RMG Copper JSC

Consolidated Financial Statements for 2020

Contents

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Independent Auditors' Report

To the Supervisory Board of RMG Copper JSC

Opinion

We have audited the consolidated financial statements of RMG Copper JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated 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.

Emphasis of Matter

We draw attention to Note 25 of the consolidated financial statements, which describes that the Company applied exemption not to prepare and file the Company's individual financial statements and management report to the Service for Accounting, Reporting and Auditing Supervision (SARAS) of Georgia. Our opinion is not modified in respect of this matter.

Statement of Management Report

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated 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 consolidated financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

We communicate with 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:

Natia Tevzadze

KPMG Georgia LLC
Tbilisi, Georgia
30 November 2021

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Natia Tevzadze

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KPMG Georgia LLC
Tbilisi, Georgia
30 November 2021

KPMG GEORGIA LIMITED LIABILITY COMPANY 404437695

’000 GEL	Note	31 December 2020	31 December 2019
Assets			
Property, plant and equipment (includes capitalized restoration provision)	11	152,416	95,803
Intangible assets	13	28,059	27,279
Prepayments for non-current assets		15,641	9,244
Equity investments	14(a)	12,582	4,001
Dividends receivable	14(b)	-	48,085
Loans receivable	16	281,074	20,638
Total non-current assets		**489,772**	**205,050**
Inventories	15	44,050	33,530
Tax asset	23	10,235	2,148
Trade and other receivables	17	24,910	24,066
Dividends receivable	14(b)	78,400	-
Loans receivable	16	-	53
Cash and cash equivalents	18	71,555	39,193
Total current assets		**229,150**	**98,990**
Total assets		**718,922**	**304,040**
Equity	19		
Share capital		36,189	36,189
Retained earnings		404,832	167,985
Fair value reserve		10,983	2,402
Total equity		**452,004**	**206,576**
Liabilities			
Loans and borrowings	21	71,864	25,024
Site restoration provision	12	26,471	22,084
Total non-current liabilities		**98,335**	**47,108**
Loans and borrowings	21	28,628	5,822
Trade and other payables	22	139,955	44,534
Total current liabilities		**168,583**	**50,356**
Total liabilities		**266,918**	**97,464**
Total equity and liabilities		**718,922**	**304,040**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

’000 GEL	Note	2020	2019
Revenue	5	504,993	325,351
Cost of sales	6	(258,126)	(189,538)
Gross profit		**246,867**	**135,813**
Selling and distribution expenses	7	(3,919)	(3,345)
Administrative expenses	8	(42,048)	(33,301)
Impairment loss on dividends and loans receivable	24(c)	(8,770)	(450)
Other income		3,012	5,035
Other expenses	9	(5,885)	(4,619)
Results from operating activities		**189,257**	**99,133**
Finance income	10	56,291	7,578
Finance costs	10	(8,701)	(5,086)
Net finance income		**47,590**	**2,492**
Profit before income tax		**236,847**	**101,625**
Income tax expense		-	-
Profit for the year		**236,847**	**101,625**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value	24(a)	8,581	-
Other comprehensive income for the year		**8,581**	**-**
Total comprehensive income for the year		**245,428**	**101,625**

These consolidated financial statements were approved by management on 30 November 2021 and were signed on its behalf by:

Tornike Lipartia
Executive Director

Lasha Mepharishvili
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

'000 GEL	Note	2020	2019
Revenue	5	504,993	325,351
Cost of sales	6	(258,126)	(189,538)
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Other comprehensive income			
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Total comprehensive income for the year		**245,428**	**101,625**

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Executive Director

Lasha Mepharishvili
Chief Financial Officer

JSC RMG Copper, GEORGIA
RMG
COPPER
225358341

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

'000 GEL	**Share capital**	**Fair value reserve**	**Retained earnings**	**Total**
Balance at 1 January 2019	36,189	2,402	66,360	104,951
Total comprehensive income				
Profit for the year	-	-	101,625	101,625
Total comprehensive income for the year	**-**	**-**	**101,625**	**101,625**
Balance at 31 December 2019	**36,189**	**2,402**	**167,985**	**206,576**
Balance at 1 January 2020	**36,189**	**2,402**	**167,985**	**206,576**
Total comprehensive income				
Profit for the year	-	-	236,847	236,847
Other comprehensive income				
Equity investments at FVOCI – net change in fair value	-	8,581	-	8,581
Total other comprehensive income	-	8,581	-	8,581
Total comprehensive income for the year	-	**8,581**	**236,847**	**245,428**
Balance at 31 December 2020	**36,189**	**10,983**	**404,832**	**452,004**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

'000 GEL	**Note**	**2020**	**2019**
Cash flows from operating activities			
Profit for the year		236,847	101,625
Adjustments for:			
Depreciation and amortization		25,249	25,025
Reversal of impairment loss on dividends receivable	24(c)	(686)	227
Impairment loss on loans receivable	24(c)	9,456	223
Inventory write off	9	4,114	-
Net loss on disposal of property, plant and equipment	11	25	184
Net finance income	10	(47,590)	(2,492)
Cash from operating activities before changes in working capital		**227,415**	**124,792**
Change in inventories		(14,634)	(13,767)
Change in trade and other receivables	17	(62,384)	(53,903)
Change in tax asset		(8,087)	(849)
Change in trade and other payables	22	151,572	(968)
Cash flows from operations before income taxes paid		**293,882**	**55,305**
Income tax paid		-	-
Net cash from operating activities		**293,882**	**55,305**
Cash flows from investing activities			
Interest received		923	-
Loans issued		(257,618)	(35,861)
Repayment of loans issued		10,751	26,064
Acquisition of property, plant and equipment		(84,209)	(36,878)
Proceeds from sale of property plant and equipment		-	952
Acquisition of intangible assets		(2,610)	(4,872)
Net cash used in investing activities		**(332,763)**	**(50,595)**
Cash flows from financing activities			
Proceeds from borrowings	21	226,619	135,552
Repayment of borrowings	21	(163,711)	(98,504)
Net cash from financing activities		**62,908**	**37,048**
Net increase in cash and cash equivalents		**24,027**	**41,758**
Cash and cash equivalents at 1 January		39,193	489
Effect of exchange rate fluctuations on cash and cash equivalents		8,335	(3,054)
Cash and cash equivalents at 31 December	18	**71,555**	**39,193**

Material non-cash items are disclosed in notes 21 and 22 of these consolidated financial statements.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

1. Reporting entity

(a) Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group 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. COVID-19 coronavirus pandemic has further increased uncertainty in the business environment (see note 29).

The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

These consolidated financial statements include the financial statements of RMG Copper JSC (the "Company") and its subsidiaries as detailed in note 25 (together referred to as the "Group" and individually as the "Group entities").

The Company and its subsidiaries are joint stock and limited liability companies, as defined in the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia. The Company was registered on 31 January 1996 and its identification number is 225358341.

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 Madneuli deposit, within the territory of the Bolnisi region, in southern Georgia until 2041 (see note 4(a)).

The Group's main operations include mining and processing of copper-gold bearing ore. Final products comprise copper-gold, gold-polymetallic and cement-copper concentrates.

As at 31 December 2020 and 2019, the Company's immediate parent (with 99.6% ownership) is Mining Investments LLC, an entity incorporated in Georgia, and the Company's ultimate parent company is Eulachon Limited, an entity registered in the Island of Man. The Company is ultimately controlled by Dmitry Troitsky.

Related party transactions are disclosed in note 28 of these consolidated financial statements.

2. Basis of accounting

Statement of compliance

These consolidated 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 functional currency of the Group entities and the currency in which these consolidated 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 consolidated 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 recognized in the period in which the estimates are revised and in any future periods affected.

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

- Note 4(a) and Note 11 – Ore reserves estimates and stripping cost capitalization;
- Note 24(c) – Impairment of loans issued: determining inputs of ECL measurement model, including key assumptions used in estimating recoverable cash flows.

Information about other significant assumptions and estimation uncertainties are included in the following notes:

- Note 12 – Site restoration provisions: key assumptions regarding the magnitude and timing of the outflow of resources;
- Note 14(a) – Equity investment: fair values of financial instruments classified as level 3 in the fair value hierarchy;
- Note 14(b) – Assessment of timing of receipts of dividends receivable.

Information about critical judgments in applying significant policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 12 - Site restoration provision.

(a) Ore reserves estimate

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group. Ore reserve 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 reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, the availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Group's ore reserve estimates.

The Group holds the license issued by the Ministry of Environmental Protection and Natural Resources of Georgia with respect to exploration, extraction and mining of precious, non-ferrous, rare metals and barites in the Bolnisi administrative area of Georgia (the "Madneuli deposit"). The license was obtained in November 2014 and is valid until 2041.

Ore reserves estimates are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. Such reserves estimates and changes to these impact the Group's reported financial position and results, in the following way:

- Capitalized stripping costs recognised in the statement of financial position, as either part of mine properties or inventory, may change due to changes in stripping ratios (note 11(a));
- Evaluation of useful lives of property, plant and equipment (note 11) and intangible assets (note 13) may change.

In 2020 the Group conducted a detailed internal assessment on ore reserves taking into consideration the latest available information. As at 31 December 2020, the estimated quantity of reserves of Madneuli deposit calculated by the Group's geologists was equal to 14,030 thousand tonnes. The Madneuli deposit's latest ore reserve estimates were prepared by an independent geological expert, S.I.V Trading AG LLC in May 2016 in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves ("the JORC Code") Standards.

(b) Measurement of fair values

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

Fair values are categorized 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 categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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 estimated fair values of all financial instruments measured at amortized cost as at 31 December 2020 and 31 December 2019 approximate their carrying amounts.

Further information about the assumptions made in measuring fair values is included in the Note 24– fair values and risk management.

5. Revenue

The Group generates revenue primarily from the sale of copper-gold, gold-polymetallic and cement copper concentrates and revenue from services related to mining activity.

(a) Disaggregation of revenue from contracts with customers

'000 GEL	**2020**	**2019**
Sales of copper-gold concentrate	367,488	271,925
Sales of gold-polymetallic concentrate*	81,259	13,535
Revenue from services provided	40,381	34,725
Sales of gold carbon	8,307	-
Sales of cement-copper concentrate	7,388	4,957
Sales of silicium	170	209
Total revenue from contract with customers	**504,993**	**325,351**

*The ore is purchased from related party company, RMG Auramine LLC, and is further processed by the Group to arrive at gold-polymetallic concentrate.

The Group sells all types of concentrate to single counterparty, Trafigura PTE LTD. In addition to the abovementioned concentrates, in 2020 the Group sold gold carbon to the same counterparty.

Change in fair value of provisionally priced arrangements, that are embedded to *receivables from sales of copper-gold concentrate, gold-polymetallic, cement-copper and gold carbon* is immaterial, hence not shown separately in the statement of profit or loss and other compressive income.

In the following table, revenue from contracts with customers is disaggregated by the primary geographical markets.

'000 GEL	**2020**	**2019**
Foreign*	464,442	290,417
Domestic**	40,551	34,934
Total revenue	**504,993**	**325,351**

* Foreign sale represents sale to a single counterparty Trafigura PTE LTD.

** Domestic revenue represents revenue from services provided to RMG Gold LLC.

There were no contract assets and contract liabilities from contracts with customers as at 31 December 2020 and 31 December 2019. Information on the receivables from contracts with customers is presented in the notes 17 and 24(c).

6. Cost of sales

'000 GEL	**2020**	**2019**
Materials and fuel	173,314	110,868
Labor and wages	24,751	20,799
Depreciation and amortization	23,936	23,620
Outsourced services	16,636	16,458
Electricity	14,817	11,718
Natural resource tax	4,672	6,075
	258,126	**189,538**

7. Selling and distribution expenses

'000 GEL	**2020**	**2019**
Transportation and storage	1,908	1,969
Materials	424	566
Wages and salaries	409	322
Depreciation	69	28
Other	1,109	460
	3,919	**3,345**

8. Administrative expenses

'000 GEL	**2020**	**2019**
Wages and salaries	29,630	20,625
Taxes other than income tax	3,165	4,025
Bank charges and consulting fees	1,696	2,047
Rent, utilities, communication and office supply	1,659	1,542
Depreciation and amortization	1,244	1,075
Security	574	490
Repair and maintenance	312	254
Business trips and representation	86	297
Other	3,682	2,946
	42,048	**33,301**

Bank charges and consulting fees include audit fees of GEL 259 thousand (2019: GEL192 thousand).

9. Other expenses

’000 GEL	**2020**	**2019**
Sponsorship and social expenditure	3,207	883
Tax related fines and penalties	102	9
Write off of property, plant and equipment	25	728
Research expense	-	322
Other	2,551	2,677
	5,885	**4,619**

10. Net finance income

’000 GEL	**Note**	**2020**	**2019**
Interest income under the effective interest method on:			
- Loans receivable		15,212	1,435
- From change in estimate of expected cash flows from dividends receivable and unwinding of discount on dividends receivable	14(b)	22,675	5,552
Total income under the effective interest method on		**37,887**	**6,987**
Net foreign exchange gain		18,404	591
Finance income		**56,291**	**7,578**
Financial liabilities measured at amortised cost – interest expense:			
- Interest expense on loans and borrowings	21(b)	(6,559)	(3,153)
- Unwinding of discount on site restoration provision	12	(2,142)	(1,933)
Finance costs		**(8,701)**	**(5,086)**
Net finance income recognized in profit or loss		**47,590**	**2,492**

11. Property, plant and equipment (includes capitalized restoration provision)

'000 GEL	**Plant and equipment**	**Motor vehicles**	**Dams and roads**	**Land and buildings**	**Mine property**	**Capitalized restoration provision***	**Other**	**Total**
Cost								
Balance at 1 January 2019	61,978	29,439	21,078	5,159	52,192	20,715	3,167	193,728
Additions	12,044	229	2,253	285	11,942	-	1,459	28,212
Disposals/write-offs	(1,522)	(11,455)	(13)	-	-	-	(141)	(13,131)
Change in measurement of decommissioning liability (note 22)	-	-	-	-	-	(2,073)	-	(2,073)
Balance at 31 December 2019	**72,500**	**18,213**	**23,318**	**5,444**	**64,134**	**18,642**	**4,485**	**206,736**
Balance at 1 January 2020	72,500	18,213	23,318	5,444	64,134	18,642	4,485	206,736
Additions	43,550	-	1,884	2,216	29,604	-	3,151	80,405
Disposals/write-offs	(4,956)	(1,184)	(0)	(17)	-	-	(130)	(6,287)
Change in measurement of decommissioning liability (note 22)		-	-	-	-	2,245	-	2,245
Balance at 31 December 2020	**111,094**	**17,029**	**25,202**	**7,643**	**93,738**	**20,887**	**7,506**	**283,099**
Depreciation and impairment losses								
Balance at 1 January 2019	35,161	22,448	14,837	2,004	18,429	4,854	2,170	99,903
Depreciation for the year	7,641	2,801	1,734	231	8,600	1,585	617	23,209
Disposals/write-offs	(1,332)	(10,747)	-	-	-	-	(100)	(12,179)
Balance at 31 December 2019	**41,470**	**14,502**	**16,571**	**2,235**	**27,029**	**6,439**	**2,687**	**110,933**
Balance at 1 January 2020	41,470	14,502	16,571	2,235	27,029	6,439	2,687	110,933
Depreciation for the year	8,543	1,530	1,634	299	11,282	1,355	1,369	26,012
Disposals/write-offs	(4,956)	(1,169)	-	(16)	-	-	(121)	(6,262)
Balance at 31 December 2020	**45,057**	**14,863**	**18,205**	**2,518**	**38,311**	**7,794**	**3,935**	**130,683**
Carrying amounts								
At 1 January 2019	**26,817**	**6,991**	**6,241**	**3,155**	**33,763**	**15,861**	**995**	**93,823**
At 31 December 2019	**31,030**	**3,711**	**6,747**	**3,209**	**37,105**	**12,203**	**1,798**	**95,803**
At 31 December 2020	**66,037**	**2,166**	**6,997**	**5,125**	**55,427**	**13,093**	**3,571**	**152,416**

Property, plant and equipment includes fully depreciated items at cost of GEL 36,440 thousand as at 31 December 2020 (2019: 40,404 thousand).

Depreciation expense of GEL 22,636 thousand has been charged to cost of sales (2019: GEL 22,323 thousand), GEL 69 thousand to selling and distribution expenses (2019: GEL 28 thousand), GEL 714 thousand to administrative expenses (2019: GEL 630 thousand) and GEL 2,593 thousand has been included in the carrying amount of mine property and inventories as at 31 December 2019 (2019: GEL 228 thousand).

(a) Mine property

Mine property represents stripping activity asset with the carrying amount of GEL 55,427 thousand as at 31 December 2020 (31 December 2019: GEL 37,105 thousand). Significant judgment is required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset. The Group considers that ratio of expected volume in tons of waste to be stripped for an expected volume in tons of ore to be mined for the ore body, is the most suitable production measure. Ore reserves estimate also impacts stripping activity asset, see note 4(a).

(b) Security

Although the Group's all tangible and intangible assets are secured for the General Credit Line Agreement ("GCLA", see note 21), as at 31 December 2020 and 2019, minor (less than 0.5%) part of property, plant and equipment is actually pledged in respect of secured bank loans. According to the GCLA, from the beginning of 2020, the property, plant and equipment of the Group and its related parties are subject to pledge with reference to the actual disbursed amounts from the GCLA. As at 31 December 2020, the Group's property, plant and equipment is not properly pledged against the GCLA, resulting in the breach of non-financial covenant of the GCLA. The breach was formally waived by JSC Bank of Georgia ("BOG") on 29 September 2021 (see note 21).

12. Site restoration provision

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

'000 GEL	**2020**	**2019**
Cost		
Balance at 1 January	22,084	22,224
Unwinding of discount	2,142	1,933
Change in measurement of decommissioning liability	2,245	(2,073)
Balance at 31 December	**26,471**	**22,084**

After the Group obtained the license for exploration and extraction of precious, non-ferrous, rare metals and barites in the Bolnisi administrative area of Georgia in November 2014 (see note 1(b)) the Group concluded that the obligation to restore the Madneuli deposit and adjacent affected sites will be fully borne by the Group in 2029, one year after, when based on management plans, the Group operations will be ceased in 2028.

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. In making this assumption management has followed the requirements of the Georgian Law on the Subsoil.

The key assumptions, on which the site restoration provision was based as at 31 December 2020, were as follows:

- The total undiscounted amount of the estimated cash flows required for site restoration is GEL 51,557 thousand (2019: GEL 50,808 thousand).
- The timing of the provision is based on management's estimate of when the Group will cease extraction and processing of ore. Restoration costs were projected to be made in 9 years' time (in 2028).
- The risk-free rate at which the estimated cash flows had been discounted was 8.69% (2019: 9.7%). The discount rate represented the nominal risk free rate adjusted for the estimated inflation.

Increase in estimate was mainly driven by the increased future reclamation costs and decreased discount rates.

13. Intangible assets

'000 GEL	Exploration, evaluation and mining license	Capitalized exploration and evaluation expenditure	Other	Total
Cost				
Balance at 1 January 2019	20,538	12,762	2,371	35,671
Additions	-	4,773	99	4,872
Disposals	-	-	(193)	(193)
Balance at 31 December 2019	**20,538**	**17,535**	**2,277**	**40,350**
Balance at 1 January 2020	**20,538**	**17,535**	**2,277**	**40,350**
Additions	38	2,404	168	2,610
Balance at 31 December 2020	**20,576**	**19,939**	**2,445**	**42,960**
Amortisation and impairment losses				
Balance at 1 January 2019	7,572	2,489	1,202	11,263
Amortisation for the year	1,296	362	158	1,816
Disposals	-	-	(8)	(8)
Balance at 31 December 2019	**8,868**	**2,851**	**1,352**	**13,071**
Balance at 1 January 2020	**8,868**	**2,851**	**1,352**	**13,071**
Amortisation for the year	1,300	362	168	1,831
Balance at 31 December 2020	**10,168**	**3,213**	**1,520**	**14,902**
Carrying amounts				
At 1 January 2019	**12,966**	**10,273**	**1,169**	**24,408**
At 31 December 2019	**11,670**	**14,684**	**925**	**27,279**
At 31 December 2020	**10,408**	**16,726**	**925**	**28,059**

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.

14. Equity investment and dividends receivable

(a) Equity investment

'000 GEL	2020	2019
Non-current		
Equity investment	**12,582**	**4,001**

Investment measured at fair value through other comprehensive income represents an investment in 3.79% of the charter capital of RMG Gold LLC (formerly Quartzite LLC), a fellow subsidiary. For the key inputs and assumptions used in the model to determine the fair value of the investment measured at fair value through other comprehensive income as at 31 December 2020 see note 24(a). No investments were disposed during 2020 or 2019. Increase in fair value of equity investment was mainly caused by the improved financial performance of RMG Gold LLC as at 31 December 2020.

As at 31 December 2020 and 2019 the shares in RMG Gold LLC are pledged against secured loans (see note 21).

(b) Dividends receivable

Outstanding balance of dividends receivable represents the Company's share of the dividends declared by RMG Gold LLC in 2013 and 2012 and is recorded based on the present value of the expected receipts discounted at an annual rate of 13.1%. As at 31 December 2019 management expected to receive the dividends in the period from 2021 to 2025. However, in 2020 the Group's management reassessed the expected timing of recovery of dividends receivable. As at 31 December 2020, management expects to settle the dividends receivable during 2021, mainly through set off against the loan received from RMG Gold LLC (see note 21). As a result of the change in estimate, the management made reversal of previously recognized discount effect in 2020 and reclassified dividend receivable as a current asset.

'000 GEL	**2020**	**2019**
Balance as at 1 January	48,771	40,247
Change in estimate of expected cash flows from dividends receivable and unwinding of discount	22,675	5,552
Foreign exchange gain	6,954	2,972
Balance as at 31 December	**78,400**	**48,771**
Impairment allowance on dividends receivable (note 24(c))	-	(686)
Balance at 31 December	**78,400**	**48,085**

15. Inventories

'000 GEL	**2020**	**2019**
Raw materials and consumables	29,102	23,748
Work in progress	5,207	2,338
Finished goods	9,741	7,444
	44,050	**33,530**

In 2020 raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to GEL 254,012 thousand (2019: GEL 189,538 thousand).

Raw materials and consumables in 2020 include provisions for slow moving items of GEL 11,715 thousand (2019: GEL 7,601 thousand). There was no obsolescence provision on finished goods recognized as at 31 December 2020 (2019: nil).

In 2020 reversal of previously written-down work in progress was nil (2019: 524). The inventory write-offs, reversal of write-downs and changes in provisions are included in other expenses (note 9).

16. Loans receivable

'000 GEL	**2020**	**2019**
Non-current asset		
Loans to related parties	281,074	20,638
	281,074	**20,638**
Current asset		
Loans to related parties	-	53
	-	**53**

(a) Terms and loan repayment schedule

Terms and conditions of loans receivable were as follows:

Group				**31 December 2020**		**31 December 2019**	
‘000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face Value**	**Carrying amount**	**Face value**	**Carrying amount**
Loans to related parties	USD	12.5%	2025	291,215	280,969	20,645	20,645
Loans to related parties	GEL	12.5%	2025	105	105	46	46
				291,320	**281,074**	**20,691**	**20,691**

Loans issued are not secured as at 31 December 2020 and 31 December 2019.

The Group’s exposure to interest rate, credit and currency risks and impairment losses related to loans receivable are disclosed in note 24.

17. Trade and other receivables

’000 GEL	**2020**	**2019**
Receivables from sales of copper-gold concentrate, gold-polymetallic and cement copper	8,107	9,489
Prepayments	12,092	9,813
Receivables from related parties	3,776	3,649
Other receivables	935	1,115
Total trade and other receivables	**24,910**	**24,066**

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

18. Cash and cash equivalents

’000 GEL	**2020**	**2019**
Bank balances	71,555	39,193
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**71,555**	**39,193**

The Group’s exposure to interest rate and currency risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

19. Share capital and reserves

(a) Share capital

The authorized number of ordinary shares of the Group are 24,330,195 (2019: 24,330,195), with a nominal value per share of USD 1. As at 31 December 2020 and 2019 the GEL equivalent of the share capital was GEL 36,189 thousand.

All authorized shares have been issued and fully paid as of 31 December 2020 and 2019.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends and other distributions

In accordance with Georgian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s IFRS consolidated financial statements.

(c) Reserves

Reserves comprises the cumulative net change in the fair value of equity investment measured at fair value through other comprehensive income until the investments are derecognized or impaired.

20. Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group'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 Group's revenues and results, and long-term investment plans mainly financed by the Group's operating cash flows and obtained loans and borrowings.

The Group's debt to capital ratio at 31 December was as follows:

'000 GEL	**2020**	**2019**
Total liabilities	266,918	97,464
Less: cash and cash equivalents	71,555	39,193
Net debt	**195,363**	**58,271**
Total equity	452,004	206,576
Net debt to equity ratio at 31 December	**0.43**	**0.28**

There were no changes in the Group's approach to capital management during the year.

21. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24.

	Group	
'000 GEL	**2020**	**2019**
Non-current liabilities		
Secured bank loan	-	19,400
Loans from related parties*	71,864	5,624
	71,864	**25,024**
Current liabilities		
Loans from related parties	-	5,249
Secured bank loan	22,284	-
Unsecured loan	6,344	
Documentary credit	-	573
	28,628	**5,822**

*Non-current loan from related party represents the loan received from RMG Gold LLC, which is expected to be netted off with the dividends receivable from RMG Gold, see note 14(b).

Secured bank loan

As at 31 December 2020, due to the breach of the non-financial covenant under the GCLA (see note 11 (b)), the secured bank loan with the amount of GEL 22,284 thousand was classified as current in the consolidated statement of financial position. As of the date of issuance of these consolidated financial statements, BOG has not requested early repayment of secured bank loans and on 29 September 2021 the breach was formally waived by BOG. As at the date of issuance of these consolidated financial statements, the Group is in the process of remediating the breach event.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Group				31 December 2020		31 December 2019	
'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Loans from related parties	USD	12.5%	2024	71,864	71,864	5,713	5,713
Loans from related parties	USD	12%	2020	-	-	5,066	5,066
Secured bank loan	USD	8%	2022	22,284	22,284	19,494	19,494
Unsecured loan	USD	12%	2021	6,344	6,344	- -	-
Secured bank loan	EUR	3%	2020	-	-	573	573
				100,492	**100,492**	**30,846**	**30,846**

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

'000 GEL	**30,846**
Balance 1 January2020	
Changes from financing cash flows:	
Proceeds from borrowings	226,619
Repayment of borrowings*	(163,711)
Total changes from financing cash flows	**62,908**
The effect of changes in foreign exchange rates	**8,490**
Other changes	
Liability-related	
Interest expense	6,559
Net off with loans issued and trade receivables**	(8,311)
Total liability-related other changes	**(1,752)**
Balance as at 31 December 2020	**100,492**

'000 GEL	
Balance 1 January 2019	**39,782**
Changes from financing cash flows:	
Proceeds from borrowings	135,552
Repayment of borrowings	(98,504)
Total changes from financing cash flows	**37,048**
The effect of changes in foreign exchange rates	**1,971**
Other changes	
Liability-related	
Interest expense	3,153
Net off with trade receivables***	(51,108)
Total liability-related other changes	**(47,955)**
Balance as at 31 December 2019	**30,846**

*The amount of repayment of borrowings during 2020 comprises interest paid of GEL 1,661 thousand (2019: GEL 7,048 thousand).

** In 2020 borrowing from RMG Gold LLC with a carrying amount of GEL 8,311 thousand was netted off with trade receivable and loans receivable from the same counterparty of GEL 4,195 and GEL 4,116, respectively.

*** In 2019 borrowings from RMG Gold LLC of GEL 50,493 thousand and from Trafigura PTE LTD of GEL 615 thousand were netted off with trade and other receivables from the respective counterparties.

22. Trade and other payables

'000 GEL	2020	2019
Trade payables	130,283	37,876
Salary and other liabilities to employees	9,165	6,331
Other	507	327
	139,955	**44,534**

In 2020 trade payable of GEL 56,214 thousand was settled with the same amount of trade receivable from RMG Gold LLC.

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

23. Tax assets

Tax authorities introduced unified tax card for all types of taxes, therefore since 2017 the Group does not record tax accounts separately and shows net result of tax position as an asset in amount of GEL 10,235 thousand in the consolidated statement of financial position (2019: net tax position of asset in amount of GEL 2,148 thousand).

24. Fair values and risk management

(a) Fair value hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

		Carrying amount			Fair value		
'000 GEL	Note	Mandatorily at FVTPL	FVOCI – equity instruments	Total	Level 2	Level 3	Total
31 December 2020							
Financial assets measured at fair value							
Receivables from sales of copper-gold concentrate, gold-polymetallic concentrate and cement-copper	17	8,107	-	**8,107**	8,107	-	**8,107**
Equity investment	14	**-**	12,582	**12,582**	-	12,582	**12,582**

		Carrying amount			Fair value		
'000 GEL	Note	Mandatorily at FVTPL	FVOCI – equity instruments	Total	Level 2	Level 3	Total
31 December 2019							
Financial assets measured at fair value							
Receivables from sales of copper-gold concentrate, gold-polymetallic concentrate and cement-copper	17	9,489	-	**9,489**	9,489	-	**9,489**
Equity investment	14		4,001	**4,001**		4,001	**4,001**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3	
'000 GEL	**2020**	**2019**
Balance at 1 January	4,001	4,001
Revaluation of equity investment	8,581	-
Balance at 31 December	**12,582**	**4,001**

The Group has a 3.79% ownership in non-listed fellow subsidiary- RMG Gold LLC and the investment is recognized at fair value as an investment at fair value through other comprehensive income. The Group applies equity value to reserves multiple approach to derive the fair value of the investment in RMG Gold LLC (2019: value to reserves multiple approach), therefore the investment is classified as a Level 3 asset.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

2020	**Effect on total comprehensive income**	
'000 GEL	**Favorable**	**Unfavorable**
10% change in EV to reserves multiple	917	(917)
20% change in EV to reserves multiple	1,833	(1,833)

2019	**Effect on total comprehensive income**	
'000 GEL	**Favorable**	**Unfavorable**
10% change in EV to reserves multiple	418	(418)
20% change in EV to reserves multiple	835	(835)

(b) Financial risk management

The Group have exposure to the following risks from its use of financial instruments:

- credit risk (see 24(c));
- liquidity risk (see 24(d));
- market risk (see 24(e)).

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

Risk management framework

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

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities. The Group, 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.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, loans receivable and dividends receivable.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk for recognized financial assets and unrecognized commitments at the reporting date was:

	Carrying amount	
'000 GEL	**31 December 2020**	**31 December 2019**
Dividends receivable	78,400	48,085
Loans receivable	281,074	20,691
Trade and other receivables	12,818	14,253
Cash and cash equivalents	71,555	39,193
Recognized financial assets	**443,847**	**122,222**
Credit related commitments (note 27(e))	**469,323**	**410,754**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
'000 GEL	**31 December 2020**	**31 December 2019**
European countries	8,107	9,489
Domestic	4,711	4,764
	12,818	**14,253**

Measurement of Expected Credit Loss

The key inputs into the measurement of expected credit loss (ECL) are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The Group further discounts EAD from default date to the reporting date.

The Group defines above grades as follows:

Low risk - the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Medium risk - the borrower has a restructured, contractual cash flow obligations to meet in the near term and adverse changes in economic and business conditions in the longer term may likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

High risk - the counterparties have a week capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely reduce the ability of the counterparties to fulfil their contractual cash flow obligations.

(ii) Trade and other receivables

Trade receivables (subject to provisional pricing) are non-interest bearing and are exposed to future commodity price movements over the quotation period ("QP") and, hence, fail the SPPI test and classified as fair value through profit or loss financial asset. These trade receivables are initially measured at the amount which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP.

The Group does not require collateral in respect of trade and other receivables.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables measured at amortized cost as at 31 December 2020 and 31 December 2019:

'000 GEL	**31 December 2020**	**31 December 2020**
Credit risk grade	**Not credit impaired**	**Total**
Low risk	4,711	4,711
Total gross carrying amount		
Loss allowance	-	-
Total net carrying amount	**4,711**	**4,711**

'000 GEL	**31 December 2019**	**31 December 2019**
Credit risk grade	**Not credit impaired**	**Total**
Low risk	4,764	4,764
Total gross carrying amount		
Loss allowance	-	-
Total net carrying amount	**4,764**	**4,764**

Trade and other receivables (other than those subject to provisional pricing) as at 31 December 2020 and 31 December 2019 are classified under stage 1 category of expected credit loss model.

As at 31 December 2020, trade receivables (subject to provisional pricing) in the amount of GEL 8,107 thousand (2019: GEL 9,489 thousand) are measured at fair value through profit or loss and are not subject to expected credit loss calculation as per IFRS 9.

(iii) Dividends receivable

The Group's dividends receivable represents receivable from RMG Gold LLC where the Company owns 3.79% of share capital (see note 14(b). The Group's management expects the receivable to be settled in 2021.

The following table provides information about the exposure to credit risk and ECLs for dividends receivable as at 31 December 2020 and 31 December 2019:

'000 GEL	**31 December 2020**	**31 December 2019**
Credit risk grade	**Not credit impaired**	**Not credit impaired**
Low risk	83,046	72,682
Total gross carrying amount	**83,046**	**72,682**
Less: Loss allowance	-	(686)
Less: Discount effect	(4,646)	(23,911)
Total net carrying amount	**78,400**	**48,085**

Dividends receivable at 31 December 2020 and 31 December 2019 is classified under stage 1 category of expected credit loss model.

As at 31 December 2019, the dividends receivable was measured at the present value of expected cash flows from the instrument and respective discount of GEL 23,911 thousand was recognized as a reduction in the gross carrying value of the receivable (see note 14(b)). As at 31 December 2019, the loss allowance of GEL 686 thousand was calculated on the assumption that the discount effect assumes most of the expected credit loss from the financial instrument.

As at 31 December 2020, the management expects to recover the dividends receivable during 2021 through netting it off with the borrowing and related accrued interest from RMG Gold LLC (see note 21). The management believes that as at 31 December 2020 the balance of the dividends receivable is fully recoverable as the Group's liabilities to RMG Gold LLC effectively represent the cash collateral to the balances of dividend receivable.

(iv) Loans receivable

The Group's policy is to provide loans mainly to related parties. The Group does not require collateral in respect of loans receivable from related parties. Terms of the issued loans are described in note 16.

Main portion of loan receivable represents receivable from Caucasian Mining Group LLC, a related party company.

The following table provides information about the exposure to credit risk and ECLs for loans receivable as at 31 December 2020 and 31 December 2019:

	Group	
'000 GEL	**31 December 2020**	**31 December 2020**
Credit risk grade	**Not credit impaired**	**Total**
Low risk	291,320	291,320
Total gross carrying amount	**291,320**	**291,320**
Loss allowance	(10,246)	(10,246)
Total net carrying amount	**281,074**	**281,074**

	Group	
'000 GEL	**31 December 2019**	**31 December 2019**
Credit risk grade	**Not credit impaired**	**Total**
Low risk	21,481	21,481
Total gross carrying amount	**21,481**	**21,481**
Loss allowance	(790)	(790)
Total net carrying amount	**20,691**	**20,691**

Loans receivable as at 31 December 2020 and 31 December 2019 are classified under stage 1 category of expected credit loss model.

PD for loan receivable was determined as 8.10% by an individual approach by an expert on a rating system based on a scoring questionnaire. The country's rating is the base of the probability of basic default that represents a rating and lower bound for the loans given and dividend receivables. The Group uses Moody's default study as an external benchmark of PD.

LGD is calculated on a discounted cash flow basis using effective interest rate as the discounting factor. The Group assumes different likelihood scenarios with different probabilities when the financial instruments will be recovered and assumes 20% probability for the scenario when the financial instrument is not recovered at all. Effective interest rate used in the discounting of expected credit loss to account for time value of money equals to 10%.

Per management's assessment EAD was determined as 100%, considering that the loan receivable is payable at maturity.

(v) Cash and cash equivalents

The Group held amount of cash and cash equivalents of GEL 71,555 thousand at 31 December 2020, (2019: GEL 39,193 thousand). The cash and cash equivalents are held with bank with Georgian bank with long-term Fitch credit rating of BB-.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. No impairment allowance was recognized by the Group with respect to cash and cash equivalents as at 31 December 2020 and 31 December 2019.

(vi) Credit commitments

The Group is also exposed to credit risk arising from a financial guarantee contract entered into by the Group to guarantee the indebtedness of related party companies in credit line agreement (see note 27(e)). Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the credit facility agreement. The default rates of the related party companies were determined to be within the range from 1.2% to 8.10%. Management estimates that ECL is immaterial at reporting dates.

(vii) Movement in the allowance for impairment

The movement in the allowance for impairment in respect of loans and dividends receivables during the year was as follows.

’000 GEL	**2020 Dividends receivable**	**2020 Loans receivable**	**2020 Total**
Balance at 1 January	**686**	**790**	**1,476**
Credit loss (reversal)/charge for 2020	(686)	9,456	8,770
Balance at 31 December 2020	**-**	**10,246**	**10,246**

’000 GEL	**2019 Dividends receivable**	**2019 Loans receivable**	**2019 Total**
Balance at 1 January	**459**	**567**	**1,026**
Credit loss charge for 2019	227	223	450
Balance at 31 December 2019	**686**	**790**	**1,476**

(d) Liquidity risk

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

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 1 month, including the servicing of financial obligations.

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 2020 ’000 GEL	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 mths**	**2-12 mths**	**1-2 yrs**	**2-5 yrs**
Loans and borrowings	100,492	134,680	22,284	-	6,873	-	105,523
Trade and other payables	139,955	139,955	-	83,933	56,022	-	-
Credit related commitments (note 27(e))	469,323	469,323	469,323	-	-	-	-
	709,770	**743,958**	**491,607**	**83,933**	**62,895**	**-**	**105,523**

31 December 2019 ’000 GEL	Carrying amount	Contractual cash flows	On demand	Less than 2 mths	2-12 mths	1-2 yrs	2-5 yrs
Loans and borrowings	30,846	33,291	136	255	1,293	1,552	30,055
Trade and other payables	44,534	44,534	-	44,534	-	-	-
Credit related commitments (note 27(e))	410,754	410,754	410,754	-	-	-	-
	486,134	**488,579**	**410,890**	**44,789**	**1,293**	**1,552**	**30,055**

(e) 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 Group’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 Group does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases, loans and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily are denominated is the U.S. Dollar (USD).

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides an economic hedge without a need to enter into derivative contracts.

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

Exposure to currency risk

The Group’s exposure to foreign currency risk was as follows based on notional amounts:

Group

’000 GEL 31 December	USD-denominated 2020	EUR-denominated 2020	USD-denominated 2019	EUR-denominated 2019
Dividends receivable	78,400	-	48,085	-
Loans receivable	280,969	-	20,698	-
Trade receivables	8,107	-	9,489	-
Cash and cash equivalents	71,555	-	39,149	12
Loans and borrowings	(100,492)	-	(30,846)	-
Trade and other payables	(2,329)	(5,538)	(1,488)	(561)
Net exposure	**336,210**	**(5,538)**	**85,087**	**(549)**

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

in GEL	Average rate		Reporting date spot rate	
	2020	2019	2020	2019
USD 1	3.1097	2.8192	3.2766	2.8677
EUR 1	3.5519	3.1553	4.0233	3.2095

Sensitivity analysis

A strengthening of the GEL, as indicated below, against all other currencies at 31 December 2020 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Group

'000 GEL	**Strengthening of GEL**	**Weakening of GEL**
31 December 2020		
USD (10% movement)	(33,621)	33,621
EUR (10% movement)	554	(554)
31 December 2019		
USD (10% movement)	(8,509)	8,509
EUR (10% movement)	55	(55)

A weakening of the GEL against the above currencies at 31 December 2020 and 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) 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 Group'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 Group over the expected period until maturity.

As at 31 December 2020 and 2019 none of the financial assets and liabilities of the Group bear variable interest rate, therefore the Group is not significantly exposed to the interest rate risk.

Fair value sensitivity analysis for fixed rate debt instruments

The Group does not account for any fixed rate debt financial instruments as fair value through profit or loss or fair value through other comprehensive income. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(iii) Other market price risk

Equity price risk arises from equity investment measured at fair value through other comprehensive income which are non-listed.

The Group has a risk related to the threat that a change in the price of gold and copper concentrate will adversely impact the financial results of the Group. Factors that can affect such prices include political changes, demand and supply, technology and other market conditions.

25. Subsidiaries

The Company does not have significant subsidiaries as of the reporting dates.

Set out below is a list of subsidiaries of the Group.

Subsidiary	Country of incorporation	2020 Ownership/voting	2019 Ownership/voting
Belaz Kavkaz Trans Service LLC	Georgia	50%	50%
Trans Petk Mzidi LLC	Georgia	50%	50%

As at 31 December 2020 and 2019 management has determined that the Group controls Belaz Kavkaz Trans Service LLC and Trans Petk Mzidi LLC by virtue of an agreement with other shareholders.

The Company applied the exemption not to prepare and file individual financial statements and individual management report to the Service for Accounting, Reporting and Auditing Supervision (SARAS) of Georgia on the basis that financial results of Belaz Kavkaz Trans Service LLC and Trans Petk Mzidi LLC are immaterial to these consolidated financial statements and these consolidated financial statements will be submitted to SARAS. The exemption applied is in line with the SARAS Recommendation Guideline for Submission of Financial Statements and Management Reports, dated 30 July 2020.

26. Commitments

The Group 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.

During 2018, the Group's management announced publicly to the parties affected, that the Group will incur expenditures towards reduction of future environmental contamination of the operating site. During 2020, the Group has commissioned an independent consultant to confirm that the Group is in compliance with the above commitment. As at 31 December 2020, the Group is committed to incur expenditure of GEL 2.4 million (31 December 2019: GEL 13 million). Commitments relate to capital expenditures such as building new structures to avoid further contamination of the mine and its surrounding areas.

27. 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 Group 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 Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

The Group was involved as a defendant in the claim related to Settlement Agreement between RMG Copper JSC (Defendant) and Georgian Copper AG (Claimant) executed back in 2003:

Subject of the legal case relates to prepayments received by RMG Copper JSC from Glencor LLC for the sale of copper-gold concentrate. Transaction happened in 1998 and was based on the normal contractual terms of the sales and purchase of copper-gold concentrate. Subsequently the claim on the balance of the prepayments received by RMG Copper JSC from Glencor LLC (not related party to the Group) had been transferred to Georgia Copper AG (not related party to the Group). Georgia Copper AG initiated court case against RMG Copper JSC requesting the amount of prepayments given by Glencor LLC to the Group. RMG Copper JSC argues that the prepayment balance has been properly settled and RMG Copper JSC does not have obligation towards Georgia Copper AG.

On 22 April 2016 and 19 May 2016 RMG Copper JSC received letters via e-mail from a Swiss law firm, Homburger AG, and was informed that pursuant to the court decision of the Cantonal Court of Zug, Switzerland, dated 12 June 2014, the payment of the following sums in favor of the claimant: USD 3,067 thousand for damages and USD 1,998 thousand (9% p.a.) for interest.

Defendant argues that above-mentioned decision was issued in violation of Georgian legislation, without prior notification of Defendant. RMG Copper JSC appealed the decision in the Cantonal Court of Zug and submitted the documentation that the defendant has no obligation regarding the claim.

As of the date these consolidated financial statements are authorized for issue, final decision has not been made with respect to the above case. Management believes and confident that the Group has complied with all contractual requirements between the Group and the Claimant, and that they have all basis and supporting documents that the Group will not lose this legal case.

(c) Taxation contingencies

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

These circumstances may create tax risks in Georgia that are more significant than in other countries. 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Operational risks

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group’s control and could impact the Group’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.

(e) Credit related commitments

As at 31 December 2020 and 2019 the Group maintains a credit line facility of USD 150 million with JSC Bank of Georgia (see note 21(a)). The credit facility expires in 2022. As part of the credit line facility all related party companies are jointly liable for the total withdrawn credit facility under the agreement in case of the event of default by any counterparties. The facility was negotiated in an arm's length transaction with no premium on issue.

As at 31 December 2020 the outstanding amount of the credit facility, excluding withdrawn facility (by all parties), was GEL 372 million (2019: GEL 326 million). The amounts of outstanding credit related commitments (see note 24(c)) represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Therefore, the total outstanding contractual commitments presented above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2020 and 2019 and as at the date these consolidated financial statements were authorised for issue, the related parties do not show any signs of financial difficulties and follow the loans' repayment schedules, therefore the financial instrument is allocated to Stage 1. Considering this, level of assets subject to pledge (see notes 11 (b)) and also after assessing the credit quality information of the related party entities (for respective credit ratings of related parties, see note 24(c)), such as its performance under the loan agreement and key financial indicators, management believes that ECL is immaterial as at 31 December 2020 and 31 December 2019 (see note 24(c)).

28. Related parties

(a) Control relationships

The Company's immediate parent company is Mining Investments LTD, registered in Georgia. The Company's ultimate parent company is Eulachon Limited. The Group is ultimately controlled by Dmitry Troitsky.

No publicly available financial statements are produced by any of the Company's parent companies.

(b) Transactions with key management personnel

Key management received the following remuneration during the year which is included in administrative expenses (see note 8):

'000 GEL	**2020**	**2019**
Salaries and bonuses	**8,135**	**2,977**

(c) Transactions with other related parties

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

(i) Income

’000 GEL	Transaction value		Outstanding balance as at 31 December	
	2020	**2019**	**2020**	**2019**
Sale of goods:				
Fellow subsidiaries (included in other income)	7,267	7,878	-	-
Other	94	399	3,776	3,524
Services provided:				
Fellow subsidiaries	40,280	34,613	-	-
Other	64	-	-	-
Dividend income:				
Fellow subsidiaries*	-	-	78,400	48,085
Interest income:				
Other	15,212	1,351	17,619	3,514

All outstanding balances with related parties, except dividends receivable, are to be settled in cash within six months of the reporting date. None of the balances are secured.

*Movements on dividends receivable from the related party are disclosed in notes 10 and 14 of these consolidated financial statements.

(ii) Expenses

’000 GEL	Transaction value		Outstanding balance as at 31 December	
	2020	**2019**	**2020**	**2019**
Purchase of goods:				
Fellow subsidiaries	77,314	106,800	50,283	-
Other	50,102	17,488	56,022	-
Service received:				
Fellow subsidiaries	16,401	13,089	-	-
Other	507	4,019	117	15,986
Interest expense:				
Entities under joint control of ultimate controlling party	123	2,084	-	5,369
Fellow subsidiaries	4,344	-	4,590	-
Other expenses:				
Fellow subsidiaries	-	1,762	-	78

All outstanding balances with related parties except for dividends and loans receivable are to be settled within six months of the reporting date. None of the balances are secured.

(iii) Loans

	Amount loaned		Outstanding balance as at 31 December	
’000 GEL	**2020**	**2019**	**2020**	**2019**
Loans and borrowings:				
Fellow subsidiaries	226,619	84,392	67,274	5,504
Loans receivable:				
Fellow subsidiaries	14,678	20,319	-	-
Other	242,940	15,542	263,455	17,177

Terms of loans and borrowings and loans receivable are disclosed in notes 21 and 16, respectively.

(iv) Credit related commitments

As at 31 December 2020 and 31 December 2019, the Group guaranteed the indebtedness of related parties (see note 27(e)).

29. Impact of COVID-19

The outbreak of COVID-19 in early 2020 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia.

On 11 March 2020, the World Health Organisation (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. On 21 March 2020 Georgia declared a state of emergency in the country. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.).

In March 2020, due to COVID-19 pandemic, Bolnisi region (note 1(b)) was put under strict quarantine regime, which led to lockdown of the region by the Government. Despite the restrictions the Group has not seized its operations and continued all processes without interruption. The respective sanitary sanctions have been put into place by the management on site and the staff has been working in compliance with the recommended sanitary framework, suggested by the Government. Later, the Government of Georgia presented 6-phase plan to reopen the Georgian economy by lifting quarantine restrictions from 27 April 2020. On 22 May 2020 the state of emergency was ended due to the improved epidemiologic situation in the country.

During the first half of 2021, the Government of Georgia (the “GoG”) started to gradually lift major restrictions imposed due to COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides positive overlook on future prospects of economy and business environment both in Georgia and around the world.

Considering that the Group is involved in mining industry, which has not been negatively affected by the outbreak of COVID-19, overall, the pandemic did not have an adverse impact on the Group’s financial position and operating results for the year ended 31 December 2020. On the contrary, after COVID-19 outbreak precious metals have significantly increased in global market throughout 2020 year, which had positive impact on the revenue and profitability of the Group.

30. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments classified as fair value through other comprehensive income and trade receivable (subject to provisional pricing) classified at fair value through profit or loss, that are stated at fair value.

31. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Transactions eliminated on consolidation

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

(b) Revenue recognition

(i) Goods

Contract terms for the Group's sales of copper-gold, gold-polymetallic and cement-copper concentrates to customer allow for price adjustments based on the market price at the relevant quotation point stipulated in the contract. These are referred to as provisional pricing arrangements and are such that the selling price for copper-gold and gold-polymetallic concentrates is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period, or QP). Adjustments to the sales price occur based on movements in quoted market prices up to the end of the QP. The period between provisional invoicing and the end of the QP can be between one and three months.

Revenue is recognised when control passes to the customer, which occurs at a point in time the concentrate is loaded into the railcars at the Group's mine. The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP, i.e., the forward price, and a corresponding trade receivable is recognised.

For provisional pricing arrangements, any future changes that occur over the QP are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. Given the exposure to the commodity price, these provisionally priced trade receivables fail the cash flow characteristics test within IFRS 9 and are therefore measured at fair value through profit or loss up from initial recognition and until the date of settlement. These subsequent changes in fair value are recognised in the statement of profit or loss and other comprehensive income each period and presented separately from revenue from contracts with customers as part of 'Fair value gains/losses on provisionally priced trade receivables' (if material). Changes in fair value over, and until the end of, the QP, are estimated by reference to updated forward market prices for copper-gold, gold-polymetallic and cement-copper concentrates.

Payment terms: when the sale transaction occurs, counterparty shall pay 90% of the total provisional value upon receipt of the below listed documentation:

– Holding certificate;
– Seller's provisional invoice;
– Provisional weight, moisture and assay certificates.

Final payment is due within three banking days after the date of final assays, when weights and prices are known.

(ii) Services

The Group generates revenue from the various services provided to RMG Gold LLC which relates to mine operations (drilling, blasting, transportation etc.). The Group concluded that revenue for services is to be recognized over time as a service is rendered, because the customer simultaneously receives and consumes the benefits provided by the Group. Service is billed and payment is due upon completion of the service and issue of invoice. Considering short term nature of the services (1-2 days), revenue for the services is recognized for simplification purposes on their completion.

(c) Finance income and costs

The Group's finance income and finance costs include:

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

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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.

Foreign currency

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

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(d) Employee benefits

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

(e) Income tax

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

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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 at a later date.

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.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 *Income Taxes* and accounts for the tax on such items as taxes other than on income.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less impairment losses.

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

If significant parts of an item of property, 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 recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditures

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 Group, 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.

The Group applies the ratio of expected volume in tons of waste to be stripped for an expected volume in tons of ore to be mined for the ore body, as a production measure to allocate stripping costs between the inventory produced and the stripping activity asset.

(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 residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is generally recognized 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.

Mining property is composed of stripping activity asset which is depreciated by unit of production method.

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

• plant and equipment	9 years;
• motor vehicles	6-7 years;
• dams and roads	8 years;
• buildings	16-17 years;
• mine property	unit of production method;
• capitalized reclamation provision (asset)	9 years;
• other	5 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(i) Exploration and evaluation expenditure

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 explore and evaluate new ore bodies, to define mineralization of existing ore bodies, to establish or expand production capacity, is capitalized upon the completion of an economic evaluation equivalent to a prefeasibility study, at which point costs start being amortized as set out below. This economic evaluation is distinguished from a prefeasibility study in that some of the information that would normally be determined in a prefeasibility study is instead obtained from the existing mine or development. This information when combined with existing knowledge of the mineral property already being mined or developed allows management to conclude that more likely than not the Group will obtain the future economic benefits from the expenditures.

Exploration and evaluation expenditure are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Exploration and evaluation license and other intangible assets

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

(iii) Amortisation

Exploration and evaluation expenditure

Exploration and evaluation expenditure are amortized on a straight-line basis over the estimated lifetime of mine and amortization is recognized in profit or loss.

Exploration and evaluation licenses and 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, 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 is as follows:

- exploration license* 8 years (remaining);
- other (software, license) 3-4 years.

*The exploration license is amortized on a straight-line basis over the estimated lifetime of mine.

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

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(h) Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables that are not measured at fair value through profit or loss are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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

(ii) Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

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

The Group's financial assets comprise the following classes of financial assets: Trade receivables and other receivable (note 17), Cash and cash equivalents (note 18), Dividends receivable (note 14 (b)), Loans receivable (note 16) except for trade receivables (subject to provisional pricing) all financial assets are measured at amortised cost using the effective interest method. Trade receivables (subject to provisional pricing) are classified at instrument at fair value through profit or loss and measured at fair value with the change in fair value recognized in profit or loss. The Group has an Equity investment, which is measured at fair value through other comprehensive income (note 14(a)).

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

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

(iii) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

(iv) Derecognition

Financial assets

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

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

Financial liabilities

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

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

(v) Offsetting

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

(vi) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(j) Impairment

(i) Non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost:

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

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

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

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

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

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-derivative financial assets

The carrying amounts of the Group's non-financial assets, other than inventories 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 Group'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 recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses 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.

(k) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(l) Credit related commitments

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

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group 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 recognised as finance cost.

(i) Site restoration

In accordance with the Georgian Law on the Subsoil 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 restoration 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.

32. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements.

- *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
- *Annual Improvements to IFRS Standards 2018-2020*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3);*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

33. Subsequent events

On 29 September 2021, the Group received formal waiver from JSC Bank of Georgia regarding the breach of the covenant for the secured bank loans as at 31 December 2020 (see note 21).