RMG Gold LLC

Financial Statements
for 2017

Contents

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Independent Auditors' Report

To the the Supervisory Board of RMG Gold LLC

Opinion

We have audited the financial statements of RMG Gold LLC (the Company), which comprise the statement of financial position as at 31 December 2017, 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 2017, 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 the 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
Tbilisi, Georgia
14 December 2018

'000 GEL	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	12	45,779	44,659
Intangible assets	13	18,904	20,268
Mine development costs	14	46,114	56,576
Capitalized reclamation provision	22	12,916	8,813
Loans issued	15	38,922	26,933
Inventories	16	9,359	57,665
Prepayments for property, plant and equipment		297	1,803
Total non-current assets		**172,291**	**216,717**
Current assets			
Inventories	16	51,870	59,938
Prepayments		1,595	4,963
Loans issued	15	17,370	-
Trade and other receivables	17	62,113	47,809
Cash and cash equivalents	18	117	221
Total current assets		**133,065**	**112,931**
Total assets		**305,356**	**329,648**
EQUITY AND LIABILITIES			
Equity	19		
Charter capital		33,245	34,269
Additional paid-in capital		95,603	95,603
Fair value reserve for capital contributions		(7,918)	(7,918)
Accumulated deficit		(33,003)	(16,279)
Total equity		**87,927**	**105,675**
Non-current liabilities			
Loans and borrowings	21	23,281	31,457
Dividend payable	19	65,700	67,083
Site restoration provisions	22	17,924	12,188
Total non-current liabilities		**106,905**	**110,728**
Current liabilities			
Loans and borrowings	21	80,392	65,372
Trade and other payables	23	30,132	47,873
Total current liabilities		**110,524**	**113,245**
Total liabilities		**217,429**	**223,973**
Total equity and liabilities		**305,356**	**329,648**

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	2017	2016
Revenue	5	199,621	210,035
Cost of sales	6	(125,325)	(116,841)
Gross profit		**74,296**	**93,194**
Other income		4,444	2,592
Distribution expenses		(964)	(1,140)
Administrative expenses	7	(22,089)	(15,518)
Reversal of impairment loss		-	2,928
Write-off of gold/silver in process	16	(66,410)	-
Other expenses	9	(4,388)	(1,750)
Results from operating activities		**(15,111)**	**80,306**
Finance income	10	7,872	1,841
Finance costs	10	(9,485)	(24,848)
Net finance costs		**(1,613)**	**(23,007)**
(Loss)/profit before income tax		**(16,724)**	**57,299**
Income tax expense	11	-	(8,793)
(Loss)/profit and other comprehensive (loss)/income for the year		**(16,724)**	**48,506**

These financial statements were approved by management on 14 December 2018 and were signed on its behalf by:

Jondo Shubitidze
Executive Director

Lasha Mepharishvili
Finance Director

RMG Gold LLC, GEORGIA
RMG GOLD
* 225359947 *

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**	**Fair value reserve for capital contributions**	**Accumulated deficit**	**Total equity**
Balance at 1 January 2016	34,269	95,603	(6,730)	(64,785)	58,357
Total comprehensive income					
Profit and other comprehensive income for the year	-	-	-	48,506	48,506
Transaction with owners of the Company					
Total contributions and distributions					
Reversal of previously recognized deferred tax on other contribution (note 11)	-	-	(1,188)	-	(1,188)
Total transactions with owners	**-**	**-**	**(1,188)**	**-**	**(1,188)**
Balance at 31 December 2016	**34,269**	**95,603**	**(7,918)**	**(16,279)**	**105,675**
Balance at 1 January 2017	34,269	95,603	(7,918)	(16,279)	105,675
Loss and other comprehensive loss for the year	-	-	-	(16,724)	(16,724)
Transaction with owners of the Company					
Total contributions and distributions					
Reduction of charter capital (note 19)	(1,024)	-	-	-	(1,024)
Total transactions with owners	**(1,024)**	**-**	**-**	**-**	**(1,024)**
Balance at 31 December 2017	**33,245**	**95,603**	**(7,918)**	**(33,003)**	**87,927**

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	2017	2016
Cash flows from operating activities		
(Loss)/profit for the year	(16,724)	48,506
Adjustments for:		
Depreciation and amortisation	35,667	33,166
Loss on disposal/write off of property, plant and equipment	2,004	922
Net finance costs	1,613	23,007
Write off of slow moving inventory	1,533	-
Write off of inventory stock	66,410	-
Reversal of impairment losses on property, plant and equipment	-	(1,073)
Reversal of impairment losses on mine development costs	-	(1,855)
Reversal of waste removal and unused vacation provision	(1,508)	-
Income tax expense	-	8,793
Cash from operating activities before changes in working capital and provisions	**88,995**	**111,466**
Changes in:		
Inventories	(9,973)	1,326
Trade and other receivables	(14,304)	(41,650)
Prepayments	3,368	(2,386)
Trade and other payables	(9,700)	4,413
Cash flows from operations before income taxes and interest paid	**58,386**	**73,169**
Income tax paid	(5,400)	**-**
Interest paid	(9,197)	(9,026)
Net cash from operating activities	**43,789**	**64,143**
Cash flows from investing activities		
Loans issued to related parties	(38,329)	(29,635)
Interest received	-	289
Acquisition of property, plant and equipment and changes in prepayments for property, plant and equipment	(20,078)	(21,648)
Acquisition of intangible assets	(1,948)	(5,841)
Additions to mine development costs	(3,593)	(1,386)
Repayment of loans issued (including interest) to related parties	13,700	16,973
Net cash used in investing activities	**(50,248)**	**(41,248)**
Cash flows from financing activities		
Proceeds from borrowings	151,453	68,797
Repayment of borrowings	(143,167)	(90,483)
Payments to partners	(1,024)	**-**
Net cash from/(used) in financing activities	**7,262**	**(21,686)**
Net increase in cash and cash equivalents	**803**	**1,209**
Cash and cash equivalents at 1 January	221	32
Effect of movements in exchange rates on cash and cash equivalents	(907)	(1,020)
Cash and cash equivalents at 31 December (note 18)	**117**	**221**

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

1. Reporting entity

(a) Business environment

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 Gold LLC (the "Company") is a Georgian limited liability company as defined in the Entrepreneurs Law of Georgia. The Company was established in 1994. The Company's registration number is 23/4-6.

The Company's registered office is Kazreti Settlement, Bolnisi region, Georgia.

The Company is licensed for exploration, mining and processing of mineral resources at the Sakdrisi deposit within the territory of the Bolnisi and Dmanisi regions in southern Georgia until January 2042.

The Company's main operations include mining and processing of gold and silver bullions and copper-gold bearing ore. Gold and silver bullions are sold abroad and copper-gold bearing ore are sold to JSC RMG Copper.

As at 31 December 2017 and 2016 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 a number of business interests outside the Company. Related party transactions are disclosed in note 26.

2. Basis of accounting

(a) 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 4(a) – ore reserves and gold/silver in process;
— Note 22 – site restoration provisions;
— Note 29(g)(iii) – determination of the useful lives and recoverability of property, plant and equipment; and
— Note 29(h)(iv) – determination of the useful lives and recoverability of mine development assets.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

— Note 16 – recoverability of gold/silver in process;
— Note 22 – site restoration provisions: key assumptions regarding the magnitude and timing of the outflow of resources; and
— Note 25 – contingencies.

(a) Ore reserves and gold/silver in process

There are a number of uncertainties in estimating quantities of ore reserves and gold/silver in process, including many factors beyond the control of the Company. Ore reserve and gold/silver in process estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain ore reserves or gold/silver in process containing relatively lower grades of mineralization uneconomic to mine or process further. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company’s ore reserves and gold/silver in process estimates.

The Company’s last external ore reserve assessment for the Sakdrisi deposit was performed in May 2013 by Snowden Mining Industry Consultants based on international standards of mineral resources assessment and reporting and using industry best practice methods and were estimated at 10,400 thousand tonnes for the Sakdrisi deposit. The Company itself conducts a detailed internal assessment on ore reserves taking into consideration current information based on extracted rock, which management believes is more precise than samplings of drill holes and other openings. The estimated quantity of reserves calculated by the Company’s geologists were: Sakdrisi deposit - 2,349 thousand tonnes (72 thousand ounces) and Madneuli tertiary processing - 18,600 tonnes (163 thousand ounces). In addition the Company estimated 1,700 thousand tonnes (27 thousand ounces) barite ore fit for processing.

The Company uses its estimates in evaluating the impairment (note 12(a)) and useful lives of property, plant and equipment and mine development costs (note 12(c))

The Company started the heap leach process on the Sakdrisi territory in 2014 and the first-time restacking of ore is the on-going process in 2017. On Madneuli heap leaches, the Company performed the secondary processing of ore and started the tertiary restacking of materials in 2017. Due to the commencement of tertiary processing of materials on Madneuli area and the extension of mine area on Sakdrisi deposit, the Company extended its plans of mining operations from 2018 till 2020 for Madneuli and from 2020 till 2025 for Sakdirisi.

The Company's gold/silver in process assessment for the balances as at 31 December 2017 was performed in June 2018 by NeoMet Engineering Pty Ltd ("NeoMet"), an independent consultant, see note 16.

For Sakdrisi deposit, there is an expectation that crushed material from the older pads will also be restacked as it was occurred in Madneuli deposit. Also planning is currently in place for accessing an ore extension at the Sakdrisi 5 pit which will enable the lengthening of the mining operations at Sakdrisi area.

Gold grades are assessed by the Company's geologists. Average gold grade for Sakdrisi heaps is 0.87 grammes per tone (g/t), for restacked ore in Madneuli area is 0.25 g/t and for barite ore is 0.49 g/t.

Gold minimum recovery rate is assessed by the Company's geologists at approximately 62% for Sakdrisi heaps, 25% for restacked ore and 49% for barite ore.

Average gold prices has been increased slightly from USD 1,249 in 2016 to USD 1,258 in 2017.

(b) 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 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.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the note 24 *Fair values and risk management*.

5. Revenue

’000 GEL	2017	2016
Revenue from sales of gold	158,948	171,061
Revenue from sale of copper ore	30,156	19,213
Revenue from services provided *	5,393	5,874
Revenue from sale of gold carbon	3,611	11,822
Revenue from sales of silver	1,505	1,948
Other revenue	8	117
Total revenues	**199,621**	**210,035**

* Revenue from the services provided to JSC RMG Copper was mainly on loading and transportation of ore, mine road constructions etc.

6. Cost of sales

’000 GEL	2017	2016
Cost of sales of gold	93,886	95,342
Cost of sale of copper ore	27,999	16,783
Cost of services provided	2,131	1,975
Cost of sale of gold carbon	798	2,258
Cost of sales of silver	511	483
	125,325	**116,841**

Cost of sales comprise of:

’000 GEL	2017	2016
Utility and other ancillary costs	63,449	56,751
Materials	27,584	26,960
Amortization	15,831	17,404
Wages and salaries	11,850	8,486
Depreciation	6,611	7,240
	125,325	**116,841**

7. Administrative expenses

’000 GEL	2017	2016
Wages and salaries	12,090	8,720
Professional services	1,845	566
Other tax expenses	1,465	291
Rent	934	870
Depreciation and amortization	667	595
Charity and sponsorship	647	362
Insurance	507	402
Canteen expenses	493	529
Fuel expenses	394	349
Business trip expenses	325	351
Repair and maintenance expenses	306	321
Other administrative expenses	2,416	2,162
	22,089	**15,518**

Professional services above include fees paid to the audit firm of about GEL 234 thousand for the provision of audit services.

8. Personnel costs

’000 GEL	2017	2016
Wages and salaries	**24,586**	**18,598**

9. Other expenses

'000 GEL	2017	2016
Write off of property, plant and equipment	2,004	-
Write off of slow moving inventory	1,533	238
Other	851	1,512
	4,388	**1,750**

10. Finance income and finance costs

'000 GEL	2017	2016
Recognised in profit or loss		
Interest on loans to related parties	4,453	1,841
Net foreign exchange gain	3,419	-
Finance income	**7,872**	**1,841**
Interest expense on financial liabilities measured at amortized cost	(9,303)	(10,179)
Unwinding of discount (note 22)	(182)	(144)
Net foreign exchange loss	-	(14,525)
Finance costs	**(9,485)**	**(24,848)**
Net finance costs recognised in profit or loss	**(1,613)**	**(23,007)**

11. Income taxes

(a) Amounts recognized in profit or loss

The Company's applicable tax rate is the income tax rate of 15% (2016: 15%).

'000 GEL	2017	2016
Current tax expense		
Current year	-	12,746
Deferred tax expense		
Change in recognised deductible temporary differences (due to change in the legislation)	-	(3,953)
Total tax expense	-	**8,793**

(b) Reconciliation of effective tax rate

	2017		2016	
	'000 GEL	**%**	**'000 GEL**	**%**
Dividend declared/profit for the year	-		48,506	
Total income tax expense	-		8,793	
Dividend declared/profit before income tax	**-**	**-**	**57,299**	100
Income tax at applicable tax rate	-	-	8,595	15
Differences between tax and IFRS bases of income and expenses	-	-	4,151	7
Change in recognised deductible temporary differences (due to change in the legislation)	-	-	(3,953)	(7)
	-	**-**	**8,793**	**15**

Reversal of previously recognized deferred tax of GEL 3,953 thousand and GEL 1,188 thousand through profit or loss and equity, respectively, is attributable to changes in Georgian tax legislation.

On 13 May 2016 the Parliament of Georgia passed a 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 is effective for tax periods starting after 1 January 2017. Considering that the change in the Georgian Tax Code was enacted before the reporting date, the Company has recognized the full effect of the change by derecognizing previously recognized deferred tax through statement of profit or loss and statement of changes in equity, respectively, through the current period statement of profit or loss as an income tax benefit and as a reversal of previously recognized deferred tax on other contribution from equity owners in the current statement of changes in equity.

(c) Amounts recognized directly in equity

’000 GEL	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Fair value reserve for capital contributions	-	-	-	-	1,188	1,188

(d) Income tax liabilities reconciliation

Considering that taxes are payable on aggregated tax position either liability or asset as per the Georgian Tax Code income tax liabilities was set off with VAT receivable.

12. Property, plant and equipment

’000 GEL	Buildings and installations	Machinery and equipment	Vehicles, furniture and tools	Mine property	Construction in progress (CIP)	Other	Total
Deemed cost/Cost							
Balance at 1 January 2016	40,218	42,651	2,649	11,500	125	2,563	99,706
Additions	462	2,557	1,040	13,032	2,921	44	20,056
Disposals/write offs	(1,245)	(1,873)	-	-	(309)	(35)	(3,462)
Transfers	727	926	-	-	(1,785)	132	-
Balance at 31 December 2016	**40,162**	**44,261**	**3,689**	**24,532**	**952**	**2,704**	**116,300**
Balance at 1 January 2017	40,162	44,261	3,689	24,532	952	2,704	116,300
Additions	203	1,160	353	12,814	6,991	63	21,584
Disposals/write offs	(13,891)	(1,884)	(357)	-	(1,597)	(431)	(18,160)
Transfers	1,736	3,116	-	-	(5,002)	150	-
Balance at 31 December 2017	**28,210**	**46,653**	**3,685**	**37,346**	**1,344**	**2,486**	**119,724**
Accumulated depreciation and impairment losses							
Balance at 1 January 2016	28,995	27,557	1,742	1,446	125	1,706	61,571
Charge for the year	2,693	4,559	649	5,623	-	159	13,683
Change in impairment	(382)	(577)	(53)	-	(23)	(38)	(1,073)
Disposals	(836)	(1,670)	-	-	-	(34)	(2,540)
Balance at 31 December 2016	**30,470**	**29,869**	**2,338**	**7,069**	**102**	**1,793**	**71,641**
Balance at 1 January 2017	**30,470**	**29,869**	**2,338**	**7,069**	**102**	**1,793**	**71,641**
Charge for the year	2,104	3,189	855	10,440	-	261	16,849
Disposals	(12,466)	(1,361)	(296)	-	-	(422)	(14,545)
Balance at 31 December 2017	**20,108**	**31,697**	**2,897**	**17,509**	**102**	**1,632**	**73,945**
Net book value:							
At 1 January 2016	11,223	15,094	907	10,054	-	857	38,135
At 31 December 2016	9,692	14,392	1,351	17,463	850	911	44,659
At 31 December 2017	**8,102**	**14,956**	**788**	**19,837**	**1,242**	**854**	**45,779**

In 2017 depreciation expense of GEL 6,611 thousand has been charged to cost of goods sold (2016: GEL 7,240 thousand) and GEL 213 thousand to administrative expense (2016: GEL 446 thousand).

Construction in progress (CIP) also includes spare part items located in warehouse.

Property, plant and equipment includes fully depreciated items at cost of GEL 30,378 thousand as at 31 December 2017 (2016: GEL 32,294 thousand).

(a) Subsequent reversal of the previously recognized impairment loss

During 2016, due to the increase in gold prices and increase in the economically recoverable ore reserves, the Company tested the cash generating unit for impairment and recognized reversal of the previously recognised impairment losses of GEL 1,073 thousand with respect to property, plant and equipment, and by this all previously recognised impairment losses were reversed. No impairment indicators have been identified as at 31 December 2017.

(b) Security

At 31 December 2017 items of property, plant and equipment with a carrying amount of GEL 45,779 thousand (2016: GEL 44,659 thousand) are pledged against secured bank loans (see note 21).

(c) Change in estimates

During 2017, the Company conducted an operational efficiency review of its recoverable reserves (note 4(a)) and extended the timeline for processing in Madneuli and Sakdrisi area from 2018 till 2020 and from 2020 till 2025, respectively. This fact resulted in changes in the expected usage of property, plant and equipment.

The property, plant and equipment, which management previously intended to be used till 2018-2020 now is expected to remain in production till 2020-2025.

The effect of this increase in expected useful lives had the following effect on depreciation expense in current and future periods:

’000 GEL	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Increase/(decrease) in depreciation charge	(773)	188	1,628	5,776	1,451	1,032	1,032	1,032	1,035

(d) Mine property

In 2015, after starting the mining activities on Sakdrisi deposit by the Company, in accordance with IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, production stripping costs that improve access to ore to be mined in the future are recognised as part of mining property if certain criteria are met (see note 29(g)).

13. Intangible assets

'000 GEL	Exploration and evaluation licenses	Other	Total
Cost			
Balance at 1 January 2016	26,221	115	26,336
Additions	4,627	1,214	5,841
Balance at 31 December 2016	**30,848**	**1,329**	**32,177**
Balance at 1 January 2017	30,848	1,329	32,177
Additions	1,289	659	1,948
Balance at 31 December 2017	**32,137**	**1,988**	**34,125**
Amortization and impairment losses			
Balance at 1 January 2016	6,609	112	6,721
Amortization for the year	5,039	149	5,188
Balance at 31 December 2016	**11,648**	**261**	**11,909**
Balance at 1 January 2017	11,648	261	11,909
Amortization for the year	2,858	454	3,312
Balance at 31 December 2017	**14,506**	**715**	**15,221**
Carrying amounts			
At 1 January 2016	19,612	3	19,615
At 31 December 2016	19,200	1,068	20,268
At 31 December 2017	**17,631**	**1,273**	**18,904**

(a) Amortisation

The amortisation of the license is allocated to the cost of inventory and is recognised in cost of sales as inventory is sold; the amortisation of other intangible assets is included in administrative expenses.

(b) Security

As at 31 December 2017 intangible assets with a carrying amount of GEL 18,904 thousand (2016: GEL 20,268 thousand) are pledged in respect of the credit line agreement with JSC Bank of Georgia (see note 21).

(c) Change in estimate

Due to changes in ore reserves and the respective timeline for processes (note 4(a)), the expected usage of exploration license is extended till 2025. The effect of this increase in expected useful lives had the following effect on amortization expense in current and future periods:

'000 GEL	2017	2018	2019	2020	2021	2022	2023	2024	2025
Decrease in amortization charge	(2,223)	(2,316)	(2,316)	(2,316)	(2,316)	(2,316)	(2,316)	(2,316)	(2,316)

14. Mine development cost

The movement in mine development costs during the year was as follows:

'000 GEL	2017	2016
Balance at the beginning of the year	56,576	66,010
Additions	3,593	1,386
Amortization	(14,055)	(12,675)
Reversal of impairment loss	-	1,855
Balance at end of the year	**46,114**	**56,576**

15. Loans receivable

This note provides information about the contractual terms of the Company's interest-bearing loan receivable, which is measured at amortised cost. For more information about the Company's exposure to interest rate and credit risks, see note 24.

'000 GEL	2017	2016
Current assets		
Loan to related parties	17,370	-
Non-Current assets		
Loan to related parties	38,922	26,933
	56,292	**26,933**

(a) Terms and loan repayment schedule

Terms and conditions of outstanding loan were as follows:

				31 December 2017		31 December 2016	
'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Caucasus Mining (CMG)	USD	12.5%	2025	34,918	34,918	19,909	19,909
RMG Auramine	USD	12.5%	2018	17,323	17,323	2,781	2,781
Mining Global Project (MGP)	USD	16.0%	2025	1,956	1,956	1,761	1,761
RMG Copper	USD	12.5%	2020	353	353	2,482	2,482
Georgian Gold Company (GGC)	USD	12.5%	2019	1,695	1,695	-	-
Mining Investments (MI)	USD	12.5%	2018	47	47	-	-
				56,292	**56,292**	**26,933**	**26,933**

Loan receivables are not secured as at 31 December 2017 and 31 December 2016.

16. Inventories

'000 GEL	2017	2016
Non-current		
Gold/silver in process	9,359	57,665
Current		
Gold/silver in process	39,624	49,510
Raw materials and consumables	7,310	8,606
Finished goods	4,936	1,822
	51,870	**59,938**

As at 31 December 2017, non-current balance of gold/silver in process comprised of sulfide ore which is sold to RMG Copper (a related party) and is planned to be supplied more than 12 month period. As at 31 December 2016, the operating cycle of heaps of gold/silver in process of GEL 57,665 thousand was estimated to be more than twelve months.

As at 31 December 2017 and 2016, current balance of gold/silver in process contains heaps which the Company is going to process during 12 months after the reporting date.

Finished goods comprise goods in transit of GEL 4,936 thousand as at 31 December 2017 (2016: GEL 1,822 thousand).

Significant changes in the non-current balances of gold/silver in process

Each year the Company hires an independent consultant for evaluation of gold/silver in process. As at 31 December 2017, according to the report of independent geologists “Neomet”, the recoverable gold from the gold in process balance for Sakdrisi and Madneuli mining area is assessed as 12,393 ounces and nil, respectively. Madneuli area consists of the old heaps, which are restacked by the Company (note 4(a)). The conclusion for Madneuli area was based on the following factors: a) the materials have been already processed twice and the Company started tertiary restacking of heap residues in 2017, b) the inaccessibility of the remaining heap residues and insufficient testing information.

However, based on the Company’s geologists’ estimates and analysis the estimated stock for the Madneuli heap leaches approximates to 47,000 ounces, in spite of Neomet’s results described in previous paragraph. Taking into consideration the uncertainties in reliable measurement of the recoverable amount of gold/silver in process in Madneuli heap leaches, management considered to use the results determined by the external consultants (Neomet) and to write off the old heaps. However, as subsequent to reporting date 6,568 ounces of gold was recovered from tertiary processing in Madneuli heap leaches, the management decided to write off gold/silver in process in Madneuli heap leaches by amount of GEL 66,410 thousand which excludes the subsequently recovered amounts.

17. Trade and other receivables

’000 GEL	**2017**	**2016**
Trade receivables due from related party *	61,964	47,517
Trade receivables	133	242
Other receivables	16	50
Trade and other receivables included in loans and receivables category	**62,113**	**47,809**

* Trade receivables due from related party represents the balances receivable from JSC RMG Copper.

As per the trilateral set off agreement between the Company, JSC RMG Copper (a related party) and Trafigura PTE LTD (Trafigura, non-related party) dated 30 September 2016, the amount of GEL 3,611 thousand trade receivable from the gold carbon sales (note 5) in 2017 (2016: GEL 11,822 thousand) due from Trafigura to the Company was assigned to JSC RMG Copper.

The Company’s exposure to credit and currency risks related to trade receivables are disclosed in note 24.

18. Cash and cash equivalents

’000 GEL	**2017**	**2016**
Bank balances	117	221
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**117**	**221**

The Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 24.

19. Capital and reserves

(a) Charter capital

The Company's charter capital, denominated in USD, was USD 100 thousand (GEL 130 thousand) as at 31 December 2013. Based on the Partners' decision in October 2014 the charter capital of the Company was increased by USD 19,600 thousand (GEL 34,139 thousand) by means of a contribution of RMG B.V's 100% ownership interest in MIG into the Company's charter capital. According to the resolutions of the Partner's dated on 28 February 2017 and 16 October 2017, the charter capital was decreased by USD 379 thousand and USD 18 thousand, respectively. As at 31 December 2017 the charter capital of the Company is USD 19,303 thousand, equivalent to GEL 33,245 thousand (2016: USD 19,700 thousand equivalent to GEL 34,269 thousand).

(b) Dividends

The owners of the Company are entitled to receive dividends as declared from time to time.

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in Company's statutory financial statements prepared in accordance with International Financial Reporting Standards.

As at 31 December 2017 and 2016 dividends payable balance of GEL 65,700 thousand and GEL 67,083 thousand, respectively, represents a payable towards RMG Copper JSC. Distribution of the dividend payable is restricted until the repayment of the secured bank loans (notes 21, 27).

(c) Additional paid-in capital

Additional paid in capital represents total cash or non-cash contributions made by the shareholders which are not yet registered as an increase of the Company's charter capital at the reporting dates.

(d) Fair value reserve for capital contribution

Based on the Partners decision in October 2014 the charter capital of the Company was increased by a contribution of the license of GEL 34,139 thousand. The Company estimated the fair value of the license at GEL 26,221 thousand (note 13). The difference between the charter capital increase and the estimated fair value minus the relevant tax effect of GEL 1,188 originally was recognized as the fair value reserve for capital contribution in the statement of financial position. The tax effect was reversed in 2016, please refer to note 11(c).

20. 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, and to maintain confidence of market participants. This is achieved with efficient current assets/liabilities management, particularly management of financial/non-financial instruments, payables to related parties, constant monitoring of the Company's revenues and results, and long-term investment plans mainly financed by debt. Management believes that as the mining and production process had started on Sakdrisi deposit from 2014 the Company's profits and cash flows will continue to grow.

The Company's debt to capital ratio at the end of the reporting period was as follows:

'000 GEL	**2017**	**2016**
Total liabilities	**217,429**	**223,973**
Less: cash and cash equivalents	(117)	(221)
Net debt	**217,312**	**223,752**
Total equity	**87,927**	**105,675**
Debt to capital ratio at 31 December	2.47	2.12

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

21. 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 risk, see note 24.

'000 GEL	2017	2016
Non-current liabilities		
Secured bank loans	-	30,279
Loans from related parties	23,198	-
Finance lease liabilities	83	1,178
	23,281	**31,457**
Current liabilities		
Secured bank loans	72,886	53,547
Loan from related parties	6,310	10,195
Finance lease liabilities	1,196	1,630
	80,392	**65,372**

The secured bank loans are pledged by the Company's moveable and immovable property, see note 12(b), and the license for exploration and mining at the Sakdrisi deposit (see note 13).

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured Bank Loan	USD	10.25%	2018	25,937	25,937	-	-
Secured Bank Loan	USD	10.25%	2018	27,891	27,891	67,594	67,594
Secured Bank Loan	USD	10.25%	2018	4,533	4,533	5,985	5,985
Secured Bank Loan	USD	10.25%	2018	3,631	3,631	-	-
Secured Bank Loan	USD	10.50%	2018	3,631	3,631	-	-
Secured Bank Loan	USD	10.25%	2018	3,627	3,627	-	-
Secured Bank Loan	USD	10.25%	2018	3,634	3,634	-	-
Secured Bank Loan	USD	10.25%	2017	-	-	3,640	3,640
Secured Bank Loan	USD	10.25%	2017	-	-	1,141	1,141
Secured Bank Loan	USD	10.25%	2017	-	-	2,128	2,128
Secured Bank Loan	USD	11.50%	2017	-	-	2,253	2,253
Secured Bank Loan	USD	12.50%	2016	2	2	3	3
Secured Bank Loan	EUR	10.25%	2016	-	-	1,082	1,082
Loan from Related Party	USD	12.50%	2020	23,198	23,198	-	-
Loan from Related Party	USD	11.00%	2018	5,540	5,540	9,563	9,563
Loan from Related Party	EUR	11.00%	2018	770	770	632	632
Finance lease liability	EUR	21.13%	2018	1,052	1,052	1,923	1,923
Finance lease Liability	USD	22.73%-26.14%	2018-2019	227	227	885	885
Total interest-bearing liabilities				**103,673**	**103,673**	**96,829**	**96,829**

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

’000 GEL	Reduction of charter capital	Loans and borrowings	Total
Balance at 1 January 2017	-	96,829	96,829
Proceeds from borrowings	-	151,453	151,453
Repayment of borrowings	-	(143,167)	(143,167)
Interest paid	-	(9,197)	(9,197)
Total changes from financing cash flows	**-**	**95,918**	**95,918**
Other changes			
Interest expense	-	9,303	9,303
Foreign exchange gain	-	(1,548)	(1,548)
Total liability-related other changes	**-**	**7,755**	**7,755**
Payments to partners	(1,024)	-	(1,024)
Total equity-related other changes	**(1,024)**	**-**	**(1,024)**
Balance at 31 December 2017	**(1,024)**	**103,673**	**102,649**

(c) Finance lease liabilities

Finance lease liabilities are payable as follows:

	2017			2016		
’000 GEL	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	1,370	(174)	1,196	2,056	(426)	1,630
Between one and five years	98	(15)	83	1,356	(178)	1,178
	1,468	**(189)**	**1,279**	**3,412**	**(604)**	**2,808**

22. Site restoration provisions and capitalized reclamation provision

The movement in the site restoration provision during the year was as follows:

’000 GEL	2017	2016
Non-current		
Balance 1 January	12,188	11,070
Unwinding of discount	183	144
Change in estimated cost	5,553	974
Balance 31 December	**17,924**	**12,188**

The movement in the capitalized reclamation provision (asset) during the year was as follows:

’000 GEL	2017	2016
Balance at the beginning of the year	8,813	9,459
Amortization	(1,450)	(1,620)
Changes in estimate	5,553	974
Balance at end of the year	**12,916**	**8,813**

After the Company obtained the license for exploration and mining of mineral resources at the Sakdrisi deposit in October 2014 (see note 1(b)) the Company’s management concluded that the obligation to restore the Sakdrisi deposit and adjacent affected sites will be fully borne by the Company in 2026 after, based on management plans, the Company’s operations will cease.

Because of the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in Georgia continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. Generally the standard of restoration is determined based on the requirements of the Georgian Law on Mineral Resources. In making this assumption management has consulted with its in-house and external engineers.

The key assumptions, on which the site restoration obligation is based as at 31 December 2017, were as follows:

— The total undiscounted amount of the estimated cash flows required for site restoration is GEL 20,499 thousand. (2016: GEL 13,153 thousand).
— The timing of the provision had been taken based on management's estimate of when the Company will cease extraction of ore (reserves expiration for mining and secondary processing) and license validity period. Restoration costs were projected to be made in 2021 for the secondary processed heaps and in 2026 on the Sakdrisi deposit.
— The risk-free rate at which the estimated cash flows has been discounted was 2.32% (2016: 1.5%). The discount rate represented the nominal risk free rate before adjustment for estimated inflation.
— Increase in change in estimate was mainly driven by the extension of Sakdrisi deposit till 2025 (2016: 2020).

23. Trade and other payables

'000 GEL	2017	2016
Trade payables	16,105	14,393
Payables to related parties	5,914	16,611
Taxes payable other than income tax*	4,869	11,955
Payables to employees	3,244	3,406
Waste removal provision (note 25)	-	1,023
Unused vacation provision **	-	485
	30,132	**47,873**

* Included natural resource usage and regulation fee payable to the state.

** Due to changes in vacation policy, no unused vacation days existed as at 31 December 2017.

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

24. Fair values and risk management

(a) Accounting classifications and fair values

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 judgement, the fair value should not be interpreted as begin realizable in an immediate sale of the assets or transfer of liabilities. The Company has determined the fair values of financial assets and liabilities using valuation techniques. The objective of the valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. 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 values of the Company's financial assets and liabilities approximate their carrying amounts.

(b) Financial risk management

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

— credit risk (see 24(b)(ii));
— liquidity risk (see 24(b)(iii));
— market risk (see 24(b)(iv));
— operational risk (see 24(b) (vi));

(i) Risk management framework

The Supervisory Board has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze 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 the Company's receivables from customers.

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
'000 GEL	**2017**	**2016**
Trade receivables	62,113	47,809
Loans receivable	56,292	26,933
Cash and cash equivalents	117	221
	118,522	**74,963**

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. The Company deals mainly with a single customer until May 2016 and with another customer since May 2016. The customers are based in Canada and Switzerland, respectively. As a result, almost all the Company's revenue is attributable to sales transactions of gold and silver with the single customer in 2017 (2016: two customers) and sales transaction of copper ore with JSC RMG Copper (related party).

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Company may have a secured claim. The Company does not require other collateral in respect of trade and other receivables.

The Company's gold and silver contracts, in general, provide for a provisional payment as specified in individual contracts, which are based upon provisional assays. Final settlement is done based on final assays and quoted metal prices averaged over a specified quotation period, which is typically up to 5-10 days.

Impairment losses

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables. At the reporting date none of the trade receivables balances was past due.

Loans receivables

The Company's policy is to provide loans only to its related parties. The Company does not require collateral in respect of loans. The Company does not believe that the counterparties will fail to meet their obligations.

Cash and cash equivalents

The Company held cash and cash equivalents of GEL 117 thousand at 31 December 2017 (2016: GEL 221 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BB and B, based on rating agency Fitch ratings.

(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.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Company does not have a formal policy for managing liquidity risk, but the Company usually has current assets which are higher than current liabilities, which ensures that the Company will meet its financial obligations.

In case of liquidity problems, the Company is able to obtain finance from its Partners or fellow subsidiaries.

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 2017 **'000 GEL**	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 moths**	**3-12 moths**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities							
Secured bank loans	72,886	74,348	-	54,431	19,917	-	-
Loan from related party	29,508	36,589	6,310	128	390	-	29,761
Finance lease liabilities	1,279	1,468	-	424	946	98	-
Trade and other payables	22,019	22,019	9,243	12,776	-	-	-
Dividends payable	65,700	65,700	-	-	-	-	65,700
	191,392	**200,124**	**15,553**	**67,759**	**21,253**	**98**	**95,461**

31 December 2016 **'000 GEL**	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-3 moths**	**3-12 moths**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities							
Secured bank loans	83,826	90,391	3	17,671	41,312	31,405	-
Loan from related party	10,195	11,891	10,194	154	663	880	-
Finance lease liabilities	2,808	4,077	-	856	1,774	1,447	-
Trade and other payables	31,004	31,004	20,153	6,901	3,800	150	-
Dividends payable	67,083	67,083	-	-	-	-	67,083
	194,916	**204,446**	**30,350**	**25,582**	**47,549**	**33,882**	**67,083**

(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 optimizing 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 sales, purchases, issued loans and borrowings that are denominated in a currency other than the functional currency of the Company, primarily U.S. Dollars (USD). Most of the Company purchases of materials are denominated in USD and match the cash flows generated by the underlying operations of the Company. This provides an economic hedge and no derivatives are entered into.

The Company has no formal policy for managing currency risk, but currency risk is mitigated as a significant amount of revenue transactions are denominated in USD.

Exposure to currency risk

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

'000 GEL	**USD-denominated 2017**	**USD-denominated 2016**
Loans receivable	56,292	26,933
Trade receivables	106	242
Cash and cash equivalents	103	201
Loans and borrowings	(101,851)	(93,192)
Trade payables	(5,714)	(8,579)
Dividend payable	(65,700)	(67,083)
Net exposure	**(116,764)**	**(141,478)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2017	**2016**	**2017**	**2016**
USD	2.5086	2.3667	2.5922	2.6468

Sensitivity analysis

A reasonably possible strengthening (weakening) of GEL, as indicated below, against all other currencies at 31 December 2017 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and 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.

'000 GEL	**Profit or loss**	
	Strengthening	**Weakening**
31 December 2017		
USD (10% movement)	11,676	(11,676)
31 December 2016		
USD (10% movement)	14,148	(14,148)

(v) 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 new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable 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:

	Carrying amount	
'000 GEL	**2017**	**2016**
Fixed rate instruments		
Financial assets	56,292	26,933
Financial liabilities	(103,673)	(96,829)
	(47,381)	**(69,896)**

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.

(vi) 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) labor 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 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 jewelry 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 2016-2017 years, London Bullion Market Association daily settlement prices ranged from USD 1,249 to USD 1,258 per ounce of gold.

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

25. 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 plant facilities, 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 a financial position.

(b) Litigation

The Company is involved as a third party in the claim related to the Sakdrisi-Kachagiani territory (*Claim 1*) and as a defendant related to the waste removal case initiated by "Samsheneblo Masalebi" LLC (*Claim 2*):

Claim 1

In January 2015 two individuals filed a claim against the Ministry of Culture and Monument Protection of Georgia (the 'Ministry') and the National Agency of Georgian Cultural Heritage Protection (the 'Agency'). The plaintiffs demanded to annul the following documents: 1) The Agency Order #2/271, dated 12 December 2014, based on which the Agency removed the cultural heritage monument status of 'Sakdrisi-Kachagiani Oldest Gold Mine' (the 'Site') and 2) the Agency correspondence #05/09/1857, dated 12 December 2014, based on which the Agency informed and gave consent to RMG Gold LLC to remove the Site for their business purpose. The plaintiffs argued that the above-mentioned administrative acts where issued in violation of Georgian legislation. In particular the Site was not entirely examined before removing the status and the interested parties were not able to be involved in administrative proceedings as such was carried out in a very limited period of time. The claim was dismissed by the court on 15 December 2017. The decision was appealed in Court of Appeal, although no date of court hearing has been set yet.

Claim 2

"Samsheneblo Masalebi" LLC ("Plaintiff') filed a claim in the court against the Company on 21 October 2015. The Plaintiff claimed that the Company placed the waste on its license territory. The Plaintiff sought damages of GEL 26 million in total.

According to the court ruling dated 6 March 2016, the Tbilisi City Court only partially satisfied the claim. The court of the first instance ordered the Company to remove the waste from the Plaintiff's license territory, but rejected the part of the claim regarding the compensation for the damages.

The ruling of the court of the first instance was appealed by the Plaintiff. The court hearing was set on 30 January 2018. According to the decision by Court of Appeal dated at 27 February 2018, the lawsuit was annulled due to the request of claimant. Accordingly, the Company reversed the previously created provision for waste removal in amount of GEL 1,023 thousand (note 23).

(c) 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. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. 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.

(d) 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.

26. Related parties

(a) Parent and ultimate controlling party

The Company is owned by JSC RMG Copper and Rich Metals Group B.V. Limited, who own ("Partners"; "Owners") 3.79% and 96.21% of the Company's equity, respectively. The Company's ultimate parent companies are Suncort Enterprises LTD and Ticola Holding Limited. The parties with ultimate control over the Company are Mr. Dmitry Korzhev and Mr. Dmitry Troitsky.

No publicly available financial statements are produced by the Company's ultimate controlling party or any intermediate parent company.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

'000 GEL	**2017**	**2016**
Salaries and bonuses	**2,186**	**2,911**

(c) Other related party transactions

The Company's other related party transactions are disclosed below.

(i) Revenue/Income

'000 GEL	**Transaction value 2017**	**Transaction value 2016**	**Outstanding balance 2017**	**Outstanding balance 2016**
Revenue/Other income:				
Owners	35,549	25,987	61,964	47,517

(ii) Expenses

'000 GEL	**Transaction value 2017**	**Transaction value 2016**	**Outstanding balance 2017**	**Outstanding balance 2016**
Purchase of goods:				
Owners	2,942	2,696	-	8,032
Fellow subsidiaries	3,302	3,166	53	-
Purchase of services:				
Owners	9,938	10,843	-	-
Fellow subsidiaries	-	346	5,861	8,579

(iii) Loans

'000 GEL	Amount loaned 2017	Amount loaned 2016	Outstanding balance 2017	Outstanding balance 2016
Loans issued:				
Owners	11,640	1,540	400	2,482
Fellow subsidiaries	26,689	14,202	55,892	24,451
Loans and borrowings:				
Owners	34,561	-	(23,198)	-
Fellow subsidiaries	769	-	(6,310)	(10,195)

Interest income accrued on the loans issued in 2017 was GEL 4,453 thousand (2016: GEL 1,841 thousand).

Interest expense accrued on the loans received in 2017 was GEL 2,189 thousand (2016: GEL 795 thousand).

Loan received from owner represented credit line agreement, with several disbursements and repayments of the loan.

(iv) Dividends

'000 GEL	Dividends declared 2017	Dividends declared 2016	Outstanding balance 2017	Outstanding balance 2016
Owners	**-**	**-**	**65,700**	**67,083**

27. Subsequent event

Loans

Subsequent to the reporting date until 13 December 2018, the Company borrowed the secured bank loans and loans from related parties of USD 31,892 thousand (GEL equivalents 79,518 thousand) and USD 11,503 thousand (GEL equivalents 29,869 thousand), respectively.

Subsequent to the reporting date until 13 December 2018, the Company repaid the secured bank loans and loans from related parties of USD 30,844 thousand (GEL equivalents 76,804 thousand) and USD 7,315 thousand (GEL equivalents 18,995 thousand), respectively.

Subsequent to the reporting date until 13 December 2018, the Company issued loans to related parties of USD 10,922 thousand (GEL equivalents 27,874 thousand).

On 4 May 2018 the Company formed an addendum to loan agreement dated 8 June 2012 with Bank of Georgia, according to which the following terms and conditions are in force:

- The Company is obliged to hedge the gold price for the following 15 months, in amount of monthly 4,600 ounces of gold at a price of USD 1,150;
- Annually, the Company is allowed to issue the dividend, decrease the charter capital or incur the payable in favour of issued loans to related parties up to USD 2,000 thousand;
- The Company is allowed to incur maximum annual capital expenditure for 2018, 2019 and 2020 years up to USD 9,350 thousand, USD 7,950 thousand and USD 8,050 thousand, respectively for each year;
- In case the price for gold ounce per www.bloomberg.com equals USD 1,188, the Company should cease all capital expenditure and agree each expenditure activity in advance with Bank of Georgia;
- The following ratios should be maintained: DSCR (Debt service coverage ratio) should be at least 1.4 and Debt/EBITDA should be not more than 2.5;
- The Company should engage consulting company DMT GmbH& Co. for monitoring of geological works undertaken.

28. Basis of measurement

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

29. Significant accounting policies

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

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

(a) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of gold and silver bars, transfer occurs when the Company receives from the customer confirmation of the sales event of a certain shipment of gold and silver bars within the specified 5-10 days period after confirmed receipt of the shipment as per the sales contract.

(b) Finance income and costs

The Company's finance income and finance costs include:

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

Interest income or expense is recognized using the effective interest method.

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.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 translation are recognized in profit or loss.

(d) Employee short-term 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.

(e) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(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 2019.

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.

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle, 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.

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

The Company does not apply IAS 23 "*Borrowing Costs"* standard to borrowing costs directly attributable to the finished goods that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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 labor, 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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognized 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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Production stripping costs that improve access to ore to be mined in the future are recognised as an addition to mining property if, and only if, all of the following criteria are met:

— it is probable that future economic benefits will flow to the entity;
— the entity can identify the component of the ore body for which access has been improved; and
— the costs relating to the stripping activity associated with that component can be measured reliably.

(iii) Depreciation

Items of property, plant 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 generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

— buildings and installations	4-8 years;
— machinery and equipment	4-8 years;
— vehicles, furniture and tools	3-4 years;
— mine property	unit of production method
— other	3-4 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Estimates in respect of certain items of plant and equipment were revised in 2017 (see note 12 (c)).

(h) Intangible assets

(i) Mine development costs

Mine development costs comprise capitalized development expenditure on mining activities for which the technical feasibility and commercial viability of the mineral resource are demonstrable. The capitalized expenditure includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Expenditure incurred to develop new ore bodies, to define mineralization of existing ore bodies, to establish or expand production capacity, is capitalized until commercial levels of production are achieved, at which point costs start being amortized as set out below.

Mine development costs are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

(iv) Amortization

Mine development costs

Mine development costs are amortized using the units-of production method based on estimated proved and probable ore reserves. The useful life is determined to give a fair and systematic charge in the income statement taking into account the nature of a particular ore body and the method of mining of that ore body.

Other intangible assets

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than mine development asset, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

— exploration license 11 years;
— other (software, license) 3-4 years.

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Estimates in respect of revised useful lives in 2017 is described in note 13(c).

(i) Financial instruments

The Company classifies non-derivative financial assets into the following categories: loans and receivables, cash and cash equivalents.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognizes loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and 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 recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: loans, trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities - measurement

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings as presented in note 21, trade and other payables as presented in note 23 and dividends payable as presented in note 19(b).

(j) Charter capital

Charter capital

Charter capital is classified as equity.

Additional paid-in capital

Nominal amounts of 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.

(k) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

— default or delinquency by a debtor;
— restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
— indications that a debtor or issuer will enter bankruptcy;
— adverse changes in the payment status of borrowers or issuers in the Company;
— economic conditions that correlate with defaults;
— the disappearance of an active market for a security; or
— observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortized cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss.

(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 utilized 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.

An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognized 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.

(l) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Site reclamation/restoration

In accordance with the Georgian Law on "Natural Resources" the user is responsible for the site recultivation upon completion of use of resources or termination of the use of resources for other reasons and if there is no further use of the resources.

A corresponding asset is recognized in property, plant and equipment. Site restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax risk-free rate. The unwinding of the discount is expensed as incurred and recognized in profit or loss as a finance cost. The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, timing of the restoration or in the discount rate applied are added to or deducted from the cost of the relevant assets.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site reclamation costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

30. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017 and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

(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 replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(i) Sale of goods

Under IFRS 15, the total consideration in the sale of goods contracts will be allocated to all performance obligations based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Company sells the goods in separate transactions.

Company does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these sale of goods and the effect of the transition to IFRS 15 would have no material effect on Company's financial statements.

(ii) Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised in equity at 1 January 2018. As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented. This adjustment will be presented in full within the financial statements to be prepared for the year ending 31 December 2018.

(b) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* 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*.

The Company is required to adopt IFRS 9 Financial Instruments with Customers from 1 January 2018. The Company has performed preliminary assessment of the impact that the initial application of IFRS 9 will have on its financial statements. The approximate estimated impact of the adoption of this standard on the Companies' equity as at 1 January 2018 is based on preliminary assessments undertaken to date. Based on the Company's assessment approximate adjustment on retained earnings due to adoption of IFRS 9 as at 1 January 2018 will not be more than GEL 10 million. The effect is mainly related to the additional impairment losses calculated on trade and loan receivable.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing 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 bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described above, the Company has estimated that application of IFRS 9 impairment requirements at 1 January 2018 results in additional impairment losses as disclosed in note 30(b) above.

(iii) Classification - Financial liabilities

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

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

— the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and the Company has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular credit risk and expected credit losses. The Company’s preliminary assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

The Company will use the modified retrospective approach to transition and not present restated comparative information for prior periods. Adjustments to in the carrying amounts of financial assets arising from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

(c) IFRS 16 Leases

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 recognises 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 assessing the potential impact on its financial statements resulting from the application of IFRS 16. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company’s borrowing rate at 1 January 2019, the composition of the Company’s lease portfolio at that date, the Company’s latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.