RMG Auramine LLC

Financial Statements for 2018

Contents

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Independent Auditors' Report

To the Shareholder of RMG Auramine LLC

Opinion

We have audited the financial statements of RMG Auramine LLC (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Statement of Management Report

Management is responsible for the Management Report. Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work we have performed, we conclude that the Management Report:

- is consistent with the financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC
29 October 2019

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

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC
29 October 2019

’000 GEL	Note	31 December 2018	31 December 2017*
ASSETS			
Non-current assets			
Property and equipment	7	13,160	8,660
Mine properties	8	65,039	49,911
Prepayments	9	3,619	-
Intangible assets		88	61
Total non-current assets		**81,906**	**58,632**
Current assets			
Inventories	10	2,284	951
Prepayments and other receivables	9	1,059	570
Tax asset, net		448	1,010
Cash and cash equivalents		436	98
Total current assets		**4,227**	**2,629**
Total Assets		**86,133**	**61,261**
EQUITY AND LIABILITIES			
Equity			
Charter capital		36,882	36,396
Additional paid-in capital		3,458	3,458
Accumulated losses		(748)	(322)
Total equity	11	**39,592**	**39,532**
Liabilities			
Non-current liabilities			
Loans and borrowings	12	41,603	-
Total non-current liabilities		**41,603**	**-**
Current liabilities			
Loans and borrowings	12	-	17,323
Trade and other payables	13	4,938	4,406
Total current liabilities		**4,938**	**21,729**
Total liabilities		**46,541**	**21,729**
Total equity and liabilities		**86,133**	**61,261**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

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

’000 GEL	**Note**	**2018**	**28 September 2016 (date of incorporation) to 31 December 2017***
General and administrative expenses		(709)	(476)
Other income		58	208
Results from operating activities		**(651)**	**(268)**
Finance cost		(1,290)	(54)
Finance income		1,515	-
Net finance income/(cost)	6	**225**	**(54)**
Loss before income tax		**(426)**	**(322)**
Loss and total comprehensive loss for the year		**(426)**	**(322)**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 5.

These financial statements were approved by management on 29 October 2019 and were signed on its behalf by:

Tornike Lipartia
General Director

Nino Kalichava
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

'000 GEL	Note	2018	28 September 2016 (date of incorporation) to 31 December 2017*
General and administrative expenses		(709)	(476)
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Tornike Lipartia
General Director

Nino Kalichava
Chief Accountant

RMG AURAMINE
405168740

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

'000 GEL	**Charter capital**	**Additional paid-in capital**	**Accumulated losses**	**Total equity**
Balance at 28 September 2016 (date of incorporation)	-	-	-	-
Total comprehensive loss for the period				
Loss for the period	-	-	(322)	(322)
Transactions with owners, recorded directly in equity				
Total contributions and distributions				
Non-cash owner contribution (note 11)	36,396	3,458	-	39,854
Balance at 31 December 2017 *	**36,396**	**3,458**	**(322)**	**39,532**
Balance at 1 January 2018	36,396	3,458	(322)	39,532
Total comprehensive loss for the period				
Loss for the year	-	-	(426)	(426)
Transactions with owners, recorded directly in equity				
Total contributions and distributions				
Non-cash owner contribution (note 11)	486	-	-	486
Balance at 31 December 2018	**36,882**	**3,458**	**(748)**	**39,592**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 5.

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

'000 GEL	**Note**	**2018**	**28 September 2016 (date of incorporation) to 31 December 2017***
Cash flows from operating activities			
Loss before income tax		(426)	(322)
Adjustments for:			
Depreciation and amortization		36	14
Loss from write off of property and equipment		59	-
Net finance costs		(225)	54
Cash used in operating activities before changes in working capital		**(556)**	**(254)**
Changes in:			
Change in inventories		(1,333)	(951)
Change in prepayments and other receivables		(454)	(273)
Change in tax assets, net		562	(1,010)
Net cash used in operating activities		**(1,781)**	**(2,488)**
Cash flows from investing activities			
Acquisition of property and equipment		(9,836)	(7,788)
Additions to mine property		(9,024)	(5,178)
Acquisition of intangible assets		(44)	(66)
Net cash used in investing activities		**(18,904)**	**(13,032)**
Cash flows from financing activities			
Proceeds from borrowings		21,138	15,671
Net cash from financing activities		**21,138**	**15,671**
Net increase in cash and cash equivalents		**453**	**151**
Cash and cash equivalents at the beginning of the year		98	-
Effect of movements in foreign exchange rates on cash and cash equivalents		(115)	(53)
Cash and cash equivalents at the end of the year		**436**	**98**

* The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Notes 5.

The statement of cash flow is to be read in conjunction with the notes to, and forming part of, the financial statements.

1. Reporting entity

(a) Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

(b) Organisation and operations

RMG Auramine LLC (the "Company") is a Georgian limited liability company as defined in the Entrepreneurs Law of Georgia. The Company was established on 28 September 2016.

The Company's registered office is Georgia, Tbilisi, Vake-Saburtalo district, Aleksidze str. №1. The Company has been registered by LEPL National Agency of Public Registry and the registration number is: 405168740.

The Company is licensed for exploration, mining and processing of mineral resources at the Bektakari deposit within the territory of the Bolnisi and Dmanisi regions in southern Georgia until October 2041.

The Company's principal activity during 2018 was the construction of underground mine (Bektakari Project), situate in Bektakari, Bolnisi District, Georgia for subsequent mining and processing of Gold-polymetallic mineralizations and gold-bearing secondary quartzite. The Bektakari Project construction is finalized by the end of August 2019. Final permits for the underground ore extraction were obtained and production process started in October 2019.

100% sole owner and the immediate parent of the Company is Caucasian Mining Group LLC (Georgia) - the Parent, the owner. Next parent of the Company is Pamtilon Holding Limited (Cyprus). The majority of the Company's funding is from, and credit exposures are to, other entities within the group headed by Pamtilon Holding Limited. As a result the Company is economically dependent upon the Group headed by Pamtilon Holding Limited. In addition, the activities of the Company are closely linked with the requirements of the Group headed by Pamtilon Holding Limited and determination of the pricing of the Company's services to the Group headed by Pamtilon Holding Limited is undertaken in conjunction with other companies in the Group.

The Company is ultimately controlled by two individuals, Dmitry Troitsky and Dmitry Korzhev, who have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have number of business interests outside the Company. Related party transactions are disclosed in note 16.

Bektakari Project

The immediate parent company Caucasian Mining Group (CMG) LLC owns the exploration and mining license on territory of Georgia. From 2011 CMG carried out exploration program, during which Bektakari site was explored in depth. In 2014 CMG assigned independent third party consulting company Bumigeme Inc. to conduct a feasibility study on the Bektakari deposit. The feasibility study has been concluded in June 2016, showing results that the development of the Bektakari Project had sound financial merit. Thus, CMG decided to start the development of the Bektakari deposit, by establishing a 100% subsidiary: RMG Auramine LLC.

Probable reserves, approved by Ministry of Economy and Sustainable Development of Georgia, LEPL National Agency of Mines, of the Bektakari deposit amounted to 11,988 kg of gold, 108,712 kg of silver, 27,447 tonnes of lead and 57,528 tonnes of zinc. In 8 October 2018, the Company amended license agreement, based on which estimated life of mine has being extended from 2024 until 2027.

2. Basis of accounting

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

— Note 1(b) – Majority funding's from related parties;
— Note 8 – Capitalization of expenditures.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in the note 14(a).

5. Changes in significant accounting policies

The Company has initially applied IFRS 15 (see note 5(a)) and IFRS 9 (see note 5 (b)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

a. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has not started generation of revenue as at 31 December 2018, therefore there has been no impact of transition to IFRS 15 on accumulated losses at 1 January 2018 or statement of financial position as at 31 December 2018 or statement of profit or loss and other comprehensive income or statement of cash flows for 2018.

b. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments:

Recognition and Measurement.

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

IFRS 9 did not have a significant impact on the Company's accounting policies, therefore, has been no impact of transition to IFRS 9 on retained earnings at 1 January 2018, see note 14 (b) (ii).

For additional information about the Company's accounting policies relating to impairment, see note 18 (j).

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see note 18 (h).

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 was not material for the financial statements.

'000 GEL **Financial Assets**	**Note**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Other receivables	9	Loans and receivables	Amortized Cost	270	270
Cash and cash equivalents		Loans and receivables	Amortized Cost	98	98
Total financial assets				**368**	**368**

'000 GEL **Financial Liabilities**	**Note**	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Loans and borrowings	12	Other Financial Liabilities	Other Financial Liabilities	17,323	17,323
Trade and other payables	13	Other Financial Liabilities	Other Financial Liabilities	4,406	4,406
Total Financial Liabilities				**21,729**	**21,729**

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in no additional allowance for impairment.

Additional information about how the Company measures the allowance for impairment is described in notes 14(b) (ii) and 18 (j) (i).

(iii) Transition

The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in accumulated losses as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

6. Net finance income/(cost)

’000 GEL	2018	2017
Recognised in profit or loss		
Modification gain on prolongation of loans and borrowings (note 12)	1,515	-
Finance income	**1,515**	**-**
Interest expense on loans and borrowings measured at amortized cost	(209)	(10)
Net foreign exchange loss	(1,081)	(44)
Finance costs	**(1,290)**	**(54)**
Net finance income/(cost) recognised in profit or loss	**225**	**(54)**

7. Property and equipment

’000 GEL	Land	Property	Machinery and equipment	Vehicles, furniture and tools	Other	Total
Cost						
Balance as at 28 September 2016 (date of incorporation)	-	-	-	-	-	-
Additions	-	4,981	2,412	104	291	7,788
Additions through capital contribution	-	34	1,927	54	-	2,015
Balance as at 31 December 2017	**-**	**5,015**	**4,339**	**158**	**291**	**9,803**
Balance as at 1 January 2018	-	5,015	4,339	158	291	9,803
Additions	240	375	4,852	251	499	6,217
Disposals	-	-	-	-	(59)	(59)
Balance as at 31 December 2018	**240**	**5,390**	**9,191**	**409**	**731**	**15,961**
Accumulated depreciation						
Balance as at 28 September 2016 (date of incorporation)	-	-	-	-	-	-
Depreciation charge for the year	-	(297)	(780)	(34)	(32)	(1,143)
Balance as at 31 December 2017	**-**	**(297)**	**(780)**	**(34)**	**(32)**	**(1,143)**
Balance as at 1 January 2018	-	(297)	(780)	(34)	(32)	(1,143)
Depreciation charge for the year	-	(480)	(1,021)	(69)	(88)	(1,658)
Balance at 31 December 2018	**-**	**(777)**	**(1,801)**	**(103)**	**(120)**	**(2,801)**
Carrying amount						
At 31 December 2017	**-**	**4,718**	**3,559**	**124**	**259**	**8,660**
At 31 December 2018	**240**	**4,613**	**7,390**	**306**	**611**	**13,160**

The category "Other" contains spare parts of GEL 239 thousand as at 31 December 2018 (2017: GEL 145 thousand).

(a) Depreciation

For the year ended 31 December 2018 depreciation expense of GEL 1,634 thousand (2017: GEL 1,134 thousand) has been capitalized on mine property and GEL 19 thousand (2017: GEL 9 thousand) has been charged to general and administrative expenses.

Estimated life of mine at reporting date is until 2027 (2017: until 2024) and this is the period that management used to evaluate the useful lives of property and equipment.

(b) Security

As at 31 December 2018 all movable and immoveable property, including property and equipment with a carrying amount of GEL 13,160 thousand (2017: GEL 8,660 thousand) were pledged for the credit line facility from a financial institution and secured loan (see note 15(d)).

(c) Change in estimate

During 2018, the Company changed useful lives for property items until 2027. Per updated excavation plan, the estimated life of mine was prolonged until 2027, which resulted in the change of useful lives. The effect of the changes in useful lives resulted in decrease of depreciation charge by GEL 200 thousand in each year. The change in estimate is due to change in ore processing strategy. Before construction of factory for Bektakari ore – planned in 2023, processing will take place in existing plant that belongs to the related party, RMG Copper JSC. This plant has limited ore processing capacity, so it will take longer period of time to extract all ore.

8. Mine properties

'000 GEL	**Mine under construction**	**Exploration and mining license**	**Exploration and evaluation asset**	**Total**
Balance as at 28 September 2016 (date of incorporation)	-	-	-	-
Additions	12,072	-	-	12,072
Additions through capital contribution	415	9,043	28,381	37,839
Balance as at 31 December 2017	**12,487**	**9,043**	**28,381**	**49,911**
Balance as at 31 December 2017	12,487	9,043	28,381	49,911
Additions	14,642	-	-	14,642
Additions through capital contribution (note 11(a))	-	-	486	486
Balance as at 31 December 2018	**27,129**	**9,043**	**28,867**	**65,039**

Management had used judgement to determine and capitalize those expenses which are directly related to the construction of mine as at 31 December 2018 and 31 December 2017.

Mine under construction include the capital expenditure incurred for the development of the Bektakari Project. As at 31 December it is comprised by the following expenditures:

'000 GEL	**2018**	**2017**
Wages and salaries	7,124	3,495
Purchase of materials	6,545	2,819
Borrowing costs	5,103	1,626
Depreciation (note 7)	2,768	1,134
Service of heavy equipment	1,596	1,074
Explosive works	1,180	844
Additions through capital contribution	345	345
Rent expense	259	189
Utility expense	138	26
Transportation	33	5
Consulting and professional charges	21	21
Others	2,017	909
	27,129	**12,487**

During 2018 capitalised borrowing costs amounted GEL 3,477 thousand (during 2017: GEL 1,626 thousand) comprised of accrued interest and foreign exchange losses related to the mine under construction amounted to GEL 2,816 thousand and GEL 661 thousand, respectively, (during 2017: GEL 1,223 thousand and GEL 403 thousand) with a capitalisation rate of 12.5% (2017: 12.5%).

Mine under construction is not depreciated until construction is completed and the assets are available for their intended use. This is signified by the formal commissioning of the mine for production started from October 2019.

(a) Additions through capital contribution

On 19 October 2016, based on the Parent's decision the exploration and mining license for the Bektakari deposit was contributed into the equity of the Company with a nominal amount of GEL 9,043 thousand. On 8 November 2016, based on the Parent's decision exploration and evaluation asset related to the Bektakari deposit was contributed into the equity of the Company with a nominal amount of GEL 24,923 thousand. The exploration and evaluation asset consisted of the geological surveys and exploration expense incurred by the Parent to assess the viability of the Bektakari Project.

At the date of the contribution the fair value of the exploration and evaluation asset contributed into the Company's equity was determined to be GEL 28,381 thousand. The difference of GEL 3,458 thousand between the fair value of the contributed exploration and evaluation asset and its nominal amount was recognized as additional paid-in capital (note 11 (b)).

Due to the specific nature of the exploration and evaluation asset, the fair value at the contribution date was determined based on cost approach, which means historically accrued expenditures on the exploration and evaluation asset adjusted for time difference and tested for economic obsolescence.

On 31 May 2018, based on the Parent's decision the feasibility study regarding geotechnical activities of Bektakari deposit were contributed into charter capital of the Company with the amount of GEL 486 thousand.

No impairment indicators had been identified at contribution dates and as at the reporting date.

(b) Security

As at 31 December 2018 intangible assets and all movable and immoveable property, including mine properties of GEL 65,039 thousand (2017: GEL 49,911 thousand) were pledged for credit line facility from a financial institution (see note 15(d)).

9. Prepayments and other receivables

'000 GEL	**31 December 2018**	**31 December 2017**
Non-current:		
Prepayments for property and equipment*	3,619	-
Current:		
Other prepayments	1,016	300
Other receivables	43	270
Total current	**1,059**	**570**

*The prepayment is mostly related to the purchase of drilling vehicles and respective spare parts used by the Company during the construction of the mine.

10. Inventories

'000 GEL	**31 December 2018**	**31 December 2017**
Building materials	1,837	832
Labor safety goods	82	69
Other	365	50
	2,284	**951**

11. Equity and capital management

(a) Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company. The owners of charter capital are entitled to receive dividends as declared from time to time and are entitled to the number of votes corresponding to the percentage of ownership in the Company at meetings of the Company.

'000 GEL	**Charter capital**
Balance at 28 September 2016 (date of incorporation)	-
Non-cash owner contributions	
Contribution of exploration and evaluation asset	28,381
Contribution of exploration and mining license	9,043
Contribution of property and equipment	2,015
Contribution of mine properties	415
Net non-cash owner contributions	**39,854**
Additional paid in capital	(3,458)
Balance at the 31 December 2017	**36,396**
Non-cash owner contributions	
Contribution of exploration and evaluation asset	486
Balance at the 31 December 2018	**36,882**

On 19 October 2016, based on the Parent's decision the exploration and evaluation license for the Bektakari deposit was contributed into the equity of the Company with a nominal amount of GEL 9,043 thousand.

On 8 November 2016, based on the Parent's decision the property, machinery and equipment was contributed into the equity of the Company with a nominal amount of GEL 2,015 thousand. The fair value of such contributed assets do not differ from its nominal amount.

On 31 May 2018, based on the Parent's decision the feasibility study regarding geotechnical activities of Bektakari deposit was contributed into the charter capital of the Company with the amount of GEL 486 thousand.

(b) Additional paid-in capital

Additional paid-in capital represents the difference between the nominal and fair values of the non-monetary items contributed into the Company's charter capital.

On 8 November 2016, based on the Parent's decision the nominal amount of the non-cash contribution was GEL 24,923 thousand (note 8), whereas the fair value of the non-cash contribution at the date of contribution was GEL 28,381 thousand, therefore, the difference of GEL 3,458 thousand, for which no Parent's decision existed, recognized as additional paid-in capital.

(c) Dividends

In accordance with the Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs. As at 31 December 2018 the Company had an accumulated loss of GEL 748 thousand (31 December 2017 accumulated loss: GEL 322 thousand).

(d) Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs, to maintain market confidence and to sustain future development of the business. This is achieved with efficient cash management mainly financed by the Company's related parties through loan financing (see note 12).

There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

12. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risks, see note 14.

'000 GEL	31 December 2018	31 December 2017
Non - current liabilities		
Loan from related party	41,603	-
	41,603	**-**
Current liabilities		
Loan from related party	-	17,323
	-	**17,323**

Related party loan is received from RMG Gold LLC (a fellow subsidiary in the same group headed by Pamtilon Holding Limited) with the purpose to finance day to day operation of the Company and to finance the Bektakari Project. RMG Gold LLC itself, obtained the loan from JSC Bank of Georgia from the general credit line facility, by pledging the all immovable and movable property of the Company (see note 15(d)).

The loans from the related party had a maturity till 31 December 2018, which under amendments made on 31 December 2018 maturity has being prolonged till 31 December 2020. As a result of the amendments, modification gain of GEL 1,515 thousand was recognised in statement of profit or loss and other comprehensive income.

Terms and conditions of outstanding loans were as follows:

				31 December 2018		31 December 2017	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured borrowings from related party	USD	12.50%	2020	41,603	41,603	17,323	17,323

Unused credit line facility

As at 31 December 2018 the Company has unused credit line of USD 3.6 million under the credit line agreement signed with RMG Gold LLC (2017: USD 11.8 million).

(a) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 GEL	**Loans and borrowings**
Balance as at 28 September 2016 (date of incorporation)	-
Changes from financing cash flows:	
Proceeds from loans and borrowings	15,671
Total changes from financing cash flows	**15,671**
The effect of changes in foreign exchange rates	**419**
Other changes:	
Capitalized borrowing cost	1,223
Interest expense	10
Total liability-related other changes	**1,233**
Balance at 31 December 2017	**17,323**

	Loans and borrowings
Balance at 1 January 2018	17,323
Changes from financing cash flows:	
Proceeds from loans and borrowings	21,138
Total changes from financing cash flows:	**21,138**
The effect of changes in foreign exchange rates	**1,632**
Other changes:	
Capitalized borrowing costs	2,816
Interest expense	209
Modification gain	(1,515)
Total liability-related other changes	**1,510**
Balance at 31 December 2018	**41,603**

13. Trade and other payables

'000 GEL	**31 December 2018**	**31 December 2017**
Payable to related parties	4,575	4,016
Payable to suppliers	256	58
Payable to employees	107	95
Other payables	-	237
	4,938	**4,406**

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 14.

14. Fair values and risk management

(a) Fair values of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values of financial assets and liabilities using valuation techniques. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amounts.

(b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk; (see 14 (b) (ii));
- liquidity risk; (see 14 (b) (iii));
- market risk. (see 14 (b) (iv));

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

(i) Risk management framework

The Supervisory Board together with the management has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies and reporting regularly to the shareholders on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents. The Company maintains cash and cash equivalents with one Georgian bank with a short term issuer default rating of B, rated by Fitch Ratings. Management does not expect this counterparty to fail to meet its obligations and, accordingly, believes that the Company is not significantly exposed to credit risk in respect to cash and cash equivalents at reporting dates.

Credit related commitments

The Company is also exposed to credit risk arising from guarantees contracts entered into by the Company to guarantee the indebtedness of counterparties' in credit line agreement (see note 15(d)). Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. Total exposure to credit risk on guarantee contracts amounts to GEL 56,517 thousand as at 31 December 2018

(2017: GEL 61,169 thousand). With respect to credit risk arising from guarantee contracts, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company limits its counterparty credit risk on these contracts by dealing only with companies with credit ratings (assessed internally by the company based on expert-judgement) of equivalent to external credit rating of CCC to BB+ (S&P). Management estimates that ECL is immaterial at reporting dates. Management estimates that ECL is immaterial at reporting dates.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The management ensures that the Company's investing activities are financed by loans and borrowings from related parties, before the Company start to generating cash from operations. The management further ensures that the Company maintains enough cash to be always available to meet the own financial obligations, incurred from day to day operations or due to some unforeseen circumstances.

As at 31 December 2018 the Company has unused credit line of USD 3.6 million (2017: USD 11.8 million) under the credit line agreement signed with RMG Gold LLC (see note 12).

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

31 December 2018 **'000 GEL**	**Carrying amount**	**Total**	**Less than 1 year**	**1-3 years**
Non-derivative financial liabilities				
Loan from related party	41,603	52,789	-	52,789
Trade and other payables	4,938	4,938	4,938	-
Credit related commitments (note 15(d))	56,517	56,517	-	56,617
	103,058	**114,244**	**4,938**	**109,306**

31 December 2017 **'000 GEL**	**Carrying amount**	**Total**	**Less than 1 year**	**1-3 years**
Non-derivative financial liabilities				
Loan from related party	17,323	19,329	19,329	-
Trade and other payables	4,311	4,311	4,311	-
Credit related commitments (note 15(d))	61,169	61,169	-	61,169
	82,803	**84,809**	**23,640**	**61,169**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Company is exposed to currency risk on bank balances and loans and borrowings that are denominated in USD.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows:

'000 GEL	USD-denominated 31 December 2018	USD-denominated 31 December 2017
Cash and cash equivalents	416	96
Loans and borrowings	(41,603)	(17,323)
Net exposure	**(41,187)**	**(17,227)**

The following significant exchange rates have been applied during the period:

in GEL	Average rate		Reporting date spot rate	
	2018	28 September 2016 (date of incorporation) to 31 December 2017	31 December 2018	31 December 2017
USD 1	2.5345	2.5049	2.6766	2.5922

Sensitivity analysis

A reasonably possible strengthening/(weakening) of the GEL, as indicated below, against USD at 31 December 2018 would have affected the measurement of financial instruments denominated in USD and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Strengthening	Weakening
'000 GEL	**Profit or (loss)**	**Profit or (loss)**
31 December 2018		
USD (10% movement)	4,119	(4,119)
31 December 2017		
USD (10% movement)	1,723	(1,723)

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising or issuing new loans, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was as follows:

'000 GEL	Carrying amount 31 December 2018	Carrying amount 31 December 2017
Fixed rate instruments		
Financial liabilities	**(41,603)**	**(17,323)**

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(v) Operational risk

(a) Mining-related businesses

Mining-related businesses by their nature are subject to many operational risks and factors that are generally outside of the Company's control and could impact the Company's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions and adverse claims to water rights, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of or failure to receive necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) uncertainty of exploration and development, (x) delays in transportation, (xi) labour disputes, (xii) inability to obtain satisfactory insurance coverage, (xiii) unavailability of materials and equipment, (xiv) the failure of equipment or processes to operate in accordance with specifications or expectations, (xv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xvi) the results of financing efforts and financial market conditions.

(b) Gold price volatility

The Company's financial performance is heavily dependent on the price of gold, which is affected by many factors beyond the Company's control. Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The Company's gold is planned to be sold at prices based on those quoted on the London Bullion Market. The price of gold as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply, (ii) rates of global economic growth, trends in jewellery production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD. The gold market is volatile. During 2018-2019 years, London Bullion Market Association daily settlement prices ranged from USD 1,177 to USD 1,506 per ounce of gold (2016-2017 years: USD 1,249 to USD 1,258).

A sustained period of low gold prices would adversely affect the Company's profits and cash flows.

15. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its mine properties, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Based on order # 25790 dated 17 September 2018 the Tax Authority audit was started covering the period from 28 September 2016 (date of incorporation) till 1 August 2018. As of signing date of these financial statements the tax audit is ongoing. Per management's assessment no significant charges are expected.

(c) Environmental contingencies

The Company is subject to various state laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. Management is of the opinion that the Company has met the Government's requirements concerning environmental matters, and therefore the Company has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation in Georgia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

(d) Credit related commitments

On 20 October 2016 the Company joined a general credit line agreement, according to which, together with other related party companies, the Company maintains a credit line facility of USD 150 million with JSC Bank of Georgia (BOG). The credit facility expires in 2020. As part of the credit line facility all the counterparties are jointly liable for the total withdrawn credit facility under the agreement in case of the event of default by any counterparties. The facility was negotiated in an arm's length transaction with no premium on issue.

As at 31 December 2018 and 31 December 2017 the outstanding amount of the credit facility was GEL 56,517 thousand and GEL 61,169 thousand, respectively.

The amounts of outstanding credit related commitments represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Therefore, the total outstanding contractual commitments presented below do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2018 the credit line facility is secured by the Company's property and equipment of carrying value of GEL 13,160 thousand (31 December 2017: GEL 8,660 thousand) and mine properties of GEL 65,039 thousand (31 December 2017: GEL 49,911 thousand) (notes 7 and 8). Additionally credit line facility is secured with the tangible and intangible assets of the group entities, which are part of the agreement.

16. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company and ultimate controlling parent is Caucasus Mining Group LLC (Georgia). Caucasus Mining Group LLC consolidated and separate financial statements are uploaded annually on the regulators website.

The Company is ultimately controlled by two individuals: Dmitry Troitsky and Dmitry Korzhev.

(b) Key management remuneration

Key management received the following remuneration during the period, which is included in wages and salaries:

'000 GEL	2018	for the period from 28 September 2016 (date of incorporation) to 31 December 2017
Salaries and bonuses	223	306

(c) Other related party transactions

'000 GEL	Transaction value: For the year ending 31 December 2018	Transaction value: for the period from 28 September 16 (date of incorporation) to 31 December 2017	Outstanding balance as at 31 December: 2018	Outstanding balance as at 31 December: 2017
Loans received:				
Entities under common control	21,138	15,671	41,603	17,323
Purchase of goods and services:				
Parent company	509	1,192	1,214	1,192
Entities under common control	537	2,824	3,361	2,824
Sale of goods and services:				
Entities under common control	38	227	34	227

Credit related commitments

As at 31 December 2018 and 31 December 2017 the Company guaranteed the indebtedness of the related parties of GEL 56,517 thousand and GEL 61,169 thousand, respectively (note 15(d)).

17. Subsequent events

Subsequent to the reporting date, the Company borrowed loans from related parties of USD 8,486 thousand (GEL equivalents 25,167 thousand).

In October 2019 the Company started ore extraction activities.

18. Basis of measurement

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

19. Significant accounting policies

The accounting policies set out below have been applied consistently (except for those, mentioned in note 5) to all periods presented in these financial statements.

(a) Finance cost

The Company's finance costs include:

- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized to the respective qualifying asset using the effective interest method.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(c) Short term employee benefits

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

(d) Income tax

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

(ii) Deferred Tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on an individual item basis and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. In the case of inventories contributed into the capital, cost is determined as fair value of inventories at initial recognition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment, except for land, are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is measured at cost less any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is mostly capitalized on mine under construction (see note 8(a)) on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of significant items of property and equipment for the period are as follows:

- property 9-10 years;
- machinery and equipment 4-7 years;
- vehicles, furniture and tools 3-5 years;
- other 3-5 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Mine properties

Accounting policy implication is connected with the phase of operations. The Company is on development phase of mine operations, which means establishing access to and commissioning facilities to extract, treat and transport production from the mineral reserve, and other preparations for commercial production. Mine properties comprise mine under construction, capitalized development expenditure on mining activities for which the technical feasibility and commercial viability of the mineral resources are demonstrable; exploration and mining license and exploration and evaluation assets. The capitalized expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, capitalized borrowing costs and depreciation expense of property and equipment.

Mine properties are measured at cost less accumulated amortization and accumulated impairment losses. Mine properties are not amortized until the mine construction is completed and the assets are available for their intended use. This is signified by the formal commissioning of the mine for production.

(h) Financial instruments

Financial Assets

Policy applicable from 1 January 2018

The Company applies IFRS 9 Financial Instruments for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated.

All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company's financial assets comprise other receivables as presented in note 9 and cash and cash equivalents and are classified into the financial assets at amortised cost category. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Cash and cash equivalents comprised bank balances with maturities of three months or less from the acquisition date that were subject to insignificant risk of changes in their fair value.

(iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss (except for the part of the fair value change that is due to changes in the Company's own credit risk, that is recognised in other comprehensive income).

Other financial liabilities, which comprise loans from related parties and trade and other payables presented in notes 12 and 13, accordingly, are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company measures all of its financial liabilities at amortized cost.

(iv) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the key rate of National Bank of Georgia, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Comapny performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(v) Derecognition

Financial assets

The Comapny derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

***(vi)* Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company currently has a legally enforceable right to set off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Policy applicable before 1 January 2018

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange ifrs 9 losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Other financial liabilities comprise loans and borrowings presented in note 12.

Modification of financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the key rate of National Bank of Georgia, if the loan contract entitles banks to do so and the Company have an option to either accept the revised rate or redeem the loan at par without penalty. The Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(i) Equity

Charter capital

Charter capital is classified as equity.

Additional paid-in capital

Contributions made by the Company's shareholders, for which no shareholders' decision is available to transfer the contributions into the Company's charter capital, is presented as additional paid in capital.

(j) Impairment

(i) Non-derivative financial assets

Financial instruments

The Company recognises loss allowances for expected credit losses (ECLs) on – financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

The Company assumes that the credit risk on a financial asset is significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
– the financial asset is more than 90 days past due.

(ii) Non-financial assets

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 5(b)(ii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

20. New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted them in preparing these financial statements.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases* – Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company is required to adopt IFRS 16 “Leases” from 1 January 2019. Management believes that no significant impact is expected for the Company’s operations.