, typically when one of the following circumstances applies:

- i) unexpected geological occurrences that render the resource uneconomic;
- ii) title to the asset is compromised;
- iii) variations in prices that render the project uneconomic; or
- iv) variations in the currency of operation.

Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combinations and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. An impairment loss is recognised for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. To determine the value in use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

## **n) Equity**

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses for the share issue.
- "Share-based payment reserve" represents the cumulative fair value of options and warrants issued by the Company and recognised in profit and loss.
- "Equity reserve" represents the equity component assigned to the compound financial instrument after deducting the fair value of the instrument as a whole.
- "Retained earnings" represents retained profits or accumulated losses.
- "Foreign currency reserve" represents the cumulative differences arising from translation of foreign operations.
- "Distributable reserves" represents the amount of equity that may be paid out as dividends.

## **o) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. When inventory is sold the cost is included in Cost of Sales on the Statement of Comprehensive Income.

## **p) Taxation**

Tax expense recognised in profit or loss is the tax currently payable based on taxable profit for the year and deferred tax not recognised directly in equity.

Deferred income taxes are calculated using the balance sheet liability method. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward, as well as other income tax credits to the Group, are assessed for recognition as deferred tax assets according to the likelihood of their recoverability in the foreseeable future.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

#### **q) Operating leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit and loss on a straight-line basis over the period of the lease.

#### **r) Share-based payments**

The cost of equity settled transactions is measured at fair value at the grant date as measured by use of the Black Scholes model. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Charges made to profit or loss, in respect to share-based payments, are credited to the share-based payment reserve.

#### **s) Segment reporting**

In identifying its operating segments, management follows the Group's service lines, which represent the main products provided by the Group and are based on the information presented to the chief operating decision maker, which is the Board. The activities of the Iodine and Iodine Derivatives segment include the production of raw iodine and the production of iodine derivatives and other non-iodine based chemical derivatives. The Montana segment includes a) the Atlantis Field project for the exploration and production of natural gas, iodine and water for use in various applications, and b) the Montana Water Depot project, which includes large volumes of water retrieved, stored and shipped to customers in close proximity to be used mainly for fracking.

Each of these operating segments is managed separately, as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

Corporate overheads, assets and liabilities, which are not directly attributable to the business activities of any operating segment, are not allocated to a segment in arriving at segment result.

## 2. Significant judgements and estimates

Judgements and estimates are regularly evaluated based on historical experience, current circumstances and expectations of future events.

The critical estimates made in the preparation of the financial statements are set out below. The resulting accounting estimate may not equal the related actual result, and management must also make judgements about current circumstances and expectations of future events. Significant judgements made by management include:

- a. Intangible and tangible assets are tested for impairment where there is an indication that they may be impaired. In accordance with IAS 36, an intangible or tangible asset is considered impaired when its carrying amount exceeds its recoverable amount on an individual cash generating unit basis. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimate of future business performance. In carrying out impairment testing, management will make a number of significant estimates in relation to the assumptions incorporated into their calculations. This will include factors such as growth rates, discount rates and inflation. Details and carrying values of intangible assets, goodwill and property, plant and equipment are provided in notes 10, 11 and 12. Details of impairment reviews carried out are set out in note 12.
- b. Management reviews the useful lives of depreciable and amortizable assets at each reporting date. The carrying amounts are analysed in notes 10 and 12. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment. Management's estimate of the useful lives of plant and equipment as detailed in note 1k are common life expectancies for the industry. In particular, the expected useful life attributed to each IOsorb<sup>®</sup> plant is 20 years. Changes in the expected level of usage or other technological developments could impact the life and residual value of these assets.
- c. Certain intangible and tangible assets are regarded as Exploration and Evaluation Assets. Details of these assets are shown in notes 10 and 12. The principal assets so treated are those relating to the Montana Atlantis Field, which has an aggregate carrying amount of \$4,242,288, and the basis of the Group's judgement as regards the classification of those assets is set out in note 12. An impairment review of these assets was carried out and it was determined that the recoverable amount exceeded the aggregate carrying amount of \$4,242,288, and therefore no impairment was considered to be required. The Group's rationale for carrying out this review and details of the assumptions, methodology and sensitivities relating to the calculation of the recoverable amount are set out in note 12.
- d. The carrying amounts of the parent company's investment in and loans to its subsidiary Iofina Resources, Inc. total \$46,330,277, whereas carrying amounts of the subsidiary's net assets excluding loans from the parent company amount to \$26,137,973. There is therefore a shortfall of \$20,192,304 between the parent company carrying amounts and the carrying amounts of the net assets of Iofina Resources, Inc., reflecting accumulated losses to date in that company. In view of this shortfall an assessment has been made of the present values of the cash flows related to the projects being undertaken by Iofina Resources, Inc. to determine whether any

impairment losses should be recognised. The assets concerned are the IOsorb® plants in Oklahoma, the Montana Atlantis Field project, and the Montana Water Depot project. The first two of these assume 20 year project lives and a discount rate of 8% has been used. The iodine price assumed is within the range of market prices experienced by the Group at the end of 2015. The Montana Water Depot project assumes a 17 year project life and a discount rate of 10% has been used. The Group has concluded that the present values of the cash flows related to these assets exceed the shortfall in net asset carrying amounts of \$20,192,304, and therefore there is no need to recognise any impairment losses.

### 3. Segment reporting

- a. **Business segments** - The Group reports its business segments in line with IFRS 8, which requires reporting based on the information that is presented to the chief operating decision maker. This is determined to be the Board. The Board receives management accounts for each company within the Group, and as such the reporting is carried out on this basis. The costs of Iofina plc are included within unallocated corporate expenses.

	<b>Iodine and Iodine Derivatives</b>	<b>Montana</b>	<b>Unallocated Corporate Expenses</b>	<b>Total</b>
<b>Year ended 31 December 2015</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	20,329,057	–	–	20,329,057
Gross profit	4,337,568	–	–	4,337,568
<b>Segment result</b>	<b>\$(250,222)</b>	<b>\$(683,696)</b>	<b>\$(2,042,570)</b>	<b>\$(2,976,488)</b>
<b>Year ended 31 December 2014</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	25,848,927	–	–	25,848,927
Gross profit	2,641,332	–	–	2,641,332
Impairment	(1,216,427)	(1,306,269)	–	(2,522,696)
<b>Segment result</b>	<b>\$(1,539,329)</b>	<b>\$(1,701,550)</b>	<b>\$(3,408,253)</b>	<b>\$(6,649,132)</b>

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Assets</b>	<b>\$</b>	<b>\$</b>
Iodine and Iodine Derivatives	40,091,220	41,810,141
Montana	4,661,549	4,711,085
Unallocated Corporate	67,800	62,809
<b>Total</b>	<b><u>\$44,820,569</u></b>	<b><u>\$46,584,035</u></b>
<b>Liabilities</b>		
Iodine and Iodine Derivatives	4,205,262	4,298,271
Montana	-	-
Unallocated Corporate	19,869,254	18,798,167
<b>Total</b>	<b><u>\$24,074,516</u></b>	<b><u>\$23,096,438</u></b>
<b>Capital expenditure</b>		
Iodine and Iodine Derivatives	1,136,592	6,051,149
Montana	252,706	166,557
<b>Total</b>	<b><u>\$1,389,298</u></b>	<b><u>\$6,217,706</u></b>
<b>Depreciation/amortization</b>		
Iodine and Iodine Derivatives	1,579,928	1,362,241
Montana	467,270	638,885
<b>Total</b>	<b><u>\$2,047,198</u></b>	<b><u>\$2,001,126</u></b>

- b. **Geographical segments** - The Group also reports by geographical segment. The Group's activities are related to exploration for, and development of, iodine and natural gas in certain areas of the USA and the manufacturing of specialty chemicals in the USA with support provided by the UK office. All revenue, capital expenditures and depreciation and amortization related to the USA segment are reported. In presenting information on the basis of geographical segments, segment assets and the cost of acquiring them are based on the geographical location of the assets.

	<b>31 December 2015</b>	<b>31 December 2014</b>
	\$	\$
<b>Assets</b>		
UK	67,800	62,809
USA	44,752,768	46,521,226
<b>Total</b>	<b><u>\$44,820,568</u></b>	<b><u>\$46,584,035</u></b>
<b>Liabilities</b>		
UK	365,447	217,416
USA	23,709,069	22,879,022
<b>Total</b>	<b><u>\$24,074,516</u></b>	<b><u>\$23,096,438</u></b>
<b>Revenue</b>		
North America	10,904,639	13,658,475
Europe	696,855	2,161,508
Asia	8,541,610	9,990,894
Other	185,953	38,050
<b>Total</b>	<b><u>\$20,329,057</u></b>	<b><u>\$25,848,927</u></b>

- c. **Significant customers** - Iofina Chemical had three significant customers in 2015; one customer represents 26 percent of sales, another customer 12 percent and the third accounts for 11 percent. In 2014, the three most significant customers represented 36 percent, 17 percent and 8 percent of the total sales.

#### 4. Loss before taxation

Loss before taxation is stated after charging/(crediting):

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
	\$	\$
Depreciation expense	1,778,823	1,732,751
Amortization expense	268,375	268,375
Share based (credit)	–	(94,408)
Impairment	–	2,522,696
Operating lease expense – land and buildings	100,049	97,474
Other:		
Annual audit fees	109,962	117,020
Tax fees payable to the auditor	9,183	3,060



**Cost of sales – analysis by nature**

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Raw materials	8,090,621	11,720,326
Freight	535,433	486,665
Sales commission	86,349	39,423
Labour, manufacturing overhead and royalties	7,279,086	10,961,181
	<b><u>\$15,991,489</u></b>	<b><u>\$23,207,595</u></b>

**Administrative expenses – analysis by nature**

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Payroll and benefits	2,013,685	1,805,720
Office expenses	179,942	384,404
Professional services	802,632	763,191
Travel	162,398	283,466
Rent	100,049	97,474
Other	109,124	74,946
Share based (credit)	–	(94,408)
Depreciation	1,778,823	1,732,751
Amortization	268,375	268,375
Unabsorbed manufacturing cost	494,293	59,711
	<b><u>\$5,909,321</u></b>	<b><u>\$5,375,630</u></b>

Research and development expenses recognised during the period were \$231,219 (2014: \$283,095), and are included in administrative expenses above.

**5. Staff numbers and costs**

The average number of Group employees, including executive directors, and their costs were:

	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2014</b>
	<b>Number</b>	<b>Number</b>
Production	78	74
Administrative	13	17
Sales	1	1
<b>Total staff</b>	<b><u>92</u></b>	<b><u>92</u></b>

	Year ended 31 December 2015	Year ended 31 December 2014
	\$	\$
Wages and salaries	5,247,914	5,105,744
Social security costs	782,260	600,208
	<u>\$6,030,174</u>	<u>\$5,705,952</u>

Of the total staff costs above, \$4,171,881 (2014: \$3,710,561) is included within cost of sales; \$1,858,293 (2014: \$1,706,292) is included within administrative expenses and \$Nil (2014: \$289,099) has been capitalised as additions to property, plant and equipment.

Of the total staff costs above, \$350,236 (2014: \$432,803) was paid to executive directors (considered to be key management personnel) for their services during the year.

	Year ended 31 December 2015	Year ended 31 December 2014
	\$	\$
Wages and salaries	335,520	426,431
Social security costs	14,716	6,372
Total directors' cost	<u>\$350,236</u>	<u>\$432,803</u>

Included within wages and salaries above is \$207,692 (2014: \$79,214) in respect of the highest paid director. Additionally, there were share based (credits) of \$Nil (2014: (\$100,865)) attributable to directors. No options were exercised by a director in 2015.

## 6. Finance expense

	Year ended 31 December 2015	Year ended 31 December 2014
	\$	\$
Interest expense	1,755,450	1,450,882
	<u>\$1,755,450</u>	<u>\$1,450,882</u>

Interest expense relates to the convertible notes described in note 20 below.

## 7. Finance income

	Year ended 31 December 2015	Year ended 31 December 2014
	\$	\$
Interest income	16,302	2,385
	<u>\$16,302</u>	<u>\$2,385</u>

## 8. Taxation

	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Tax expense comprises:</b>		
Current year tax expense	-	-
Deferred tax credit	(334,413)	(56,359)
	<u><b>\$(334,413)</b></u>	<u><b>\$(56,359)</b></u>
	Year ended 31 December 2015 \$	Year ended 31 December 2014 \$
<b>Tax reconciliation:</b>		
Loss on ordinary activities before tax	(3,310,901)	(6,705,491)
Tax at UK income tax rate of 20.25% (2014: 21.5%)	(670,457)	(1,441,681)
<b>Effects of:</b>		
Temporary differences	239,584	122,531
Permanent differences	4,455	(15,006)
Losses not recognised for deferred tax purposes	426,418	1,334,156
Deferred tax on amortization of intangibles	(334,413)	(56,359)
<b>Total tax credit</b>	<u><b>\$(334,413)</b></u>	<u><b>\$(56,359)</b></u>

The deferred tax credit of \$334,413 reflects a reassessment of the liability as at 31 December 2015 in the light of current UK tax rates.

The Group has accumulated tax losses of approximately \$27,400,000 (2014: \$25,300,000) that may be deductible from future taxable profits subject to agreement with the relevant tax authorities. To the extent tax losses are not utilised to offset current income taxes they will begin to expire in 2030.

A deferred tax asset has not been recognised in respect of losses due to uncertainty over the timing of the recovery of these tax losses.

## 9. Loss per share

The calculation of loss per ordinary share is based on a loss attributable to shareholders of \$2,976,488 (2014: \$6,649,132) and the weighted average number of ordinary shares outstanding of 127,569,398 (2014: 127,342,836). Due to the loss in the year, there is no difference between the diluted loss per share and the basic loss per share because the 1,075,000 outstanding share options and the two convertible notes (see note 20) would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of IAS 33.

## 10. Intangible assets (Group)

	Exploration and Evaluation Assets			Total
	Montana Atlantis Field \$	Oklahoma Undeveloped Leasehold \$	Other intangible assets (see below) \$	
<b>Cost</b>				
<b>At 31 December 2013</b>	3,408,405	192,252	3,843,671	7,444,328
Additions	125,000	129,664	–	254,664
<b>At 31 December 2014</b>	3,533,405	321,916	3,843,671	7,698,992
Transfers to Property, Plant and Equipment (Note 12)	(125,000)	(137,677)	–	(262,677)
Additions	-	335,750	–	335,750
<b>At 31 December 2015</b>	<b>\$3,408,405</b>	<b>\$519,989</b>	<b>\$3,843,671</b>	<b>\$7,772,065</b>
<b>Accumulated amortization</b>				
<b>At 31 December 2013</b>	–	–	1,470,582	1,470,582
Impairment	950,785	–	–	950,785
Charge for the year	–	–	268,375	268,375
<b>At 31 December 2014</b>	950,785	–	1,738,957	2,689,742
Charge for the year	–	–	268,375	268,375
<b>At 31 December 2015</b>	<b>\$950,785</b>	<b>–</b>	<b>\$2,007,332</b>	<b>\$2,958,117</b>
<b>Carrying amounts</b>				
At 31 December 2013	3,408,405	192,252	2,373,089	5,973,746
At 31 December 2014	2,582,620	321,916	2,104,714	5,009,249
<b>At 31 December 2015</b>	<b>\$2,457,620</b>	<b>\$519,989</b>	<b>\$1,836,339</b>	<b>\$4,813,948</b>

Montana Atlantis Field exploration and evaluation carrying amounts of \$2,457,620 relate primarily to the costs of acquiring leases to explore, drill and produce oil and gas, and also certain drilling costs themselves, in respect of the Group's Atlantis Field iodine/natural gas project in Montana. Additional carrying amounts of this project of \$1,784,668 are recorded as property, plant and equipment as detailed in Note 12. Further details of the exploration and evaluation status of the aggregate project carrying amounts of \$4,242,288, and an impairment review carried out on those aggregate amounts as of 31 December 2015, are provided in Note 12.

Oklahoma undeveloped leasehold costs relate to the costs of acquiring brine leases in respect of the surface and mineral rights of landowners in areas of interest outside of those currently connected to the Group's operating plants.

The classifications of intangible assets and property, plant and equipment have been comprehensively reviewed, and transfers of amounts brought forward from 2014 have been made in accordance with the revised categorizations adopted.

Details of other intangible assets are set out below.

### Other intangible assets

	WET® patent	Customer relationships	Patent portfolio	EPA registrations	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
<b>At 31 December 2013, 31 December 2014 and 31 December 2015</b>	<b>\$2,700,000</b>	<b>\$660,671</b>	<b>\$212,000</b>	<b>\$271,000</b>	<b>\$3,843,671</b>
<b>Accumulated amortization</b>					
<b>At 31 December 2013</b>	797,404	298,625	103,553	271,000	1,470,582
Charge for the year	180,000	65,000	23,375	-	268,375
<b>At 31 December 2014</b>	977,404	363,625	126,928	271,000	1,738,957
Charge for the year	180,000	65,000	23,375	-	268,375
<b>At 31 December 2015</b>	<b>\$1,157,404</b>	<b>\$428,625</b>	<b>\$150,303</b>	<b>\$271,000</b>	<b>\$2,007,332</b>
<b>Carrying amounts</b>					
At 31 December 2013	1,902,596	362,046	108,447	-	2,373,089
At 31 December 2014	1,722,596	297,046	85,072	-	2,104,714
<b>At 31 December 2015</b>	<b>\$1,542,596</b>	<b>\$232,046</b>	<b>\$61,697</b>	<b>-</b>	<b>\$1,836,339</b>

Other intangible assets were acquired in the acquisition of H&S Chemical in 2009.

#### WET® Patent

The WET® Patent technology employs two different iodine extraction methods depending on brine chemistry for optimal efficiency. We utilised a with and without analysis, a variation of the discounted cash-flow method, to estimate the fair value of a WET® Patent at date of acquisition. The methodology compared the cash flow generating capacity of Iofina Chemical assuming it was operating without the benefit of the WET® Patent to the projected cash flow with the benefit of the patent. The contractual life of the patent is in excess of 20 years; however, the useful life of the patent was estimated at 15 years based on the following:

- Management's expectation for the expected viability of the technology
- Management's expectations regarding the timing of significant substitute technology
- The lack of comparable substitute technologies as of the valuation date
- The remaining amortization period is 8.5 years

#### Customer relationships

The amount capitalised relates to the acquisition of Iofina Chemical and the then existing customer base. The initial useful was 10 years and the remaining amortization period is approximately 3.5 years.

#### Patent portfolio

This includes all patents held by Iofina Chemical related to the production of its iodine derivatives, specifically IPBC. The fair value of the general patent portfolio was estimated using the relief from royalty cash-flow methodology of the income approach. Based on our search for technology licensing agreements in the marketplace, we determined that a royalty rate of 1.5 percent was

appropriate. An 8 year life was applied to the patent portfolio based on the historical life of the portfolio as well as the intended future use of the asset.

## 11. Goodwill (Group)

### Carrying amounts

At 31 December 2015, 31 December 2014 and 31 December 2013

\$3,087,251

Goodwill arose on the acquisition of H&S Chemical in 2009 and is wholly allocated to the Iofina Chemical cash generating unit of the Group. Goodwill impairment testing is conducted annually, based on projected cash flow to be generated.

The Chemical business has been in operation for 31 years. Management assumed continued revenue growth based on a five year historical trend and an improvement on margins associated with recovering commodity prices and ongoing cost improvements through vertical integration of raw iodine supply. A material change in supply costs or demand for key products could indicate the need for impairment. However, management believes that 25 years of cash flow generation should be used in the impairment review based on the historical adaptability of the business. For impairment testing, cash flows discounted at 10% per annum indicate that the goodwill valuation can be supported.

## 12. Property, plant and equipment (Group)

	Exploration and Evaluation Assets				Equipment and Machinery	Construction in Progress	Total
	Montana Atlantis Field	Montana Water Depot	Freehold Land	Buildings			
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
<b>At 31 December 2013</b>	6,797,920	–	209,000	1,465,503	11,291,362	6,976,977	26,740,762
Transfers	–	–	–	–	5,882,535	(5,882,535)	–
Additions	–	–	–	43,090	5,919,952	–	5,963,042
<b>At 31 December 2014</b>	6,797,920	–	209,000	1,508,593	23,093,849	1,094,442	32,703,804
Transfers	(956,505)	166,557	–	–	1,657,905	(605,280)	262,677
Additions	–	252,706	–	34,444	579,248	187,150	1,053,548
Disposals	–	–	–	–	–	(237,164)	(237,164)
<b>At 31 December 2015</b>	<b>\$5,841,415</b>	<b>\$419,263</b>	<b>\$209,000</b>	<b>\$1,543,037</b>	<b>\$25,331,002</b>	<b>\$439,148</b>	<b>\$33,782,865</b>
<b>Accumulated depreciation</b>							
<b>At 31 December 2013</b>	3,125,823	–	–	139,200	2,083,559	–	5,348,582
Impairment	355,484	–	–	–	1,216,427	–	1,571,911
Charges for the year	638,885	–	–	44,953	1,048,913	–	1,732,751
<b>At 31 December 2014</b>	4,120,192	–	–	184,153	4,348,899	–	8,653,244
Transfers	(530,715)	–	–	–	530,715	–	–
Charges for the year	467,270	–	–	44,126	1,267,427	–	1,778,823
<b>At 31 December 2015</b>	<b>\$4,056,747</b>	<b>–</b>	<b>–</b>	<b>\$228,279</b>	<b>\$6,147,041</b>	<b>–</b>	<b>\$10,432,067</b>
<b>Carrying amounts</b>							
At 31 December 2013	3,672,097	–	209,000	1,326,303	9,207,803	6,976,977	21,392,180
At 31 December 2014	2,677,728	–	209,000	1,324,440	18,744,950	1,094,442	24,050,560
<b>At 31 December 2015</b>	<b>\$1,784,668</b>	<b>\$419,263</b>	<b>\$209,000</b>	<b>\$1,314,758</b>	<b>\$19,183,961</b>	<b>\$439,148</b>	<b>\$23,350,798</b>

Montana Atlantis Field exploration and evaluation carrying amounts of \$1,784,668 relate primarily to drilling and other equipment acquired, and facilities and pipelines constructed, during the initial phase of the Group's Atlantis Field iodine/natural gas project in Montana. Additional carrying amounts of this project of \$2,457,620 are recorded as intangible assets as detailed in Note 10.

The Group considers that the aggregate carrying amounts of \$4,242,288 of this project are appropriately classified as exploration and evaluation assets, on the basis that technical feasibility and commercial viability have not yet been established. In particular, the subsurface information from wells drilled relates to only a minor proportion of the projected reservoir area that is based on an independent reserve report. Secondly, the current development model calls for the utilisation of electric submersible pumps. This technology, while proven in other oil and gas operations, has not so far been applied in the Atlantis Field. Further substantial investment is required to reduce these key risks sufficiently to move these assets from exploration and evaluation to development.



In view of a further decline in iodine prices and continuing low natural gas prices in 2015, the Group considered it appropriate to carry out an impairment review of the Atlantis Field project as of 31 December 2015. For this purpose the project is regarded as a single cash generating unit, and the review was done by updating the value in use model used for the impairment review carried out as of 31 December 2014. The recoverable amount calculated exceeds the aggregate carrying amounts of the project of \$4,242,288, and therefore no impairment is considered to be required.

Key assumptions in the value in use model are:

- Barrels of produced water per well
- Iodine concentration in produced water
- Iodine recovery rate
- Iodine price
- Gas water ratio
- Natural Gas price

The model calculations are based on experience from the production of gas and iodine in the initial phase of the project. Costs and prices have been updated to reflect current market prices. The iodine price assumed is within the range of market prices experienced by the Group at the end of 2015. A discount rate of 8 percent has been used based on the Group's historical cost of capital as well as the reduced risk of the project based on the results from the initial phase. A project life of 20 years has been used, on the basis of the recoverable amount of iodine and natural gas determined by an independent reserve report and the assumptions about recoverability described above. A 20 percent decrease in the iodine price or a 40 percent decrease in the natural gas price would cause the net present value derived from the model to be close to the aggregate carrying amounts of the project of \$4,242,288.

Montana Water Depot carrying amounts of \$419,263 primarily comprise the cost of land and other property rights, and surveying and engineering services, related to the Fresh Water Depot project in Montana. The project is dependent upon receiving a water permit from the Department of Natural Resources and Conservation of the State of Montana. This permit is currently being refused, and the Group expects the decision of a judicial review it instigated within the next few months. An impairment review carried out as of 31 December 2015, on the basis that a water permit would be received, calculated a recoverable amount in excess of the carrying amounts of \$419,263.

Included in Equipment and Machinery are carrying amounts of \$159,505 in respect of undeveloped leasehold costs, which are regarded as exploration and evaluation assets.

The classifications of intangible assets and property, plant and equipment have been comprehensively reviewed, and transfers of amounts brought forward from 2014 have been made in accordance with the revised categorizations adopted.

### 13. Inventories

Group	31 December 2015 \$	31 December 2014 \$
Raw materials	1,726,966	1,224,809
Work in progress	1,439,152	1,306,209
Finished goods	3,392,403	1,021,214
	<u>\$6,558,521</u>	<u>\$3,552,232</u>

At year end, there were no provisions against the carrying value of inventories (2014: nil). During the year, the cost of inventories recognised as expense and included in 'cost of sales' amounted to \$13,430,383 (2014: \$22,485,621).

### 14. Financial instruments

The Board of directors determines, as required, the degree to which it is appropriate to use financial instruments to mitigate risks. The main risks for which such instruments may be appropriate are interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity risk. The Group's principal financial asset is cash, which is invested with major banks. The Group has two convertible bonds and no other borrowings. Future principal maturities as of 31 December 2015 for the long-term convertible debt obligations are as follows:

	\$
2016	–
2017	20,000,000
2018	–
2019	–
2020	–
	<u>\$20,000,000</u>

## Financial assets and liabilities

Group	Financial liabilities at		Total
	Loans and receivables	amortized cost	
	\$	\$	\$
<b>2015</b>			
Cash and cash equivalents	4,156,776	–	4,156,776
Trade receivables	2,335,859	–	2,335,859
			<b>\$6,492,635</b>
Trade payables	–	1,628,267	1,628,267
Accrued liabilities	–	2,582,442	2,582,442
Deferred consideration	–	360,000	360,000
Convertible note	–	19,173,266	19,173,266
			<b>\$23,743,975</b>
<b>2014</b>			
Cash and cash equivalents	6,966,733	–	6,966,733
Trade receivables	3,457,903	–	3,457,903
			<b>\$10,424,636</b>
Trade payables	–	1,551,225	1,551,225
Accrued liabilities	–	1,739,509	1,739,509
Deferred consideration	–	360,000	360,000
Convertible note	–	18,780,750	18,780,750
			<b>\$22,431,484</b>
<b>Company</b>			
	Loans and receivables	Financial liabilities at amortized cost	Total
	\$	\$	\$
<b>2015</b>			
Cash and cash equivalents	61,319	–	61,319
Loan to subsidiaries	39,245,534	–	39,245,534
			<b>\$39,306,853</b>
Trade payables	–	–	–
Accruals	–	365,447	365,447
Convertible note	–	19,173,266	19,173,266
			<b>\$19,538,713</b>
<b>2014</b>			
Cash and cash equivalents	47,790	–	47,790
Loan to subsidiaries	40,852,019	–	40,852,019
			<b>\$40,899,809</b>
Trade payables	–	5,625	5,625
Accruals	–	211,792	211,792
Convertible note	–	18,780,750	18,780,750
			<b>\$18,998,167</b>

**Interest rate risk**

Surplus funds are invested at either floating rates of interest or short-term fixed rates. The benefit of fixing rates for longer term is kept under review, having regard to forecast cash requirements and the levels of return available. Given the short term nature of Iofina's surplus funds, the Group has limited interest rate risk. As of 31 December 2015, all surplus funds were invested in checking and savings accounts that had no terms and were 100% liquid.

The interest rate on the \$15,000,000 convertible note was originally fixed at 6.5 percent when it originated in May 2013. The interest rate was renegotiated to 6 percent in March 2014. The annual interest on the note in 2015 is approximately \$900,000.

Another convertible bond was issued in April 2014 for \$5,000,000. This bond has an interest rate of 6 percent. The annual interest rate on the note is approximately \$300,000.

**Foreign currency risk**

The Group has potential transactional currency exposure in respect of items denominated in foreign currencies relating to the Group's administration in the UK. The Group occasionally makes use of dual currency deposits, derivative instruments that combine a money market deposit with a currency option, as a hedge against foreign currency risk. The balance of cash held in foreign currency was \$61,319 as of year-end.

The Group holds its cash balances in US Dollars to the extent considered appropriate to minimize the effect of adverse exchange rate fluctuations. Currently, sales transactions are denominated in US Dollars, which is the operating currency. Other impacts of foreign currency risk are not deemed material to these financial statements.

**Credit risk**

Because the counterparties to the majority of Iofina's financial instruments are prime financial institutions, Iofina does not expect any counterparty to fail to meet its obligations. Consequently, the maximum exposure is reflected by the carrying amount of financial assets. Additionally, the Group is exposed to marginal credit risk in the form of receivables for product sales. Credit risk in this regard is mitigated through long-term customer payment history, extensive credit analysis of large purchasers, use of letters of credit, and the requirement for partial or total payment prior to the shipment for some customers.

**Liquidity risk**

The Group raises funds as required on the basis of forecast expenditure and cash inflows over the next 12 months. When necessary, the scope and rate of activity are adjusted to take account of the funds available. The directors recognize that the convertible notes described in note 20 are currently due to mature on 15 May 2017. The directors are actively working towards concluding arrangements that will at a minimum continue the level of funding provided by these notes, and are confident that a successful and timely outcome can be negotiated.

### Commodity risk

The Group is exposed to movements in the price of raw iodine. Sales of iodine based products were \$14,169,530 (2014: \$17,669,865). Iodine is produced internally and is the most significant cost component for iodine based products.

### 15. Trade and other receivables

#### Group

	<b>31 December 2015</b>	<b>31 December 2014</b>
	\$	\$
Trade receivables	2,335,859	3,457,903
Prepayments and other receivables	517,415	460,107
	<u><b>\$2,853,274</b></u>	<u><b>\$3,918,010</b></u>

#### Company

	<b>31 December 2015</b>	<b>31 December 2014</b>
	\$	\$
Prepayments and other receivables	6,481	15,019
	<u><b>\$6,481</b></u>	<u><b>\$15,019</b></u>

All receivables and prepayments are short term in nature. The carrying values are considered a reasonable approximation of fair value. All trade receivables were collected subsequent to the balance sheet date. There is no bad debt provision, and therefore no movement on the bad debt provision for the year.

The Group or Company has not received a pledge of any assets as collateral for any receivable or asset.

### 16. Cash and cash equivalents

#### Group

	<b>31 December 2015</b>	<b>31 December 2014</b>
	\$	\$
Cash in US Dollar accounts	4,095,457	6,918,943
Cash in GB Pound Sterling accounts	61,319	47,790
	<u><b>\$4,156,776</b></u>	<u><b>\$6,966,733</b></u>

#### Company

	<b>31 December 2015</b>	<b>31 December 2014</b>
	\$	\$
Cash in GB Pound Sterling accounts	61,319	47,790
	<u><b>\$61,319</b></u>	<u><b>\$47,790</b></u>

**17. Trade and other payables****Group**

	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Trade payables	1,628,267	1,551,225
Accrued expenses and deferred income	<u>2,582,442</u>	<u>1,739,509</u>
	<b><u>\$4,210,709</u></b>	<b><u>\$3,290,734</u></b>

**Company**

	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Trade payables	–	5,625
Accrued interest and expenses	<u>365,447</u>	<u>211,792</u>
	<b><u>\$365,447</u></b>	<b><u>\$217,417</u></b>

All trade and other payables are considered short term. The carrying values are considered to be a reasonable approximation of fair value.

The Group and Company have not pledged any assets as collateral for any liabilities or contingent liabilities.

**18. Deferred tax liability**

	<b>\$</b>
At 31 December 2013	721,313
Credit to income for the year	<u>(56,359)</u>
At 31 December 2014	664,954
Credit to income for the year	<u>(334,413)</u>
At 31 December 2015	<b><u>\$330,541</u></b>

The deferred tax liability arises on recognition of intangible assets at fair value on acquisition of H&S Chemical in 2009. The liability at 31 December 2015 was reassessed in the light of current UK tax rates.

## 19. Deferred consideration

Deferred consideration relates to additions to IOSorb® plants within property, plant, and equipment.

Long term deferred consideration:

	\$
At 31 December 2013	400,000
Recognised as trade payables	(40,000)
Recognised as short term deferred consideration	(120,000)
At 31 December 2014	<u>240,000</u>
Recognised as short term deferred consideration	(120,000)
At 31 December 2015	<u>\$120,000</u>

The deferred consideration represents management's best estimates of the amount to be payable based on expected production levels over a period of up to 5 years and is not discounted. The maximum contractual amount that could be payable is \$1 million.

## 20. Convertible notes

On 15 May 2013 the Company issued a \$15,000,000 convertible note at par value that has an annual coupon of 6.5 percent payable quarterly in arrears. The note was convertible into fully paid ordinary shares at a conversion price of USD \$3.21. If not converted or previously redeemed, the note was to be redeemed at par upon maturity two years from the issue date. The Company had the right to redeem the note without penalty at any time, at which point the holder may elect to convert or receive repayment. In March 2014, the redemption date was extended by two years to 15 May 2017, with a reduced rate to 6.0 percent from 6.5 percent. The amended terms allow for conversion at any time upon 28 days' notice at a conversion price of \$1.67.

As at 31 December 2015 the loan note had a balance of \$14,342,934 and accrued interest relating to the loan was \$139,723. The convertible note has been split into its respective debt and equity component and a credit to equity in relation to the conversion of the option of \$1,761,184 has been recognised using an 8.5 percent per annum discount rate. At maturity, absent conversion, \$15,000,000 would be due to the note holder.

The note holder is a Substantial Shareholder in the Company and pursuant to AIM Rule 13, the issue of the note is a related party transaction (see Note 23).

On 30 April 2014 the Group issued a \$5,000,000 convertible note at par value which has an annual coupon of 6.0 percent payable quarterly in arrears. The note is convertible into fully paid ordinary shares at a conversion price of 40 pence. The Company has the right to elect conversion of the bond if the share price trades at 80 pence per ordinary share (being a one hundred per cent premium above the conversion price), for five consecutive trading days. The Company has the right to redeem the note without penalty at any time, at which point the holder may elect to convert or receive repayment.

As at 31 December 2015 the loan note had a balance of \$4,830,332 and accrued interest relating to the loan was \$46,574. The convertible note has been split into its respective debt and equity component and a credit to equity in relation to the conversion of the option of \$372,317 has been

recognised using an 8.5 percent per annum discount rate. At maturity on 15 May 2017, absent conversion, \$5,000,000 would be due to the note holder. The credit to equity was recorded as \$124,106 at 31 December 2014, and has been increased by \$248,212 to \$372,317 following a review of rates and calculations.

## 21. Share Capital

		<b>31 December 2015</b>	<b>31 December 2014</b>
Authorised:			
Ordinary shares of £0.01 each	- number of shares	1,000,000,000	1,000,000,000
	- nominal value	£10,000,000	£10,000,000
Allotted, called up and fully paid:			
Ordinary shares of £0.01 each	- number of shares	127,569,398	127,569,398
	- nominal value	£1,275,694	£1,275,694
		<b>31 December 2015</b>	<b>31 December 2014</b>
		<b>\$</b>	<b>\$</b>
Issued share capital		\$2,292,683	\$2,292,683
Share premium		\$48,991,647	\$48,991,647

The total number of voting rights in the Company's ordinary shares at 31 December 2015 was 127,569,398 (2014: 127,569,398).

	<b>Number of ordinary shares</b>
<b>At 31 December 2013</b>	<b>127,284,398</b>
Issue of shares	285,000
<b>At 31 December 2014</b>	<b>127,569,398</b>
Issue of shares	-
<b>At 31 December 2015</b>	<b>127,569,398</b>

## 22. Share based payments

During the year ended 31 December 2015, the Company did not grant options of shares to employees of the Group under the 2008 Iofina plc option plan (2014: Nil).

The Group (credited)/expensed to profit or loss a total of \$Nil in 2015 (2014: \$94,408).

The weighted average contractual life of outstanding options is 5.5 years.

Details of the number of options and the weighted average exercise price (WAEP) outstanding are as follows:

<b>Date of Grant</b>	<b>Number of Options</b>	<b>Vesting Date</b>	<b>Share Price £</b>	<b>Exercise Price £</b>	<b>Exercise Price \$</b>	<b>Volatility</b>	<b>Risk Free Rate</b>
2 July 2010	1,075,000	2 Jul 2011	0.30	0.30	0.44	50%	1.2%
<b>Weighted average</b>			0.30	0.30	0.44	50%	1.2%



The weighted average exercise price of all options outstanding at year end was £0.30. The weighted average exercise price for all exercisable options at year end was £0.30. Exercise prices shown in USD are based on the US Dollar/Pounds Sterling exchange rate at 31 December 2015 of 1.476. Options outstanding at 31 December 2015 expire the earlier of ten years from grant date or the termination of service to the Company, the latter being subject to the administrator's discretion.

	<b>2015</b>
	<b>Number of options</b>
Outstanding at the beginning and end of the year	1,075,000
<b>Exercisable at the beginning and end of the year</b>	<b>1,075,000</b>
	<b>2014</b>
	<b>Number of options</b>
Outstanding at the beginning of the year	2,610,000
Exercised	(285,000)
Lapsed/forfeited	(1,250,000)
Outstanding at the end of the year	1,075,000
<b>Exercisable at the end of the year</b>	<b>1,075,000</b>

### 23. Related party transactions

In May 2013 Iofina plc executed a convertible note in the amount of \$15,000,000 with Stena Investment S.à.r.l, an owner of approximately 8 percent of the outstanding common shares. The transaction was deemed a related party transaction pursuant to AIM Rule 13. See note 20 for a description of the note.

There are intercompany transactions among the members of the Group. In 2014 the proceeds of the convertible note were transferred to Iofina Resources and in both 2014 and 2015 iodine produced by Iofina Resources was sold to Iofina Chemical. Related party balances are as follows:

	<b>31 December 2015</b>		<b>31 December 2014</b>	
	<b>\$</b>		<b>\$</b>	
	Due to	Due from	Due to	Due from
Iofina plc	39,245,534	–	40,852,019	–
Iofina Resources	1,465,803	39,245,534	1,986,040	40,852,019
Iofina Chemical	–	1,465,803	–	1,986,040

Additional related party transactions are with key management personnel as detailed below. Option grants as described in note 22 are to employees and Directors.

	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	472,966	426,431
Share based (credit)/expense	–	(100,865)
Social security costs	14,716	6,372
<b>Total</b>	<b>\$487,682</b>	<b>\$331,938</b>

The Company has entered into a number of unsecured related party transactions with its subsidiary undertakings. The most significant transactions carried out between the Company and its subsidiary undertakings are financing.

#### 24. Leases

The Group leases space for administrative purposes under one agreement. The remaining life of the lease is 38 months. At the balance sheet date the minimum payments are \$156,101 (2014: \$144,575) for the next 12 months. The lease is strictly for the use of improved realty on a stated payment basis and contains no contingent, purchase or renewal clauses.

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Future minimum lease payments</b>	<b>\$</b>	<b>\$</b>
Due in one year	156,101	144,575
Due in more than one and less than five years	338,219	457,821
<b>Total</b>	<b><u>\$494,320</u></b>	<b><u>\$602,396</u></b>

#### 25. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group defines capital as being share capital plus reserves as shown in the balance sheet. The Directors continue to monitor the level of capital as compared to the Group's commitments and adjusts the level of capital as is determined to be necessary by issuing new shares. Iofina plc is not subject to any externally imposed capital requirements. The Directors consider the capital of the Group to be the total equity attributable to the equity holders of the parent of \$20.7 million as at 31 December 2015 (2014: \$23.5 million).

#### 26. Subsidiary undertakings

##### Investment in subsidiaries

	<b>Investment in subsidiaries \$</b>
<b>Cost</b>	
Balance at 31 December 2013	17,199,362
Changes for the year	—
Balance at 31 December 2014	<u>17,199,362</u>
Changes for the year	—
Balance at 31 December 2015	<b><u>\$17,199,362</u></b>

### Loans to subsidiaries

	Loans to subsidiaries \$
<b>Cost</b>	
Balance at 31 December 2013	37,184,466
Changes for the year	3,667,553
Balance at 31 December 2014	40,852,019
Changes for the year	(1,606,485)
Balance at 31 December 2015	<u>\$39,245,534</u>

### Subsidiary undertakings

	Country of incorporation and operation	Principal activity	Interest in ordinary shares and voting rights
Iofina, Inc.	United States/CO	Holding company	100%
Iofina Resources, Inc.	United States/CO	Iodine production	100%
Iofina Chemical, Inc.	United States/DE	Specialty chemical	100%
Iofina Resources, LLC	United States/CO	Holding company (Dormant)	100%
Iofina Resources, LLC	United States/TX	Holding company	100%
Iofina Resources, LLC	United States/OK	Holding company	100%
Atlantis Water Solutions, Inc.	United States/MT	Holding company	100%
Atlantis Water Solutions, Inc.	United States/ND	Holding company (Dormant)	100%

Iofina, Inc. was established in February 2006 and is a wholly owned subsidiary of Iofina plc. Iofina, Inc. owns the whole of the issued share capital of Iofina Resources, Inc. and Iofina Chemical, Inc. Other entities are subsidiaries of Iofina Resources, Inc., the iodine production company.

### 27. Capital commitments

At 31 December 2015, the Group had capital commitments of approximately \$Nil (2014: \$100,000).

### 28. Post balance sheet events

There are no post balance sheet events.

### 29. Contingent liabilities

All previous disclosed liabilities have been settled and are not material events for the Group.

**Iofina and the environment**

Iofina promotes, wherever possible, environmental sustainability in its working practices and seeks to minimise, mitigate, or remedy any harmful effects from the Group's operations on the environment at each of its operational sites. To continue that effort through all aspects of business, this report has been produced to minimise its effect on the environment by using thinner paper, fewer pages, smaller type set, and non-colour printing as much as possible. As part of this effort Iofina is trying to move attention to its online annual reports available at [www.iofina.com](http://www.iofina.com). By being a better steward of the environment, Iofina saves valuable shareholder funds instead of producing glossy magazine pages throughout the whole document.





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