# GeoProMining Investment (CYP) Limited

# Consolidated Financial Statements
# for the year ended 31 December 2019

## Contents

**GEOPROMINING INVESTMENT (CYP) LIMITED**

**BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS**

**Board of Directors:**

| *Full Name* | *Nationality* | *Date of Appointment* | *Date of Resignation* |
|---|---|---|---|
| *Executive Director* | | | |
| Roman Khudoliy | Russian | 28.08.2014 | |
| *Non-Executive Directors* | | | |
| Siman Povarenkin (Chairman) | Russian | 27.06.2011 | |
| Igor Lojevsky | Russian | 27.06.2011 | 13.04.2020 |
| Viatcheslav Pivovarov | Russian | 11.03.2014 | 27.03.2019 |
| Vladimir Lelyukh | Russian | 28.08.2014 | 27.03.2019 |
| Roman Trotsenko | Russian | 27.03.2019 | |
| Mirzaaziz Musakhanov | Russian | 27.03.2019 | |

**Company Secretary:**

| *Full Name* | *Nationality* | *Date of Appointment* |
|---|---|---|
| Chelco Consulting Limited | Cyprus | 18.12.2014 |

**Independent Auditors:**

KPMG Limited

**Legal advisors:**

Andreas Neocleous & Co LLC

**Bankers:**

Bank of Cyprus
International Business Unit
66-68 Archiepiskopou Makariou & Markou Drakou Street
Mesa Geitonia
4003 Limassol, Cyprus

Banque J. Safra Sarasin SA
8, place de l'Université, Case postale 33, CH-1211 Geneva 4 – Switzerland

CIM-Banque
Rue Merle d'Aubigné 16, 1207 Geneva – Switzerland

VTB Bank PJSC, VTB Bank Europe SE
Rüsterstraße 7-9, 60325 Frankfurt – Germany

**Registered Office:**

Christodoulou Chatzipavlou, 221 Helios Court, 3rd floor 3036. Limassol, Cyprus

# MANAGEMENT REPORT

The Board of Directors present their annual report and the audited consolidated financial statements of **GeoProMining Investment (CYP) Limited** (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2019.

## INCORPORATION AND PRINCIPAL ACTIVITY

The Company was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Group's principal activity continues to be the extraction and processing of ore, containing nonferrous metals, mainly gold, copper, molybdenum and antimony, and polymetallic ore at plants located in Armenia and Russia.

On 2 September 2011, as a result of restructuring, GeoProMining Investment (CYP) Limited became the holding company of the Group through the transfer of ownership by GeoProMining Ltd of all its subsidiaries to the Company in return for shares in the Company.

As of 31 December 2016 GeoProMining Ltd was under a liquidation process, which has been finalised in February 2017.

## REVIEW OF CURRENT POSITION AND OPERATIONAL PERFORMANCE

The Group's financial results for the year ended 31 December 2019 and its financial position at 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 10 and 11 and the consolidated statement of financial position on pages 12 and 13, respectively. Total assets as at 31 December 2019 amounted to USD 641,927 thousand (31 December 2018: USD 536,217 thousand), net assets as at 31 December 2019 amounted to USD 225,112 thousand (31 December 2018: USD 155,713 thousand). Total revenue for the year amounted to USD 332,332 thousand (2018: USD 283,053 thousand). The profit for the year amounted to USD 55,064 thousand (2018: USD 5,009 thousand). The 2019 revenue and profit have increased due to increase in the quantity of the gold sold by 21.2% and increase in average gold price by 10.4%.

## DIVIDENDS AND TRANSFER TO RESERVES

The Board of Directors did not recommend the payment of dividends for the year ended 31 December 2019.

## FORESEEABLE FUTURE DEVELOPMENTS

The main projects are the development of GPM Verkhne Menkeche LLC and construction of Sentachan plant located in Russia.

## MAIN RISKS AND UNCERTAINTIES

During 2016, following the requirements of the new Facility agreement, the Group purchased put options for 287,200 ounces of gold and also sold call options for 475,750 ounces of gold. During 2019-2021, put options are exercisable quarterly at the strike price of USD 900 per ounce in 2019 (decreasing to USD 850 per ounce in 2021) and call options are exercisable quarterly at the strike price of USD 1,575-1,700 per ounce. The fair value of the put and call options was determined using a proprietary technique based on observable inputs including volatility, gold price quotations and risk-free rates. 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 and loans receivables. The maximum exposure to credit risk at the reporting date is USD 57,796 thousand (31 December 2018: USD 14,613 thousand).

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 current liquidity ratio was 2.46 as at 31 December 2019 (31 December 2018: 0.55).

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are EUR and USD.

The steps taken to manage these risks are described in notes 26 and 28 to these consolidated financial statements.

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the local currencies of operating companies. These developments are further increasing the level of uncertainty in the business environment.

The outbreak of coronavirus resulted in such general operational risks as decrease in demand, temporary cessation/slow-down of operations and supply chains, staff absences due to illness and increased credit losses from trade receivables. However, the impact on the Group is limited as it has not decreased its operational activity and despite non-significant shift in the shipments' schedule, the quantity and quality of metals and concentrates produced remains stable. There are no cases of staff illness to the moment and no significant payment delays from major customers. 65% of Group revenue is the revenue from gold sales. Gold prices increased during the 1st quarter of 2020 and continue to increase in April 2020. Despite of the decrease of copper and antimony prices in 2020the Group management believes that high gold prices and demand will maintain Group's financial performance on planned level.
Therefore the Group management considers that the outbreak of the coronavirus will not have significant influence over the ability of the Group to continue as a going concern.

## SHARE CAPITAL

There were no changes in the capital structure since 2015.

## BRANCHES

During the year ended 31 December 2019 the Company did not operate any branches.

## BOARD OF DIRECTORS

The members of the Board of Directors as at the date of this report are set out on page 3.

In accordance with the Company's Articles of Association, all members of the Board of Directors remain in office until their resignation or removal.

## RESEARCH AND DEVELOPMENT ACTIVITY

The Group has research and development activities in respect of the following assets:
- The Company plans to launch the product at a new processing plant at the Sentachan field in Russia in 2020;
- The construction of a new processing plant for processing of ore of Verkhne-Menkeche polymetallic ore deposit;
- Exploration and Evaluation works for Kim and Vzbros ore deposits;
- The company is implementing a project related to capacity increase at the Agarak Copper Molybdenum Combine (ACMC).

Details of the exploration and licensing activities in respect of the above are given in notes 15(b) and 16(c).

The budget for 2020 related to research and development activity is: up to USD 28.3 million for development of Verkhne Menkeche; up to USD 5.7 million for development of Sentachan; up to USD 2.3 million for KIM mine project; up to USD 7.8 million for ACMC.

## INDEPENDENT AUDITORS

The independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office and a resolution authorizing the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board

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Siman Povarenkin

Limassol, 28 April 2020

LIMITED * GEOPROMINING INVESTMENT (CYP)

KPMG Limited
Chartered Accountants
11, June 16th 1943 Street, 3022 Limassol, Cyprus
P.O.Box 50161, 3601 Limassol, Cyprus
T: +357 25 869000, F: +357 25 363842

## Independent Auditors' report

## TO THE MEMBERS OF GEOPROMINING INVESTMENT (CYP) LIMITED

### Report on the audit of the Consolidated financial statements

#### *Opinion*

We have audited the accompanying financial statements of Geoprominning Investment (Cyp) Limited (the "Company"), and its subsidiaries ("the Group") which are presented on pages 13 to 77, and comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

#### *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 remained independent of the Group throughout the period of our appointment 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 in Cyprus that are relevant to our audit of the consolidated financial statements, 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.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

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| Revenue recognition | |
|---|---|
| Refer to notes 3(k), 8 of the consolidated financial statements | |
| **Key audit matter** | **How the matter was addressed in our audit** |
| The Company recognizes revenue when (or as) it satisfies a performance obligation by transferring control of the goods to the customer. The Company's performance obligation is satisfied upon the customer collection of the goods (gold dore bars, concentrates and polymetallic ores) at the processing or affinage plant or upon delivery to the vessel (FOB port terms) for the next shipment at which point title and risk of loss transfers to the customers.<br><br>Revenue has been identified as a key audit matter due to its significance to the financial statements, the importance of the matter to the users' understanding of the financial statements and the nature of the business. | Our audit procedures to assess the revenue recognition included among others:<br>o performing substantive tests of details including review of contracts with significant customers, sales cut-off procedures, vouching of revenue transactions to supporting evidence and obtaining direct confirmations from significant customers<br>o performing revenue recalculation for the sale of gold ore bars, copper and molybdenum concentrates. Key inputs for the recalculation were the quantities and quality of products sold as confirmed by the counterparties and independent assayers' reports, prices and exchange rates as obtained by external sources.<br>o performing reconciliation of the quantities of gold ore bars sold with the actual gold poured<br>o assessing the disclosures in the consolidated financial statements in respect of revenue recognition with reference to the requirements of the prevailing accounting standards. |

| Estimates relevant to the mining assets | |
|---|---|
| Refer to notes 2(d), (e), 3(e), (f), (j), 4(B), 15, 16, 24(a) of the consolidated financial statements | |
| **Key audit matter** | **How the matter was addressed in our audit** |
| In preparing these financial statements, the management made judgments, estimates and assumptions relating to the mining activities of the Group. These judgments and estimates related to the estimation of the ore reserves, impairment testing of licences and mining assets and provisions for site restoration costs. | Our audit procedures to assess the estimates relating to the mining assets included among others:<br>o assessing the methodology adopted by the management in its impairment assessment with reference to the requirements of the prevailing accounting standards<br>o evaluating the key assumptions used by the management in the discounted cash flow forecasts, calculation of assets retirement obligation and stripping asset including those relating to ore reserves, waste ratio, inflation rates, future commodity prices, future sales, future operating costs and the discount rates applied. We involved valuation specialists to assist in comparing these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and in considering the key assumptions |

| | |
|---|---|
| | and estimates based on our knowledge of the Group and the industry in which it operates;<br>o reviewing stripping asset calculations based on the actual quantities of ore extraction per each mine and waste confirmed by the survey engineer (Markscheider) and the Chief Geologist of the Group<br>o recalculating assets retirement obligations based on the estimated cash flows required to settle the obligation, the expected timing of site restoration and the discount rates applied<br>o recalculating mining assets depletion based on the amounts of proved ore reserves and actual quantities of ore extraction per each mine<br>o evaluating the competence, capabilities and objectivity of the independent valuers, and assessing the technical reports prepared by the experts to evaluate the estimates used for reserve & resource estimation, stripping cost and site restoration provisions.<br>o evaluating evidence for the prolongation of the licences obtained by the Group to assess the viability of the mining sites.<br>o assessing the disclosures in the consolidated financial statements in respect of the relevant estimates with reference to the requirements of the prevailing accounting standards. |

**Russian and Armenian tax law**

Refer to 2(d), 3(m), (n), 14, 27(b) of the consolidated financial statements

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| on-compliance with Russian and Armenian tax laws (related to corporation, mineral extraction and royalty taxes) is considered a significant risk due to the complexity of the Russian and Armenian tax systems, which are characterized by frequent changes in legislation, official pronouncements and court decisions which are sometimes unclear, contradictory and subject to varying interpretations. Taxes are subject to review and investigation by the local tax authorities and these may result in additional tax charges, fines and penalties. | Our audit procedures to assess the estimates relating to the tax provisions included among others:<br>o assessing the appropriateness of the Group's tax policies relating to income, mineral extraction and royalty taxes with reference to the requirements of the relevant tax laws and regulations<br>o assessing the reasonableness of the valuation of extracted minerals in accordance with the Russian Federation Tax Code, with the involvement of KPMG tax specialists.<br>o assessing the reasonableness of the tax base calculations in accordance with the applicable tax regulations in Russia and Armenia, with the involvement of KPMG tax specialists.<br>o reviewing tax assessments and relevant communications with the local tax authorities, with the involvement of KPMG tax specialists.<br>o assessing the disclosures in the consolidated financial statements in respect of the tax provisions and associated risks and uncertainties with reference to the requirements of the prevailing accounting standards. |

*Other information*

The Board of Directors is responsible for the other information. The other information comprises the management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to the management report, our report in this regard is presented in the *"Report on other legal and regulatory requirements"* section

***Responsibilities of the Board of Directors for the consolidated financial statements***

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors 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, the Board of Directors 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 there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

***Auditors' responsibilities for the audit of the 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 skepticism 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 the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities of the 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 the Board of Directors 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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters discussed with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

**Report on other legal requirements**

Pursuant to the additional requirements of Auditors' Law of 2017, L.53(I)/2017, as amended from time to time ("Law L.53(I)/2017"), and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.

- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

KPMG



**Other matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L.53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Zakis E. Hadjizacharias.

Zakis E. Hadjizacharias, CA
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

11, June 16th 1943 Street
3022 Limassol
Cyprus

28 April 2020

| **’000 USD** | **Note** | **2019** | **2018** |
|---|---|---|---|
| **Revenue** | 8 | 332,332 | 283,053 |
| Cost of sales | 9 | (175,526) | (155,881) |
| **Gross profit** | | 156,806 | 127,172 |
| Distribution expenses | 10 | (3,249) | (3,831) |
| Administrative expenses | 11 | (32,215) | (36,024) |
| Net gain / (loss) from commodity derivatives | | 270 | 3,296 |
| Net impairment loss | 15(c), 15(d), 16(d),21 | - | (28,551) |
| Other expenses | 12 | (14,682) | (12,859) |
| **Result from operating activities** | | 106,930 | 49,203 |
| Finance income | 13 | 790 | 96 |
| Finance costs | 13 | (26,435) | (22,680) |
| **Profit before income tax** | | 81,285 | 26,619 |
| Income tax expense | 14 | (26,221) | (21,610) |
| **Profit for the year** | | 55,064 | 5,009 |

| **’000 USD** | **Note** | **2019** | **2018** |
|---|---|---|---|
| **Other comprehensive income / (loss)** | | | |
| *Items that are or may be reclassified to profit or loss* | | | |
| Foreign currency translation differences for foreign operations | | 13,971 | (19,324) |
| **Other comprehensive income / (loss)** | | 13,971 | (19,324) |
| **Total comprehensive income / (loss)** | | 69,035 | (14,315) |
| | | | |
| **Profit / (loss) attributable to:** | | | |
| Shareholders of the Group | | 55,064 | 18,920 |
| Non-controlling interests | | - | (13,911) |
| | | 55,064 | 5,009 |
| **Total comprehensive income / (loss) attributable to:** | | | |
| Shareholders of the  Group | | 69,035 | (446) |
| Non-controlling interests | | - | (13,869) |
| **Total comprehensive income / (loss)** | | 69,035 | (14,315) |

| ’000 USD | Note | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 240,260 | 196,781 |
| Mining assets | 16 | 257,624 | 250,674 |
| Loans to related parties | 30 | 12,931 | - |
| Other non-current assets | | 103 | 175 |
| Deferred tax assets | 17 | 273 | 1,439 |
| **Total non-current assets** | | 511,191 | 449,069 |
| | | | |
| **Current assets** | | | |
| Inventories | 19 | 63,001 | 55,446 |
| Income tax receivable | | 2,232 | 2,071 |
| Trade and other receivables | 20 | 23,469 | 14,163 |
| Prepayments for current assets | | 7,751 | 6,868 |
| Cash and cash equivalents | | 34,283 | 8,599 |
| Assets held for sale | 21 | - | 1 |
| **Total current assets** | | 130,736 | 87,148 |
| **Total assets** | | 641,927 | 536,217 |

| '000 USD | Note | 2019 | 2018 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 22(a) | 941 | 941 |
| Share premium | 22(b) | 272,703 | 272,703 |
| APIC | | 364 | - |
| Translation reserve | | (93,748) | (107,719) |
| Retained earnings | | 44,852 | (10,212) |
| **Total equity, fully attributable to shareholders of the Group** | | 225,112 | 155,713 |
| Non-controlling interests | | - | - |
| **Total equity** | | 225,112 | 155,713 |
| | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | 23 | 306,297 | 161,227 |
| Financial liabilities at fair value through profit or loss | 18 | 2,050 | 3,044 |
| Provisions | 24 | 16,792 | 16,295 |
| Deferred tax liabilities | 17 | 38,544 | 42,725 |
| **Total non-current liabilities** | | 363,683 | 223,291 |
| | | | |
| **Current liabilities** | | | |
| Loans and borrowings | 23 | 871 | 92,428 |
| Financial liabilities at fair value through profit or loss | 18 | 1,091 | 367 |
| Trade and other payables | 25 | 37,998 | 50,496 |
| Income tax payable | | 13,172 | 13,922 |
| **Total current liabilities** | | 53,132 | 157,213 |
| **Total liabilities** | | 416,815 | 380,504 |
| **Total equity and liabilities** | | 641,927 | 536,217 |

These consolidated financial statements were approved by the Board of Directors on 28 April 2020 and were signed on its behalf by:

Director
Siman Povarenkin

Director
Roman Khudoliy

GEOPROMINING INVESTMENT (CYP) LIMITED

| **’000 USD** | **Note** | **2019** | **2018** |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | 55,064 | 5,009 |
| *Adjustments for:* | | | |
| Depreciation | 15(a) | 23,399 | 20,487 |
| Amortization | 16 | 23,323 | 22,413 |
| Impairment loss | 21 | - | 28,551 |
| Loss on disposal of property, plant and equipment and other assets | 12 | 193 | 318 |
| Provision for obsolete inventory | 12 | - | 194 |
| Additional royalty and other than on income tax payments imposed by the tax authorities of previous periods | 12 | - | 959 |
| Net (gain)/loss from commodity derivatives | | (270) | (3,296) |
| Net finance costs | 13 | 25,645 | 22,584 |
| Income tax expense | 14 | 26,221 | 21,610 |
| **Operating profit before changes in working capital** | | 153,575 | 118,829 |
| Change in inventories | | (12,183) | (10,793) |
| Change in trade and other receivables | | (4,982) | (2,718) |
| Change in prepayments for current assets | | (604) | (2,166) |
| Change in trade and other payables | | (17,157) | (16,560) |
| **Cash flows from operations before income taxes and interest paid** | | 118,649 | 86,592 |
| Income taxes paid | | (30,037) | (27,102) |
| Interest paid | | (27,982) | (18,885) |
| **Cash flows from operating activities** | | 60,630 | 40,605 |

| | | | |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Proceeds for loan granted | | (12,079) | - |
| Acquisition of property, plant and equipment and other assets | | (53,557) | (19,358) |
| Acquisition of mining assets | | (22,451) | (22,555) |
| **Cash flows used in investing activities** | | (88,087) | (41,913) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | 23(b) | 312,262 | 58,474 |
| Repayment of borrowings | 23(b) | (256,079) | (53,206) |
| Payment of transaction costs related to the bonds issuance | 23(b) | (3,120) | - |
| **Cash flows from / (used in) financing activities** | | 53,063 | 5,268 |
| **Net increase / (decrease) in cash and cash equivalents** | | 25,606 | 3,960 |
| Cash and cash equivalents at 1 January | | 8,599 | 4,502 |
| Effect of exchange rate fluctuations on cash held | | 78 | 137 |
| **Cash and cash equivalents at 31 December** | | 34,283 | 8,599 |

| **’000 USD** | **Attributable to shareholders of the Group** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **APIC** | **Translation reserve** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| **Balance at 1 January 2018** | 941 | 272,703 | - | (88,353) | (29,132) | 156,159 | 13,869 | 170,028 |
| Profit for the year | - | - | - | - | 18,920 | 18,920 | (13,911) | 5,009 |
| Foreign currency translation differences | - | - | - | (19,366) | - | (19,366) | 42 | (19,324) |
| **Total comprehensive loss for the year** | - | - | - | (19,366) | 18,920 | (446) | (13,869) | (14,315) |
| **Balance at 31 December 2018** | 941 | 272,703 | - | (107,719) | (10,212) | 155,713 | - | 155,713 |
| **Balance at 1 January 2019** | 941 | 272,703 | - | (107,719) | (10,212) | 155,713 | - | 155,713 |
| Profit for the year | - | - | - | - | 55,064 | 55,064 | - | 55,064 |
| Foreign currency translation differences | - | - | - | 13,971 | - | 13,971 | - | 13,971 |
| **Total comprehensive income for the year** | - | - | - | 13,971 | 55,064 | 69,035 | - | 69,035 |
| Other contribution | - | - | 364 | - | - | 364 | - | 364 |
| **Balance at 31 December 2019** | 941 | 272,703 | 364 | (93,748) | 44,852 | 225,112 | - | 225,112 |

The accompanying notes are an integral part of these consolidated financial statements.

# 1. Background

## (a) Organisation and operations

GeoProMining Investment (CYP) Limited (the "Company") was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Company's registered office address is Christodoulou Chatzipavlou, 221 Helios Court, 3rd floor 3036. Limassol, Cyprus.

The Company, through its wholly owned subsidiaries, controls a number of production entities engaged in the processing of ore containing nonferrous metals, in Armenia and Russia and other entities which, together with the Company, are referred to as "the Group".

On 2 September 2011 the Company (which had no business or assets of its own) became the holding company of the Group through a transfer of the ownership in all of the Group's subsidiaries by GeoProMining Ltd in exchange for the newly issued shares in the Company.

For accounting purposes, this transaction has been treated as restructuring amongst entities under common control and the financial history of the Group prior to that date is that of GeoProMining Ltd and its subsidiaries.

The Group's main subsidiaries are:

| | | **31 December 2019** | **31 December 2018** |
|---|---|---|---|
| | **Country of incorporation** | **Ownership/voting** | **Ownership/voting** |
| Agarak CJSC | Armenia | 100% | 100% |
| GPM Gold LLC | Armenia | 100% | 100% |
| Zvezda JSC | Russia | 100% | 100% |
| Sarilakh-Surma JSC | Russia | 100% | 100% |
| Karlou B.V. | Netherlands | 100% | 100% |
| GeoProMining LLC | Russia | 100% | 100% |
| GPM Verkhne Menkeche LLC | Russia | 100% | 100% |
| Paramount Gold Mining CJSC | Armenia | 51% | 51% |
| Lernayin Arstutyun LLC | Armenia | 51% | 51% |

The Group is owned by Geiser Asset Holdings Ltd (50.3%), which does not produce publicly available financial statements, and other shareholders. The Group is ultimately controlled by a single individual, Mr. Siman Povarenkin (the "Shareholder"), who is also a director of the Company. Related party transactions are detailed in note 30.

**(b) Business environment**

**Russian business environment**

Some of the Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation 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 the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

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

**Armenian business environment**

Some of the Group's operations are located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia 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 the Armenia. The consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Cyprus business environment**

The Cyprus economy has been adversely affected during the last few years by the economic crisis. The negative effects have to some extent been resolved, but the economy is now facing additional pressure as a result of the consequences of the Covid-19 outbreak.

The current economic environment of Cyprus will not have a significant impact on the operations of the Group and the Group does not hold significant funds in Cypriot financial institutions. The Group's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group.

**Covid-19 outbreak**

On 11 March 2020, the World Health Organisation declared the Coronavirus Covid-19 outbreak to be a pandemic in recognition of its rapid spread across the globe. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries. These measures have slowed down the economies globally, with the potential of having wider impacts on local economies as the measures persist for a greater period of time.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

# 2. Basis of preparation

## (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and the provisions of the Cyprus Companies Law, Cap. 113.

## (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, and investments at fair value through profit or loss are stated at fair value, property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS.

## (c) Functional and presentation currency

Management has determined the functional currencies of the entities within the Group to be the currency which reflects the economic substance of the underlying events and circumstances of each entity.

As at 31 December 2018 the functional currencies of the entities, except for Karlou B.V. and the Company, were the national currencies of those countries in which each entity operates.

The functional currency of the Company and Karlou B.V. is the US Dollar ("USD").

The Group's presentation currency is USD. All financial information presented in USD has been rounded to the nearest thousand.

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated to the presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at average exchange rates for the period because it best approximates exchange dates at the transaction dates; and
- all resulting exchange differences shall be recognised in other comprehensive income.

## (d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

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

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

- Note 2(e) – ore reserves;
- Note 3(k)(i) – revenue recognition for the goods sold;
- Note 3(e)(v) – useful lives of property, plant and equipment;

- Note 15(b) – licenses;
- Note 16(d) – impairment of mining assets of GPM Gold LLC;
- Note 15(c) – impairment of fixed assets of Agarak CJSC;
- Note 17 – deferred tax assets and liabilities;
- Note 18 – financial assets and liabilities at fair value through profit or loss;
- Note 24(a) – provision for site restoration;
- Note 27 – contingencies.

***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.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

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

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

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 26 – financial instruments.

**(e) Ore reserves**

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Company. 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 Company's ore reserve estimates. The Group uses its ore reserve estimates in evaluating impairment of its property, plant and equipment and the timing of site restoration costs.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by 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) Non-controlling interests*

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### *(iii) Acquisitions from entities under common control*

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for using book values as recognised in the individual financial statements at the date when control of the Group was established. Difference between cash paid and book value is recognised directly in equity**.**

#### *(iv) Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### *(v) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

#### *(i) Foreign currency transactions*

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

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

***(ii) Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to USD at average exchange rates for the relevant periods.

Foreign currency differences are recognised directly in other comprehensive income and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

### (c) Financial instruments

***(i) Recognition and initial measurement***

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the 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***

**Financial assets**

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

Financial assets are not reclassified subsequent to their initial recognition unless the 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. This includes all derivative financial assets. 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.

**Financial assets – Business model assessment**

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

**Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable-rate features;

– prepayment and extension features; and

– terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

**Financial assets – Subsequent measurement and gains and losses**

| | |
|---|---|
| **Financial assets at FVTPL** | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 3(vi) for derivatives designated as hedging instruments. |
| **Financial assets at amortised cost** | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| **Debt investments at FVOCI** | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| **Equity investments at FVOCI** | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

**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.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the CBR. The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

***(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 the 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 CBR key rate, 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.

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

***(vi) Derivative financial instruments and hedge accounting***

**Derivative financial instruments and hedge accounting**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

**(d) Share capital and capital contributions**

*Ordinary shares*

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

**(e) Property, plant and equipment**

***(i) Recognition and measurement***

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

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

When 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.

Net gains and losses on disposal of an item of property, plant and equipment are recognised in "other income" or "other expenses" in profit or loss.

***(ii) Exploration and evaluation expenditure***

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as "Construction in progress" within property, plant and equipment.

***(iii) Mine development costs***

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on the development of mineral resources is capitalised and classified within the "Construction in progress" category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to the works on mine development which are inseparable from the mine's landscape, as well as costs of development stripping as described in note 3(e)(iv).

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to "Mining assets and mining structures" category, which is classified within Mining assets as part of intangible assets.

***(iv) Subsequent costs***

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

***(v) Depreciation***

Depreciation of property, plant and equipment is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Depreciation is recognised in profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

- Buildings and other production structures 5-20 years;
- Earth-moving machinery and vehicles 3-7 years;
- Production equipment 5-10 years;
- Fixtures and fittings 3-5 years.

Depreciation methods, useful lives and residual values are reassessed at the period end date.

**(f) Mining assets**

This category of intangible assets comprises the following categories of capitalised costs, related to mines put into production use:

- Capitalised mine development expenditure (note 3(e)(iii));
- Capitalised development stripping costs (note 3(f)(i));
- Capitalised site restoration obligations (note 24(a));
- Cost of production mining licenses (note 16(c)).

***(i) Stripping costs***

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity 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.

If any of the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs as they are incurred or included in the cost of inventory produced.

In identifying components of the ore body, the Company works closely with the mining operations personnel to analyse the mine plan. Generally, a component will be a subset of the total ore body, and a mine may have several components.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

A relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Company uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of intangible assets in the statement of financial position.

The stripping activity asset is subsequently amortized using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

***(ii) Amortization***

Amortization is determined to give a fair and systematic charge in profit or loss taking into account the nature of a particular ore body and the method of mining that ore body.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

**(g) 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.

**(h) Impairment**

***(i) Non-derivative financial assets***

*Financial instruments and contract assets*

The Group recognises loss allowances for ECLs on:

– financial assets measured at amortised cost;

– debt investments measured at FVOCI; and

– contract assets.

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 90 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.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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.

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

*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. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, 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-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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. 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. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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

**(i) Employee benefits**

The Group companies make contributions to defined contribution pension plans, including State pension funds, recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(j) 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.

***(i) Site restoration***

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site reclamation and the related expense, is recognised when the mine development activities start. These costs include obligations relating to reclamation, waste site rehabilitation, plant closure, plant removal and other costs associated with the restoration of the site.

**(k) Revenue**

Revenue from metal sales is recognised at a point of time when control over the asset is transferred to a customer and represents the invoiced value of all metal products shipped to customers, net of value added tax.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component of the contracts where the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Certain contracts are provisionally priced so that price is not settled until a predetermined future date based on the market price at that time. Revenue from these transactions is initially recognised at the forward price. Mark-to-market adjustment on provisionally priced contracts is recorded in other income and expenses.

Revenue from contracts with customers on sale of goods, other than metals, is recognised at a point of time when control over the asset is transferred to the customer in accordance with the shipping terms specified in the sales agreements.

***(i) Social expenditure***

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

**(l) Finance income and costs**

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets, including trade receivables.

Interest paid is classified as operating activities in the Statement of Cash flows as it enters into the determination of profit or loss. Foreign currency gains and losses are reported on a net basis.

**(m) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Total royalty expense is an allowable deductible expense for the taxable income calculation purposes.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (n) Royalty expense

Royalties are the expected payments to the state budget of Armenia calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties consist of two components: royalty calculated at 4% of revenue and royalty calculated as 12.5% of taxable income less expenses as per the guidelines and requirements in the applicable laws and regulations. Following provisions of the revised law effective from 1 January 2012 the Group presents the royalty component calculated on net measure as income tax expense.

Before the enactment of the revised law the royalty expense was recognized in other expenses as non-income tax expense.

### (o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO of the Group to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CEO of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

# 4. Changes in significant accounting policies

The Group has initially applied IFRS 16 from 1 January 2019.

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

## A. IFRS 16

The Group initially applied IFRS 16 Leases from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

### (a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

### (b) As a lessee

As a lessee, the Group leases assets including property and transport vehicles. The Group previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for part of these leases – i.e. these leases are on-balance sheet. All lease contracts are considered automatically renewable by civil code of Republic of Armenia.

### *(i) Leases classified as operating leases under IAS 17*

Previously, the Group classified property and transport vehicles leases as operating leases under IAS 17.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (vehicles);

### (c) Impact on consolidated financial statements

On transition to IFRS 16, there was no impact on the consolidated financial statements as the Group used practical expedients described in above for all leases and did not recognize any right-of-use assets and additional liabilities.
A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

## B. Classification of Mining assets as Intangible assets

In 2019, following 5-year Eurobonds issue and subsequent increased attention to the financial information, disclosed in the financial statements, Group changed its accounting policy in respect of classification of Mining assets as intangible assets. Such practice of reflecting of Mining assets is also common in the mining industry.

The change in accounting policy was applied retrospectively to the prior period and the related balances of property, plant and equipment, mining assets, depreciation and amortization were restated.

The following tables summarise the impacts on the Group's consolidated financial statements.

***Consolidated statement of financial position***

| 31 December 2018 | **Impact of changes in accounting policies** | | |
|---|---|---|---|
| ’000 USD | **As previously reported** | **Adjustments** | **As restated** |
| Property, plant and equipment | 447,455 | (250,674) | 196,781 |
| Mining assets | - | 250,674 | 250,674 |
| **Restated balances** | **447,455** | **-** | **447,455** |

***Consolidated statement of profit or loss and other comprehensive income***

| For 2018 | **Impact of changes in accounting policies** | | |
|---|---|---|---|
| ’000 USD | **As previously reported** | **Adjustments** | **As restated** |
| Depreciation | (42,900) | 22,413 | (20,487) |
| Amortization | - | (22,413) | (22,413) |
| **Profit** | 5,009 | - | 5,009 |
| **Total comprehensive loss** | **(14,315)** | **-** | **(14,315)** |

# 5. New standards and interpretations not yet adopted

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

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

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

# 6. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

## (a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination or first time adoption of IFRSs is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

## (b) Investments in equity and debt securities

The fair value of investment in equity and debt securities is determined by reference to their quoted bid price at the reporting date. The fair value of investments held to collect the contractual cash flows is determined for disclosure purposes only.

## (c) Trade and other receivables

The fair value of trade and other receivables accounted at amortised cost is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

## (d) Derivatives

The Group holds put and call gold options derivative financial instruments as hedging instrument. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

**(e) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

# 7. Operating segments

The Group has four reportable segments, as described below, which are the Group’s strategic business units. The strategic business units produce different products, and are managed separately because they require different technology strategies. For each of the strategic business units, the CEO of the Group quarterly reviews internal management reports prepared on IFRS basis. The segment capital expenditures are based on management accounts. Apart from using segment profit before income tax, the CEO of the Group evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, other non-cash and exceptional items (EBITDA). Since this term is not a standard IFRS measure the Group’s definition of EBITDA may differ from that of other companies.

The following summary describes the operations in each of the Group’s reportable segments:

- *Agarak (Armenia)*. Includes mining and processing of copper-molybdenum ore. The final products are copper and molybdenum concentrate.
- *GPM Gold (Armenia)*. Includes mining and processing of gold bearing ore to produce gold bullions.
- *Sakha (Russia)*. Includes operations of Sarilakh-Surma JSC and Zvezda JSC related to the mining and processing of antimony-gold bearing ore. There is a high level of integration in the activities of these subsidiaries which determine their merge into the single operating segment.
- *Verkhne Menkeche (Russia)*. Includes investing activity for exploration and development of the polymetallic mine. Now Verkhne Menkeche earns revenue from the sale of ore mined during mine development without processing. The Group plans to commence the full cycle operations on site in 2021 after end of construction of processing plant. Verkhne Menkeche is analysed as a separate segment since 2018.

Information regarding the results of each reportable segment is included below.

### *(i) Information about reportable segments*

| | Agarak (Armenia) | | GPM Gold (Armenia) | | Sakha (Russia) | | Verkhne Menkeche (Russia) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **For the year ended 31 December** | | | | | | | | | |
| **’000 USD** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| External revenue | 40,614 | 44,137 | 215,836 | 161,950 | 55,601 | 48,968 | 20,281 | 27,998 | 332,332 | 283,053 |
| Inter-segment revenue | - | - | - | - | 273 | - | 385 | 344 | 658 | 344 |
| Total segment revenue | 40,614 | 44,137 | 215,836 | 161,950 | 55,874 | 48,968 | 20,666 | 28,342 | 332,990 | 283,397 |
| EBITDA | 9,927 | 14,359 | 115,646 | 71,530 | 24,993 | 28,679 | 12,629 | 19,677 | 163,195 | 134,245 |
| Segment (loss) / profit before income tax | (372) | 2,966 | 69,557 | 24,714 | 19,253 | 27,108 | 13,116 | 15,485 | 101,554 | 70,273 |
| Segment income tax benefit / (expense) | 763 | (820) | (24,979) | (9,751) | (4,174) | (5,621) | (2,153) | (4,164) | (30,543) | (20,356) |
| Segment capital expenditures for property, plant and equipment | (9,471) | (3,180) | (21,085) | (6,230) | (11,852) | (8,640) | (11,149) | (1,308) | (53,557) | (19,358) |
| Segment expenditures for acquisition of mining assets | (6,201) | (7,031) | (9,523) | (7,952) | (5,652) | (4,833) | (1,075) | (2,739) | (22,451) | (22,555) |
| | **As at 31 December** | | | | | | | | | |
| Total external assets | 101,676 | 88,039 | 341,195 | 339,162 | 118,729 | 74,438 | 53,642 | 32,667 | 615,242 | 534,306 |
| Corporate loans and receivables | - | - | - | 117 | - | 21,628 | - | - | - | 21,745 |
| Inter-segment assets | 15 | 26 | 1,324 | 804 | 124 | 1,713 | 537 | 361 | 2,000 | 2,904 |
| Total segment assets | 101,691 | 88,065 | 342,519 | 340,083 | 118,853 | 97,779 | 54,179 | 33,028 | 617,242 | 558,955 |
| Total external liabilities | 23,391 | 39,820 | 76,775 | 119,156 | 4,038 | 15,508 | 13,054 | 12,213 | 117,258 | 186,697 |
| Corporate loans and payables | 56,348 | 27,433 | 190,324 | 205,977 | 5,239 | - | 7,285 | - | 259,196 | 233,410 |
| Inter-segment liabilities | 1,324 | 804 | 15 | 26 | 537 | 361 | 124 | 1,713 | 2,000 | 2,904 |
| Total segment liabilities | 81,063 | 68,057 | 267,114 | 325,159 | 9,814 | 15,869 | 20,463 | 13,926 | 378,454 | 423,011 |

### *(ii) Reconciliations of reportable segment revenues, profit or loss before tax, assets and liabilities*

| **'000 USD** | **2019** | **2018** |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 332,332 | 283,053 |
| Consolidated revenue | 332,332 | 283,053 |
| **Profit or loss** | | |
| Profit before tax for reportable segments | 101,554 | 70,273 |
| External finance costs of the entities that are not reportable segments | (21,737) | (15,002) |
| Other expenses of the entities that are not reportable segments | (13,091) | (48,418) |
| Intercompany other income of the entities that are not reportable segments | 4,780 | 5,026 |
| Intercompany finance income of the entities that are not reportable segments | 9,509 | 11,444 |
| Net gain/(loss) from commodity derivatives | 270 | 3,296 |
| Consolidated profit before income tax | 81,285 | 26,619 |
| **EBITDA** | | |
| EBITDA for reportable segments | 163,195 | 134,245 |
| Other expenses of the entities that are not reportable segments | (12,805) | (19,841) |
| Other (depreciation and exceptional items) | (93) | 72 |
| Intercompany other income of the entities that are not reportable segments | 4,780 | 5,026 |
| Consolidated EBITDA (see Note 26(h)) | 155,077 | 119,502 |
| **Assets** | | |
| Total assets for reportable segments | 617,242 | 558,955 |
| Assets for other entities that are not reportable segments | 26,685 | 1,911 |
| Elimination of Corporate loans and receivables | - | (21,745) |
| Elimination of inter-segment assets | (2,000) | (2,904) |
| Consolidated total assets | 641,927 | 536,217 |

| ’000 USD | 2019 | 2018 |
|---|---|---|
| **Liabilities** | | |
| Total liabilities for reportable segments | 378,454 | 423,011 |
| Liabilities for other entities that are not reportable segments | 299,557 | 193,807 |
| Elimination of Corporate loans and payables | (259,196) | (233,410) |
| Elimination of inter-segment liabilities | (2,000) | (2,904) |
| Consolidated total liabilities | 416,815 | 380,504 |

### *(iii) Geographical information*

In presenting information on the basis of geographical information, revenue is based on the geographical location of the buyers, which may differ from the geographic location of the end customers. Segment non-current assets are based on the geographical location of the property, plant and equipment.

| | Reportable segments | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **’000 USD** | **Agarak (Armenia)** | | **GPM Gold (Armenia)** | | **Sakha (Russia)** | | **Verkhne-Menkeche (Russia)** | | **Total** | |
| **For the year ended 31 December** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| **Primary geographical markets** | | | | | | | | | | |
| UK | - | - | 215,836 | 161,950 | - | - | - | - | 215,836 | 161,950 |
| Switzerland | 40,573 | 44,067 | - | - | - | - | - | - | 40,573 | 44,067 |
| China | - | - | - | - | 39,325 | 40,349 | - | - | 39,325 | 40,349 |
| Oman | - | - | - | - | 2,032 | - | - | - | 2,032 | - |
| CIS | 41 | 70 | - | - | 14,244 | 8,619 | 20,281 | 27,998 | 34,566 | 36,687 |
| **Total revenue** | **40,614** | **44,137** | **215,836** | **161,950** | **55,601** | **48,968** | **20,281** | **27,998** | **332,332** | **283,053** |
| **Major products / services lines** | | | | | | | | | | |
| Gold | - | - | 215,525 | 161,674 | 23,359 | 14,974 | - | - | 238,884 | 176,648 |
| Copper | 33,881 | 37,595 | - | - | - | - | - | - | 33,881 | 37,595 |
| Antimony | - | - | - | - | 31,187 | 33,549 | - | - | 31,187 | 33,549 |
| Molybdenum | 6,692 | 6,472 | - | - | - | - | - | - | 6,692 | 6,472 |
| Polymetallic ores | - | - | - | - | - | - | 20,130 | 27,904 | 20,130 | 27,904 |
| Silver | - | - | 311 | 276 | - | - | - | - | 311 | 276 |
| Other services | 41 | 70 | - | - | 1,055 | 445 | 151 | 94 | 1,247 | 609 |
| **Total revenue** | **40,614** | **44,137** | **215,836** | **161,950** | **55,601** | **48,968** | **20,281** | **27,998** | **332,332** | **283,053** |

| | Non-current assets | |
|---|---|---|
| **'000 USD** | **2019** | **2018** |
| Armenia | 388,363 | 379,438 |
| Russia | 109,521 | 68,017 |
| | 497,884 | 447,455 |

Non-current assets include property, plant and equipment and mining assets only.

### *(iv) Major customer*

For 2019 approximately 77% or USD 256,409 thousand (2018: 73% or USD 206,017 thousand) of the Group's revenue is attributable to two third party customers amounting to USD 215,836 thousand and USD 40,573 thousand (2018: USD 161,950 thousand and USD 44,067 thousand) of revenues respectively.

## 8. Revenue

### (a) Revenue streams

| **'000 USD** | **2019** | **2018** |
|---|---|---|
| Revenue from contracts with customers | 332,332 | 283,053 |
| | 332,332 | 283,053 |

### (b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by major product lines and timing of revenue recognition.

| **'000 USD** | **2019** | **2018** |
|---|---|---|
| **Major products/service lines** | | |
| Sales of produced gold dore bars | 215,525 | 161,674 |
| Sale of copper concentrate | 33,881 | 37,595 |
| Sale of antimony concentrate | 41,357 | 40,349 |
| Sale of free gold | 13,189 | 8,174 |
| Sale of polymetallic ores | 20,130 | 27,904 |
| Sale of molybdenum concentrate | 6,692 | 6,472 |
| Sales of silver | 311 | 276 |
| Services provided | 1,247 | 609 |
| | **332,332** | **283,053** |
| **Timing of revenue recognition** | | |
| Products transferred at a point in time | 331,085 | 282,444 |
| Services transferred over time | 1,247 | 609 |

| **'000 USD** | **2019** | **2018** |
|---|---|---|
| **Revenue from contracts with customers** | **332,332** | **283,053** |

During 2019 and 2018 the Group's sale prices for gold and silver were directly linked to the London Bullion Market Association spot prices.

Some of the Group's sales contracts provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to three months after the risks and rewards of ownership have been transferred to the buyer.

Trade receivables referring to provisionally priced sales contracts are accounted for at fair value through profit or loss.

The fair value of these trade receivables relating to copper and molybdenum concentrate has been calculated using forward prices as at the balance sheet date quoted in the metal markets. As at 31 December 2019, the fair value of the trade receivables referring to provisionally priced sales contracts amounted to USD 797 thousand (asset) (31 December 2018: USD 2,158 thousand (asset)).

### (c) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

| **'000 USD** | **Note** | **31 December 2019** | **31 December 2018** |
|---|---|---|---|
| Receivables, which are included in "Trade and other receivables" | 20 | 10,533 | 5,873 |
| Contract liabilities | 25 | (3,440) | (12,487) |

The contract liabilities as at 31 December 2019 and as at 31 December 2018 related to an advance received from customer for supply of products. The amount of USD 12,487 thousand, included in the opening balance, has been recognized as revenue in 2019 (2018: USD 10,000 thousand).

No information is provided about remaining performance obligations at 31 December 2019 that have an original expected duration of one year or less, as allowed by IFRS 15.

## 9. Cost of sales

| **'000 USD** | **2019** | **2018** |
|---|---|---|
| Materials | (55,128) | (48,639) |
| Services | (40,208) | (38,733) |
| Salary | (29,607) | (22,983) |
| Social insurance contributions | (2,528) | (1,989) |
| Depreciation | (22,583) | (19,707) |
| Amortization | (23,323) | (22,413) |
| Environmental and other taxes | (2,101) | (1,338) |
| Other | (48) | (79) |
| | (175,526) | (155,881) |

The number of personnel of the Company and subsidiaries was 3,009 in 2019 (2018: 2,786).

## 10. Distribution expenses

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| Services | (1,633) | (1,741) |
| Salary | (1,048) | (695) |
| Social insurance contributions | (103) | (85) |
| Depreciation | (301) | (332) |
| Other | (164) | (978) |
| | (3,249) | (3,831) |

## 11. Administrative expenses

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| Salary | (13,924) | (11,528) |
| Social insurance contributions | (923) | (906) |
| Services | (13,870) | (20,982) |
| Depreciation | (515) | (448) |
| Property and other taxes | (1,210) | (1,070) |
| Other | (1,773) | (1,090) |
| | (32,215) | (36,024) |

The lease expenses for short-term leases for 2019 amount to USD 1,303 thousand (2018: USD 1,290 thousand) and mainly refer to short-term lease of office premises and included in services in administrative expenses.

The fees to auditors included in the services are as follows:

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| Audit fees of the Parent Company | (66) | (45) |
| Audit fees of subsidiaries and interim review fees | (339) | (357) |
| | (405) | (402) |

## 12. Other expenses

| ’000 USD | 2019 | 2018 |
|---|---|---|
| Loss on disposal of property, plant and equipment and other assets | (193) | (318) |
| Royalty | (12,334) | (10,127) |
| Additional royalty and other than on income tax payments imposed by the tax authorities (Note 14) of previous periods | - | (959) |
| Fines and penalties | (804) | (67) |
| Taxes | (217) | (120) |
| Bank services | (167) | (220) |
| Charity and welfare | (696) | (520) |
| Provision for obsolete inventory | - | (194) |
| Other | (271) | (334) |
| | (14,682) | (12,859) |

## 13. Finance income and costs

| ’000 USD | 2019 | 2018 |
|---|---|---|
| **Finance income** | | |
| Interest income | 315 | 96 |
| Net foreign exchange gain | 475 | - |
| Finance income | 790 | 96 |

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| **Finance costs** | | |
| Interest expense | (25,317) | (20,827) |
| Unwinding of discount on site restoration provision | (1,118) | (1,050) |
| Net foreign exchange loss | - | (790) |
| Impairment loss on receivables and prepayments | - | (13) |
| Finance costs | (26,435) | (22,680) |
| Net finance costs | (25,645) | (22,584) |

## 14. Income tax expense

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| ***Current tax expense*** | | |
| Current year | (20,328) | (15,079) |
| Current year withholding tax on intragroup interest | (656) | (1,004) |
| Current year royalty tax | (14,477) | (8,835) |
| Royalty tax expense under provided in prior years | - | (1,305) |
| Benefit from reversal of withholding tax accrual tax on intragroup loans* | 6,145 | - |
| | (29,316) | (26,223) |
| ***Deferred tax expense*** | | |
| Origination and reversal of temporary differences | 3,170 | 4,398 |
| Tax loss carry-forwards | (75) | 215 |
| | 3,095 | 4,613 |
| | (26,221) | (21,610) |

* During the previous years until 31 December 2018 the Group accrued withholding tax on the interest expense on intragroup loans at a regular tax rate of 10%. According to Armenian Tax Code withholding tax is subject to reporting upon payment of the interest paid to non-residents and should be taxed by 10% withholding tax rate. However, double taxation treaty between Armenia and the Netherlands provides an opportunity to tax interest expense by 5% rate, if the relevant requirements are met.

In 2019 upon the first payment of interest to related party the Group received relevant documentation which satisfied double taxation treaty requirements. Accordingly the Group reversed previously accrued withholding tax at 10% rate amounting USD 6,145 thousand (as at 31 December 2019 withholding tax accrued at 5%).

The Group companies pay income tax in accordance with the legislative requirements of their tax jurisdictions. The income tax rates of significant subsidiaries are as follows:

| Holding company | Jurisdiction | 2019 | 2018 |
|---|---|---|---|
| The Company | Cyprus | 12.5% | 12.5% |

| Significant subsidiary | Jurisdiction | 2019 | 2018 |
|---|---|---|---|
| GPM Gold LLC | Armenia | 20% | 20% |
| Agarak CJSC | Armenia | 20% | 20% |
| Zvezda JSC | Russia | 20% | 20% |
| Sarilakh-Surma JSC | Russia | 20% | 20% |
| GPM Verkhne Menkeche LLC | Russia | 20% | 20% |
| Karlou B.V. | Netherlands | 20% | 20% |

The effective applicable tax rate, comprising income and royalty tax of GPM Gold LLC and Agarak CJSC enacted as at 31 December 2019 is 28.25% (31 December 2018: 30%). In accordance with the tax decree from 25 June 2019, the new tax code will become effective from 1 January 2020 which reduces the amount of corporate income tax rate from 20% to 18%. Considering that the change in the legislation was enacted during the reporting period, the deferred tax balances as at 31 December 2019 were calculated using the applicable tax rate expected at the time of reversal. As a result of change, the companies effective tax rate decreases to 28.25%.

## Reconciliation of effective tax rate:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | ’000 USD | % | ’000 USD | % |
| Profit (loss) before income tax | 81,285 | 100.0 | 26,619 | 100.0 |
| Income tax at applicable tax rate | (10,161) | (12.5) | (3,327) | (12.5) |
| Effect of income tax rates in foreign jurisdictions and royalty tax | (15,633) | (19.2) | (13,648) | (51.3) |
| Tax rate reduction effect | 3,159 | 3.9 | - | - |
| Withholding tax effect | 5,489 | 6.8 | (1,004) | (3.8) |
| Non-deductible expenses, net | (1,929) | (2.4) | (1,796) | (6.7) |
| Non-deductible expenses applicable to royalty tax | (2,898) | (3.6) | (2,615) | (9.8) |
| Income tax underprovided in prior years | (1,853) | (2.3) | - | - |
| Royalty tax underprovided in prior years | - | - | (1,305) | (4.9) |
| Current year losses for which no deferred tax asset was recognised | (2,919) | (3.6) | (615) | (2.3) |
| Change in unrecognized deferred tax asset | 524 | 0.6 | 2,700 | 10.1 |
| | (26,221) | (32.3) | (21,610) | (81.2) |

# 15. Property, plant and equipment

| **’000 USD** | **Land, buildings and infrastructure** | **Production equipment** | **Vehicles and other** | **Construction in progress** | **Advances** | **Total** |
|---|---|---|---|---|---|---|
| ***Cost / Deemed cost*** | | | | | | |
| Balance at 1 January 2018 | 46,748 | 235,369 | 5,873 | 74,244 | 5,088 | 367,322 |
| Additions | 1,389 | 19,039 | 609 | 21,085 | 5,633 | 47,755 |
| Disposals | (68) | (13,754) | (63) | - | - | (13,885) |
| Transfers | 400 | 8,711 | 414 | (4,392) | (3,924) | 1,209 |
| Translation reserve | (1,695) | (1,714) | (500) | (6,118) | (359) | (10,386) |
| Balance at 31 December 2018 | 46,774 | 247,651 | 6,333 | 84,819 | 6,438 | 392,015 |
| Additions | 1,461 | 21,078 | 585 | 38,951 | 6,374 | 68,449 |
| Disposals | (89) | (10,532) | (292) | (239) | - | (11,152) |
| Transfers | (3,194) | 10,422 | 648 | (11,186) | (618) | (3,928) |
| Translation reserve | 1,385 | 3,449 | 374 | 5,430 | 534 | 11,172 |
| Balance at 31 December 2019 | 46,337 | 272,068 | 7,648 | 117,775 | 12,728 | 456,556 |
| ***Depreciation and impairment losses*** | | | | | | |
| Balance at 1 January 2018 | (16,602) | (120,941) | (3,826) | (21,860) | - | (163,229) |
| Depreciation charge | (2,113) | (22,910) | (569) | - | - | (25,592) |
| Disposals | 68 | 13,645 | 63 | - | - | 13,776 |
| Reclassification to assets held for sale | - | - | - | (22,279) | - | (22,279) |
| Translation reserve | 377 | 1,505 | 192 | 16 | - | 2,090 |
| Balance at 31 December 2018 | (18,270) | (128,701) | (4,140) | (44,123) | - | (195,234) |
| Depreciation charge | (1,636) | (25,469) | (654) | - | - | (27,759) |
| Disposals | 79 | 9,186 | 230 | - | - | 9,495 |
| Translation reserve | (449) | (2,163) | (200) | 14 | - | (2,798) |
| Balance at 31 December 2019 | (20,276) | (147,147) | (4,764) | (44,109) | - | (216,296) |
| ***Net book value*** | | | | | | |
| At 1 January 2018 | 30,146 | 114,428 | 2,047 | 52,384 | 5,088 | 204,093 |
| At 31 December 2018 | 28,504 | 118,950 | 2,193 | 40,696 | 6,438 | 196,781 |
| At 31 December 2019 | 26,061 | 124,921 | 2,884 | 73,666 | 12,728 | 240,260 |

**(a) Depreciation**

For 2019 and 2018 depreciation was allocated to statement of profit or loss and other comprehensive income as follows:

| | **2019** | **2018** |
|---|---|---|
| | **’000 USD** | **’000 USD** |
| Cost of sales | 22,583 | 19,707 |
| Distribution expenses | 301 | 332 |
| Administrative expenses | 515 | 448 |
| | 23,399 | 20,487 |

During 2019 the Group capitalised depreciation amounting to USD 170 thousand (2018: USD 1,514 thousand) to inventory and USD 4,189 thousand (2018: USD 3,591 thousand) to mining assets.

Capitalised borrowing costs relating to the development of mining assets amounted to USD 2,864 thousand (2018: USD 418 thousand) with a capitalisation rate of 7.5% (2018: 4.5%).

**(b) Licenses**

Construction in progress includes exploitation and exploration licenses and rights for which mineral resources were not ready for production as at 31 December 2019 in respect of the following mines:

- Hankavan mine is fully impaired (2018: nil);
- KIM mine of USD 3,223 thousand (2018: USD 2,153 thousand);
- Lusadjur mine is fully impaired (2018: nil);
- Verkhne Menkeche of USD 35,884 thousand (2018: USD 18,904 thousand);
- On 21 October 2019 VerkhneMenkeche obtained the license for exploration and evaluation of the Khapchagai silver and tin mine, located in Oymyakon ulus of the Yakutia in Russia. The license is expired on 31 October 2026. The cost of the license as of 31 December 2019 is nil.

**(c) Impairment of fixed assets of Agarak CJSC**

During 2015, due to significant decline in metal prices the Company determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment and intangible assets was determined to be higher than their recoverable amounts and an impairment loss of USD 54,122 thousand was recognised.

During 2017, due to change of market prices of metals and plans of reconstruction, which will increase production volume, the Company determined that there is an indication of reversal of previously recognized impairment losses and assessed the recoverable amount of its property, plant and equipment and intangible assets.

The recoverable amount was based on its value in use, determined by discounting future cash flows.

The key assumptions used in the estimation of value in use are as follows:

- Cash flows were projected based on past experience, actual operating results and the Company’s five year business plan. The forecast period covers years until 2053, when the estimated ore reserves are assessed to be fully extracted,
- Total volume of processed ore was projected at 3.7 million tons per annum starting from 2020 which represents the production capacity with existing property, plant and equipment,

- Copper price is forecasted to reach USD 3.24 per pound in 2023-2027 and Molybdenum price is forecasted to increase to USD 8.23 per pound based on expectations in the global metal markets. Then the long-term US inflation rate of 2% was applied,
- Unit production costs, treatment and refining charges, capital expenditure and administrative expenses are expected to increase by the long-term US inflation rate of 2%,
- A pre-tax discount rate of 14.5% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 72% at a market interest rate of 10.5%.

As a result of the impairment test, the recoverable amount of property, plant and equipment of Agarak as at 31 December 2017 was estimated at USD 72,300 thousand and exceeded its carrying amount of USD 61,615 thousand. As a result, reversal of the initially recognised impairment in the amount of USD 10,685 thousand was recorded in the consolidated financial statements for the year ended 31 December 2017.

During 2019, due to incurred losses the Company determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment and intangible assets.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment and intangible assets was determined to be lower than their recoverable amounts and no impairment loss was recognised.

The key assumptions used in the estimation of value in use are as follows:

- Cash flows were projected based on past experience, actual operating results and the Company’s business plan. The forecast period covers years until 2047, when the estimated ore reserves are assessed to be fully extracted.
- Starting from 2021 Total volume of processed ore was projected at 4.33 million tons per annum which represents the production capacity with existing property, plant and equipment.
- Copper price is forecasted to reach USD 3,04 per pound in 2023 and Molybdenum price is forecasted to increase to USD 10.24 per pound based on expectations in the global metal markets. Then the long-term US inflation rate of 2% was applied.
- Metal recoveries are expected to remain stable during the entire period of projection.
- Unit production costs, treatment and refining charges, capital expenditure and administrative expenses are expected to increase by the long-term US inflation rate of 2%.
- A pre-tax discount rate of 13.7% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 27.6% at a pre-tax market interest rate of 8.1%.

The above estimates are particularly sensitive in the following areas:

- An increase of 2.5% points in the discount rate used would have caused an impairment of USD 505 thousand;
- A 5% decrease in forecasted metal prices would have caused an impairment of USD 9.223 thousand;
- A 5% decrease in forecasted metal recoveries would have caused an impairment of USD 5.606 thousand.

**(d) Impairment of licence of the Hankavan molybdenum mine**

As at 31 December 2017 the Group recognized impairment in respect of full carrying amount of exploration and evaluation assets and other related assets of the Hankavan molybdenum mine in the total amount of USD 16,903 thousand (including current assets in the amount of USD 391 thousand). The impairment has been recognized due to the fact that the mining plan have not been approved and subsequently the exploration license and underlying exploration contract of Hankavan molybdenum mine have not been prolonged after 30 December 2016 by the Government in Armenia.

**(e) Property, plant and equipment pledged under loan agreements**

Properties with a carrying amount of USD 35,275 thousand were subject to a registered debenture to secure bank loans as at 31 December 2018. In 2019, all bank loans have been repaid and no pledged properties are on the balance of the Group at reporting date (see note 23).

# 16. Mining assets

| **’000 USD** | **Total** |
|---|---|
| ***Cost*** | |
| Balance at 1 January 2018 | 414,197 |
| Additions | 21,201 |
| Transfers | 15 |
| Translation reserve | (6,151) |
| **Balance at 31 December 2018** | **429,262** |
| | |
| Balance at 1 January 2019 | 429,262 |
| Additions | 19,218 |
| Result of change in estimate in reclamation costs (Note 24) | (174) |
| Transfers | 6,941 |
| Translation reserve | 6,413 |
| **Balance at 31 December 2019** | **461,660** |
| | |
| ***Amortisation*** | |
| Balance at 1 January 2018 | (158,937) |
| Amortisation | (22,413) |
| Translation reserve | 2,762 |
| **Balance at 31 December 2018** | (178,588) |
| | |
| Balance at 1 January 2019 | (178,588) |
| Amortisation | (23,323) |
| Translation reserve | (2,125) |
| **Balance at 31 December 2019** | **(204,036)** |
| | |
| ***Carrying amounts*** | |
| At 1 January 2018 | 255,260 |
| At 31 December 2018 | 250,674 |
| **At 31 December 2019** | **257,624** |

## (a) Change in estimate of reclamation costs

Write-off of Mining assets of USD 174 thousand (2018: additions to Mining assets of USD 4,258 thousand) represent a change in estimate of reclamation costs (see note 24).

## (b) Stripping activity asset

Included in additions to mining assets is stripping activity asset amounting to USD 19,119 thousand (2018: USD 18,620 thousand).

As at 1 January 2012, in applying the requirements of IFRIC 20, the Group has determined ore bodies for its mines, one for each of the Armenian mines. The ratio of waste per ton of ore extracted is 25.5 (t/t) for GPM Gold’s mine, and 1.5 (t/t) for Agarak’s mine. For the purpose of ratio calculation in GPM Gold only sulphide ore reserves are used, as it is the only ore type for which stripping is required. The total waste required for the estimated ore reserves was assessed at 381 million ton in

GPM Gold based and at 228.8 million ton in Agarak based upon the mining plans developed by the technical consultants.

### (c) Licenses

Mining assets include exploitation and exploration licenses and rights as at 31 December 2019 in respect of the following mines:

- Zod mine at GPM Gold of USD 169,641 thousand (2018: USD 175,091 thousand);
- Agarak mine of USD 24,738 thousand (2018: USD 25,696 thousand);
- Sentachanskoe and Sarylakhskoye mines at Sakha operating segment of USD 1,946 thousand (2018: USD 1,884 thousand).

### (d) Impairment of mining assets of GPM Gold LLC

At 31 December 2018 and 31 December 2019 the Group determined that there is no indication of impairment of GPM Gold mining property.

## 17. Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| **’000 USD** | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Property, plant and equipment | 731 | 562 | (51,297) | (52,151) | (50,566) | (51,589) |
| Inventories | 2,857 | 1,537 | (399) | (519) | 2,458 | 1,018 |
| Trade and other receivables | 592 | 186 | (296) | (90) | 296 | 96 |
| Provisions | 4,309 | 4,255 | - | - | 4,309 | 4,255 |
| Trade and other payables | 1,846 | 1,554 | (144) | (94) | 1,702 | 1,460 |
| Tax loss carry-forwards | 3,530 | 3,474 | | - | 3,530 | 3,474 |
| Tax assets/(liabilities) | 13,865 | 11,568 | (52,136) | (52,854) | (38,271) | (41,286) |
| Set off of tax | (13,592) | (10,129) | 13,592 | 10,129 | - | - |
| Net tax assets/(liabilities) | 273 | 1,439 | (38,544) | (42,725) | (38,271) | (41,286) |

The tax loss carry-forwards relates to Agarak mine and the GPM Verkhne Menkeche LLC project. The project has started generating a taxable profit during 2017.

### (b) Movement of unrecognised tax losses during the year

| | **2019** | **2018** |
|---|---|---|
| | **’000 USD** | **’000 USD** |
| 1 January | 62,151 | 61,938 |
| Created | 2,392 | 2,906 |
| Recognized | (515) | (1,658) |
| Tax rate reduction effect in Agarak | (106) | - |
| Utilised | - | (1,035) |
| 31 December | 63,922 | 62,151 |

The unrecognised tax loss expires in years 2020 – 2027.

In 2019 and 2018 tax losses have not been recognised as the deferred tax assets by Karlou B.V and Agarak. Deferred tax assets have been recognized in respect of tax loss carry-forwards to the extent that it is probable that future taxable profit will be available against which the subsidiaries can utilize the benefits therefrom.

### (c) Movement in temporary differences during the year

| ’000 USD | 1 January 2019 | Recognised in profit or loss | Recognized directly in equity | Foreign currency translation | 31 December 2019 |
|---|---|---|---|---|---|
| Property, plant and equipment | (51,589) | 1,236 | - | (213) | (50,566) |
| Inventories | 1,018 | 1,105 | - | 335 | 2,458 |
| Trade and other receivables | 96 | 215 | - | (15) | 296 |
| Provisions | 4,255 | 220 | - | (166) | 4,309 |
| Trade and other payables | 1,460 | 394 | (91) | (61) | 1,702 |
| Tax loss carry-forwards | 3,474 | (75) | - | 131 | 3,530 |
| | (41,286) | 3,095 | (91) | 11 | (38,271) |

| ’000 USD | 1 January 2018 | Recognised in profit or loss | Foreign currency translation | 31 December 2018 |
|---|---|---|---|---|
| Property, plant and equipment | (54,260) | 2,383 | 288 | (51,589) |
| Inventories | 916 | 10 | 92 | 1,018 |
| Trade and other receivables | (134) | 224 | 6 | 96 |
| Provisions | 2,957 | 1,317 | (19) | 4,255 |
| Trade and other payables | 978 | 474 | 8 | 1,460 |
| Tax loss carry-forwards | 3,813 | 215 | (554) | 3,474 |
| | (45,730) | 4,623 | (179) | (41,286) |

## 18. Financial assets and liabilities at fair value through profit or loss

Following the requirements of the Facility agreement (see note 23(a)) during 2016 the Group purchased put options for 287,200 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,100 per ounce in 2017 (decreasing to USD 850 per ounce in 2021) and also sold call options for 475,750 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,500-1,700 per ounce. The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs including volatility, gold price quotations and risk-free rates.

# 19. Inventories

| '000 USD | 2019 | 2018 |
|---|---|---|
| Raw materials and consumables | 30,396 | 21,159 |
| Semi-finished products | 17,556 | 14,385 |
| Work in progress | 6,783 | 7,765 |
| Finished goods and goods for resale | 8,159 | 11,519 |
| Other inventories | 107 | 618 |
| | 63,001 | 55,446 |
| Write-down of inventories for the period | - | (194) |

Inventories with carrying amounts of USD 1,383 thousand were pledged as security for loans from banks as at 31 December 2018. During the year ended 31 December 2019, all bank loans have been repaid and no pledged inventories are in stock on the balance sheet date (see note 23).

# 20. Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| | '000 USD | '000 USD |
| ***Current*** | | |
| Trade receivables at amortized cost | 9,834 | 3,715 |
| Receivable relating to provisionally priced sales | 797 | 2,158 |
| VAT receivables | 12,294 | 8,046 |
| Other taxes receivables | 593 | 103 |
| Receivables from personnel | 27 | 57 |
| Other receivables | 263 | 387 |
| Provision for doubtful trade and other receivables | (339) | (303) |
| | 23,469 | 14,163 |

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26(e) and 26(g)(i).

# 21. Assets held for sale

During 2018 management committed to a plan to sell the controlling interest (51%) in AMGM SARL (Luxembourg) and its subsidiaries - Paramount Gold Mining and Lernayin Arstutyun. Accordingly these companies are presented as a disposal group held for sale. Effort to sell the disposable group has started and a sale is expected during 12 months from the reporting date.

As at 31 December 2018, the disposal group comprised assets and liabilities detailed as follows.

| '000 USD | |
|---|---|
| Property, plant and equipment | 22,279 |
| Investments and other assets | 6,822 |
| Trade payables and other liabilities | (547) |
| Translation reserve | (2) |
| **Net value of the disposal group** | 28,552 |

As at 31 December 2018 the Group possessed the asset held for sale with the fair value equals to USD 1 thousand ant tried to locate the customer for it. An impairment loss of USD 28,551 thousand writing down the carrying amount of the disposal group to its fair value less costs to sell has been included in the consolidated statement of profit or loss and other comprehensive income.

The key assumptions used by management in the estimation of the fair value of the assets were:

- the latest geological assessment which made the management conclude that the initially approved gold reserves are not confirmed.

- a constant operating loss has been registered by the project, with no sources of income and with the binding fixed fees to be regularly paid for the possibility of the further exploration.

As at 31 December 2019 due to the fact that the disposed group wasn't sold and the exploration license haven't been prolonged the Group recognized impairment in respect of the carrying amount of USD 1 thousand.

## 22. Equity

### (a) Share capital

In June 2011 the authorised share capital was increased to 50,000 shares of EUR 1 each and in August further increased to 1,500,000 shares of EUR 1 each. On 30 September 2011 the shares were re-denominated from EUR 1.00 to EUR 0.01 per each share. As at 31 December 2012 and 2013 the authorised share capital of the Company was EUR 1,500 thousand divided into 150,000,000 shares with a par value of EUR 0.01 each.

In 2014 the Company issued 17,239,063 ordinary shares and then cancelled 270,000 ordinary shares, increasing issued share capital to 66,969,064 shares.

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 shareholders.

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Ordinary shares** | **Share capital ’000 USD** | **Ordinary shares** | **Share capital ’000 USD** |
| On issue at 1 January – par value EUR 0.01 | 66,969,064 | 941 | 66,969,064 | 941 |
| On issue at 31 December – par value EUR 0.01 | 66,969,064 | 941 | 66,969,064 | 941 |

### (b) Share premium

As part of the GPM Group restructuring the Company issued 450,000 ordinary shares of nominal value EUR 1.00 each and one ordinary share of nominal value EUR 0.01 on 2 September 2011 and 11 November 2011, respectively, for a total premium of USD 197,234 thousand in exchange for the equity instruments of the subsidiaries of the Group. The values of the contributed equity instruments in the agreements were primarily defined with reference to the statutory financial statements. The excess in the value of the contributions over the par value of the issued shares represents the premium recognised in the share premium account.

On 28 August 2014 the Company issued and sold 7,239,063 ordinary shares of nominal value of EUR 0.01 for the total amount of USD 77,000 thousand. The transaction costs were incurred and amounted to USD 1,309 thousand.

### (c) Additional paid-in-capital

Additional paid-in capital relates to low-interest or zero interest loans from related parties recognised initially at fair value.

# 23. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26(g)(ii) and 26(g)(i).

During 6-months period ended on 30 June 2019, the Group prematurely repaid the bank facilities existing on 31 December 2018 and maturing in 2019-2023.

On 14 June 2019 the Group issued 5-year Eurobonds under Regulation S in the amount of USD 300,000 thousand in order to refinance bank loans portfolio and to fulfil the investing projects including the construction of the Verkhne Menkeche mine factory. According to the terms of the Prospectus, the Notes due in June 2024 are rated B+ by S&P and B+ by Fitch and guaranteed by GeoProMining Investment (CYP) Limited and all material subsidiaries of the Group. The Notes bear interest at the rate of 7.75% per annum, payable semi-annually in arear on 18 June and 18 December.

The Group discloses the amount of liabilities under Eurobonds less transaction costs incurred during the period. This deduction will unwind till 2024. The transaction costs incurred were partly paid during the period in the amount of USD 3,120 thousand and partly withheld upon Eurobonds issuance in the amount of USD 2,550 thousand.

A loan from other related party with carrying amount of USD 9,283 thousand as at 31 December 2018 has been assigned to the shareholder company Nakilep Overseas Limited in 2019 and its maturity was extended until 2022.

| **'000 USD** | **2019** | **2018** |
|---|---|---|
| ***Non-current liabilities*** | | |
| Euro Bonds | 294,817 | - |
| Secured bank loans | - | 161,227 |
| Loan from shareholder | 9,283 | - |
| Interest accrued | 2,197 | - |
| Total non-current loans | 306,297 | 161,227 |
| | | |
| ***Current liabilities*** | | |
| Current portion of secured bank loans | - | 76,563 |
| Secured bank loans | - | 872 |
| Loan from shareholder | - | 9,283 |
| Interest accrued | 871 | 5,710 |
| Total current loans | 871 | 92,428 |
| | 307,168 | 253,655 |

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| '000 USD | Currency | Nominal interest rate | Year of maturity | 2019 Face value | 2019 Carrying amount | 2018 Face value | 2018 Carrying amount |
|---|---|---|---|---|---|---|---|
| Secured bank loans | USD | 6 – 13% | 2017-2023 | - | - | 43,024 | 43,024 |
| Secured bank loan | RUB | 9.90% | 2019-2020 | - | - | 9,861 | 9,861 |
| Euro Bonds | USD | 7.75% | 2024 | 300,000 | 294,817 | - | - |
| Secured bank loan | USD | LIBOR + 5.75% | 2018-2021 | - | - | 183,704 | 181,767 |
| Secured bank loan | USD | LIBOR + 4.75% | 2021-2023 | - | - | 4,010 | 4,010 |
| Loan from shareholder | USD | 4.5% | 2022 | 9,283 | 9,283 | 9,283 | 9,283 |
| | | | | 309,283 | 304,100 | 249,882 | 247,945 |

Bank loans were secured as at 31 December 2018 by the following:

- 100% of the share capital of GPM Gold LLC, Agarak CJSC, Sarilakh-Surma JSC, Zvezda JSC, GPM Verkhne Menkeche LLC, Karlou B.V., GPM Russia B.V., GPM Armenia B.V. and GPM LLC;
- Production equipment with a carrying amount of USD 35,275 thousand used by continuing operations – see note 15(e);
- Inventory in the amount of USD 1,383 thousand – see note 19.

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

| '000 USD | Loans and borrowings |
|---|---|
| **Balance at 1 January 2019** | **253,655** |
| **Changes from financing cash flows** | |
| Proceeds from loans and borrowings | 312,262 |
| Repayment of borrowings | (256,079) |
| **Total changes from financing cash flows** | **56,183** |
| The effect of changes in foreign exchange rates | 614 |
| **Liability-related** | |
| Effect on discontinuing interest on the loan from shareholder | (363) |
| Capitalised borrowing costs | 2,864 |
| Interest expense | 25,317 |
| Interest paid | (27,982) |
| Transaction costs related to the bonds issue | (3,120) |
| **Total liability-related other changes** | **(3,284)** |
| **Balance at 31 December 2019** | **307,168** |

# 24. Provisions

| | Site restoration | |
|---|---|---|
| **’000 USD** | **2019** | **2018** |
| Balance at 1 January | 16,295 | 11,335 |
| Change in estimated costs | (298) | 4,258 |
| Translation reserve | 197 | (104) |
| Prepayment during the year | (123) | (244) |
| Statutory site restoration fund | (397) | - |
| Unwinding of discount | 1,118 | 1,050 |
| Balance at 31 December | 16,792 | 16,295 |

## (a) Site restoration

Site restoration provision includes:

- expected costs of demolishing of buildings and infrastructure, as well as closure of the open and close pit mines, waste pit and related dams of the Group;
- expected costs of leach pad reclamation;
- expected costs of supervision, insurance, administration and contingencies.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred.

At each year end the Group re-measures the provision for site reclamation based on the best estimate of the settlement amount. The effect of any changes to an existing obligation, resulting from changes in estimated future costs, the discount rate used or the life of the mine, are added to or deducted from the cost of the mining asset and depreciated prospectively over the asset's useful life.

Because of the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in the Republic of Armenia, Georgia and Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. Generally the standard of restoration is determined based on discussions with Government officials at the time that restoration commences. In making this assumption management has consulted with its in-house and external engineers.

Reclamation costs include:

- costs of demolishing of buildings and infrastructure as well as the closure of the dam in Ararat;
- costs of demolishing of the buildings and closure of the open pit mine in Zod.

The key assumptions, on which the asset retirement obligation is based, are as follows:

- the total un-discounted amount of the estimated cash flows required to settle the obligation is USD 24,104 thousand (2018: USD 23,968 thousand);
- the expected timing of site restoration provision is taken based on the management estimate on when the Group will cease extraction of ore (reserves expiration);
- the weighted average expected timing of payment of the cash flows required to settle the obligations varies from 8 to 35 years (2018: from 9 to 36 years);

- the discount rate, at which the estimated future costs have been discounted varies from 6.0% to 8.6 % (2018: from 5.8% to 8.6%) depending on the country of operations of the production subsidiaries.

# 25. Trade and other payables

| | 2019<br>’000 USD | 2018<br>’000 USD |
|---|---|---|
| Trade payables | 13,580 | 15,421 |
| Advances received for provisionally priced sales | 3,440 | 12,487 |
| Payables to personnel | 6,179 | 5,074 |
| Taxes other than income tax payables | 12,921 | 8,607 |
| Other payables | 1,878 | 8,907 |
| | 37,998 | 50,496 |

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in notes 26(g)(i), 26(f).

# 26. Fair values and risk management

## (a) Accounting classifications and fair values

### *(i) Fair values versus carrying amounts*

The fair value of Eurobonds is USD 309,000 thousand as at 31 December 2019. The fair value of Loan from Shareholder is close to its carrying amount.

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| **’000 USD** | **Level 2** | **Total** |
|---|---|---|
| **31 December 2019** | | |
| Financial liabilities at fair value through profit or loss | (3,141) | (3,141) |
| Receivables on provisionally priced sales contracts | 797 | 797 |
| | (2,344) | (2,344) |

| **’000 USD** | **Level 2** | **Total** |
|---|---|---|
| **31 December 2018** | | |
| Financial liabilities at fair value through profit or loss | (3,411) | (3,411) |
| Receivables on provisionally priced sales contracts | 2,158 | 2,158 |
| | (1,253) | (1,253) |

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

## (b) Measurement of fair values

### *(i) Valuation techniques and significant unobservable inputs*

The following tables show the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

**Financial instruments measured at fair value**

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Receivables on provisionally priced gold sales contracts | Market comparison technique: The fair value of the receivables on provisionally priced contracts relating to gold sales has been calculated using forward prices as at the reporting date available in the metal markets. | Not applicable. | Not applicable. |
| Receivables on provisionally priced copper and molybdenum sales contracts | Market comparison technique: The fair value measurement of the receivables on provisionally priced sales contracts which relate to copper and molybdenum concentrate has been calculated using prices per Metal Bulletin (for copper) and Platt's Metals Week (for molybdenum) averaged over the Quotation Period. | Not applicable. | Not applicable. |
| Put and call options on gold | Market comparison technique: The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs. | Gold price volatility: 17.30% to 26.20% | The estimated fair value would increase (decrease) if:<br>• Gold price volatility were higher (lower);<br>• Risk-free rate were (lower) higher. |

**Financial instruments not measured at fair value**

| Type | Valuation technique | Significant unobservable inputs |
|---|---|---|
| Financial assets measured at amortised costs | Discounted cash flows | Not applicable. |
| Other financial liabilities | Discounted cash flows | Not applicable. |
| Financial liabilities measured at amortised costs | Discounted cash flows | Not applicable. |

## (c) Master netting or similar agreements

The Group has derivative transactions under International Swaps and Derivative Associations (ISDA) master netting agreements. Under the agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreement.

| **'000 USD** | **Financial assets at fair value through profit or loss** | **Financial liabilities at fair value through profit or loss** |
|---|---|---|
| **31 December 2019** | | |
| Gross amounts | - | (3,141) |
| Amounts offset in accordance with IAS 32 offsetting criteria | - | - |
| Net amounts presented in the statement of financial position | - | (3,141) |
| Net amount | **-** | **(3,141)** |

| **'000 USD** | **Financial assets at fair value through profit or loss** | **Financial liabilities at fair value through profit or loss** |
|---|---|---|
| **31 December 2018** | | |
| Gross amounts | 62 | (3,473) |
| Amounts offset in accordance with IAS 32 offsetting criteria | (62) | 62 |
| Net amounts presented in the statement of financial position | - | (3,411) |
| Net amount | **-** | **(3,411)** |

## (d) Financial risk management

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

- credit risk;
- liquidity risk;
- market risk.

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.

The Group's risk management policies are established to identify and analyse 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.

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

## (e) 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 receivables and cash.

### *(i) Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Most of the Group's customers are wholesalers and banks of high credit quality that have been transacting with the Group for over four years, and none of these customers' balances have been written off or are credit-impaired at the reporting date. The Group has no history of significant losses in relation to trade receivables.

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

**Expected credit loss assessment for corporate customers**

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies such as Moody's Investor Services.

The Group defines low risk as follows:

Low risk – the customer 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.

***(ii) Loans receivable***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of its debtors. The loan receivables represented mainly by loan granted to shareholder, which was repaid in March 2020 – see Note 30.

The Group does not require collateral in respect of loan receivables.
At the reporting date the Group did not have impaired or overdue loan receivables.

As at 31 December 2019 the Group did not recognise an impairment allowance on loan receivables based on historical information and the fact the loan receivables were neither past due nor impaired and were substantially paid in the 1st quarter of 2020.

***(iii) Cash and cash equivalents***

The Group held cash and cash equivalents of USD 34,283 thousand at 31 December 2019 (31 December 2018: USD 8,599 thousand). The cash and cash equivalents are held with banks, which are rated B3 to Ba2, based on Moody's ratings.

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.

The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for trade receivables.

**Exposure to credit risk**

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

| | Carrying amount | |
|---|---|---|
| **'000 USD** | **2019** | **2018** |
| Loans given | 12,931 | - |
| Trade and other receivables | 10,582 | 6,014 |
| Cash and cash equivalents | 34,283 | 8,599 |
| | 57,796 | 14,613 |

The maximum exposure to credit risk for trade and other receivables (excluding taxes receivable) at the reporting date by geographic region was:

| | Carrying amount | |
|---|---|---|
| **'000 USD** | **2019** | **2018** |
| CIS countries | 1,788 | 1,980 |
| China | 7,999 | 3,431 |
| United Kingdom | 722 | 603 |
| Switzerland | 73 | - |
| | 10,582 | 6,014 |

**Impairment losses**

The aging of trade and other receivables (excluding taxes receivable) at the reporting date was:

| | **Gross** | **Impairment** | **Gross** | **Impairment** |
|---|---|---|---|---|
| **'000 USD** | **2019** | **2019** | **2018** | **2018** |
| Not past due | 10,582 | | 6,014 | - |
| Past due | 339 | (339) | 303 | (303) |
| | 10,921 | (339) | 6,317 | (303) |

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

| | **2019** | **2018** |
|---|---|---|
| | **'000 USD** | **'000 USD** |
| Balance at 1 January | 303 | 357 |
| Impairment loss recognised | 36 | 13 |
| Impairment loss written-off against receivables | - | (67) |
| Balance at 31 December | 339 | 303 |

As at 31 December 2019 and as at 31 December 2018 the Group did not recognise an impairment allowance on trade receivables based on historical information and the fact the trade receivables were neither past due nor impaired.
The management believes that no impairment allowance is necessary in respect of trade and other receivables not past due.

**(f) 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. The current liquidity ratio was 2.46 as at 31 December 2019 (31 December 2018: 0.55).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| **'000 USD** | **Carrying amount** | **Contractual cash flows** | **0-6 mths** | **6-12 mths** | **1-2 yrs** | **2-3 yrs** | **3-4 yrs** | **4-5 yrs** | **Over 5 years** |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | | |
| Eurobonds | 294,817 | 404,625 | 11,625 | 11,625 | 23,250 | 23,250 | 23,250 | 311,625 | - |
| Loan from shareholder | 11,480 | 12,939 | - | - | - | 12,939 | - | - | - |
| Interest accrued | 871 | 871 | 871 | - | - | - | - | - | - |
| Trade and other payables | 15,458 | 15,458 | 15,055 | 403 | - | - | - | - | - |
| Financial liabilities at fair value through profit or loss | 3,141 | 3,141 | 182 | 909 | 2,050 | - | - | - | - |
| | 325,767 | 437,034 | 27,733 | 12,937 | 25,300 | 36,189 | 23,250 | 311,625 | - |

| **'000 USD** | **Carrying amount** | **Contractual cash flows** | **0-6 mths** | **6-12 mths** | **1-2 yrs** | **2-3 yrs** | **3-4 yrs** | **4-5 yrs** | **Over 5 years** |
|---|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | | |
| Secured bank loans | 238,662 | 276,339 | 39,630 | 49,627 | 110,002 | 65,991 | 6,258 | 4,831 | - |
| Loan from shareholder | 9,283 | 9,561 | - | 9,561 | - | - | - | - | - |
| Interest accrued | 5,710 | 5,710 | 272 | 2,411 | 1,554 | 1,473 | - | - | - |
| Trade and other payables | 24,328 | 24,327 | 13,683 | 10,644 | - | - | - | - | - |
| Financial liabilities at fair value through profit or loss | 3,411 | 3,411 | 42 | 326 | 1,384 | 1,659 | - | - | - |
| | 281,394 | 319,348 | 53,627 | 72,569 | 112,940 | 69,123 | 6,258 | 4,831 | - |

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

## (g) 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 optimising the return.

### *(i) Currency risk*

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily are denominated are Euro and USD.

***Exposure to currency risk***

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

| **'000 USD** | **RUB-denominated** | **EUR-denominated** | **USD-denominated** |
|---|---|---|---|
| | **2019** | **2019** | **2019** |
| Trade and loans receivable | 6 | - | 749 |
| Cash and cash equivalents | - | 63 | 6,593 |
| Loans and borrowings | - | - | (11,480) |
| Trade and other payables | (917) | (147) | (3,273) |
| | (911) | (84) | (7,411) |

| **'000 USD** | **RUB-denominated** | **EUR-denominated** | **USD-denominated** |
|---|---|---|---|
| | **2018** | **2018** | **2018** |
| Trade and loans receivable | 253 | - | 603 |
| Cash and cash equivalents | 1 | - | 5,772 |
| Loans and borrowings | - | - | (61,113) |
| Trade and other payables | (966) | (83) | (3,015) |
| | (712) | (83) | (57,753) |

The following significant exchange rates applied during the year:

| **in USD** | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| RUB 1 | 0.0154 | 0.0159 | 0.0162 | 0.0144 |
| AMD 1 | 0.0021 | 0.0021 | 0.0021 | 0.0021 |
| EUR 1 | 1.1200 | 1.1794 | 1.1201 | 1.1438 |

**Sensitivity analysis**

A 10% strengthening (weakening) of the USD, EUR, RUB against the above currencies at 31 December would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2018.

| **’000 USD** | **Profit or loss** | |
|---|---|---|
| | **Strengthening** | **Weakening** |
| **31 December 2019** | | |
| USD | (741) | 741 |
| EUR | (8) | 8 |
| RUB | (91) | 91 |
| **31 December 2018** | | |
| USD | (5,775) | 5,775 |
| EUR | (8) | 8 |
| RUB | (71) | 71 |

***(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 favourable to the Group over the expected period until maturity.

***Profile***

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was:

| | **Carrying amount** | |
|---|---|---|
| **’000 USD** | **2019** | **2018** |
| **Fixed rate instruments** | | |
| Financial liabilities | (307,168) | (67,878) |
| | (307,168) | (67,878) |
| **Variable rate instruments** | | |
| Financial liabilities | - | (185,777) |

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2018.

| | Profit / (loss) | |
|---|---|---|
| **'000 USD** | **100 bp increase** | **100 bp decrease** |
| **2019** | | |
| Variable rate instruments | - | - |
| Cash flow sensitivity (net) | - | - |
| **2018** | | |
| Variable rate instruments | (1,858) | 1,858 |
| Cash flow sensitivity (net) | (1,858) | 1,858 |

### *(iii) Commodity price risk*

Some of the Group's sales contracts (Agarak, and Sarilakh-Surma) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to three months after the risks and rewards of ownership have been transferred to the buyer.

Trade receivables referring to provisionally priced sales contracts are accounted for at fair value through profit or loss. These trade receivables, which is the final settlement price based on a future price, is marked to market (fair value) through other income and expenses each period with reference to the appropriate commodity forward curve until the date of final settlement. The effect of reasonably possible change of the forward prices will not have a material impact on these consolidated financial statements.

## (h) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the return on capital, which the Group defines as the result from operating activities divided by total shareholders' equity.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

During the year ended 31 December 2019, bank loans with carrying amounts of USD 181,767 thousand and USD 4,010 thousand as at 31 December 2018 were repaid in full. Eurobonds issued by the Group during 2019 (see Note 23) contain a number of financial and non-financial covenants to comply with (including EBITDA ratios) at the moment of and in case of the Group's incurring new indebtedness from third parties.

On each reporting date the aggregate total assets, aggregate EBITDA and aggregate revenue of the Guarantors should be 85% or more of the consolidated Total Assets of the Group, consolidated EBITDA and consolidated revenues of the Group. The Group is in compliance with all the covenants imposed as at 31 December 2019.

The measurement of EBITDA is not regulated by International Financial Reporting Standards and could not be treated as an alternative measurement for profit recognized by International Financial Reporting Standards in the financial statements. The management discloses EBITDA because it believes that this figure represents additional information that may be useful for users of financial statements. As there are no uniform standards for calculation of EBITDA, other companies may measure EBITDA in other ways. EBITDA of different companies may not be comparable with each other.

The main ratios of the Group which were as follows:

| **’000 USD** | **Note** | **2019** | **2018** |
|---|---|---|---|
| **Profit before income tax** | | 81,285 | 26,619 |
| Plus: Net finance costs | 13 | 25,645 | 22,584 |
| Plus: Depreciation | 15 | 23,399 | 20,487 |
| Plus: Amortization | 16 | 23,323 | 22,413 |
| Plus: Net impairment of assets | 15(c), 15(d), 16(d), 21 | - | 28,551 |
| Plus: Net (gain) / loss from commodity derivatives | | (270) | (3,296) |
| Plus: Loss on disposal of property, plant and equipment and other assets | 12 | 193 | 318 |
| Plus: Additional royalties, fines and penalties imposed by the Tax Authority in Armenia | 12 | - | 959 |
| Plus: Fines and penalties | | 804 | 67 |
| Plus: Other items | | 698 | 800 |
| **EBITDA consolidated** (see Note 7(ii)) | | 155,077 | 119,502 |

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| **Total loans, borrowings and overdrafts** | 309,283 | 249,882 |
| Less: Cash and cash equivalents | (34,283) | (8,599) |
| **Total Net Debt** | 275,000 | 241,283 |

The Group’s Leverage ratio of Total Net Debt on the last day of the reporting period to EBITDA should not exceed 3.00 (2018: 3.50), and was as follows:

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| **Leverage** | 1.77 | 2.02 |

During 2018 the Group predicted and informed in advance the Syndicate of the banks about technical breaching of the covenant related to the aggregate principal amount of the local bank facilities of USD 40,000 thousand, because in accordance to implementation of the Organic Growth Strategy the Group has changed Operational Model after renewal JORC reserves in 2017 and subsequently increased demand for capital expenditure of the Group’s projects. Capital expenditure of the Group has been more than it was permitted by the terms of the Facilities agreement by the end of 2018.

Considering the above, during 2018 the Group obtained a waiver of the breach of the following covenants – for excess of the permitted local bank principal amount and connected with it for excess of the permitted capex amount.

As at 31 December 2019 the Group complied with any externally imposed requirements to which it was subject to.

# 27. Contingencies

## (a) Insurance

The insurance industry in the Russian Federation, Georgia and Republic of Armenia 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 has very limited 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) Taxation contingencies

Taxation systems in the Russian Federation and Republic of Armenia continue to evolve and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose fines, penalties and interest charges. 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Starting from 2015 the tax authorities have been taking aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia, including Agarak, resulting in claimed material increases to the royalty amounts for previous years. Based on the tax inspection in 2018 additional royalty amounts claimed for the years 2014 to 2017 amounted to around USD 4.4 million. Management has thoroughly analyzed these cases and believes that this tax position is not consistent with the Law on Nature Protection and Nature Utilization Payments. Accordingly, in January 2019 the Company appealed to the competent courts of the Republic of Armenia. First Instance administrative court resolved the case in favor of the Company for total tax act amount of USD 4,340 thousand. In February 2020 the decision was appealed by the tax authorities in the Court of Appeals. The first court hearing on the appeal case is scheduled in April 2021.

As at 31 December 2018, out of the total amount of USD 4,427 thousand mentioned in the tax inspection act for royalty and other taxes USD 2,556 thousand was recognized by Agarak (Notes 14 and 17).

The Company has not reversed liabilities recognized in 2018 after winning First instance administrative court, since management still assesses the probability of losing the case in further instances as possible.

For the remaining/unrecognized part management believes that probability that Company will eventually pay the remaining balance is remote.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions.

**Tax inspection Sarilakh-Surma**

During 2019 the fiscal authority in Russia conducted the tax inspection at Sarilakh-Surma of all taxes for the period 2015-2017. As a result, the fiscal authority charged the additional mineral taxes in the amount of USD 1,656 thousand including fines and penalties, and income tax expense in the amount of USD 135 thousand including fines and penalties. The Company strongly disagreed with fiscal authorities conclusions and appealed against this charge in February 2020 and expects response in April 2020. In case of disagreement of the fiscal authority to except the Company's arguments and dismiss charges, the Company plans to appeal to Arbitrage.

### (c) Environmental contingencies

The Group is subject to various state laws and regulations that governs emission of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials.

The Group's management believes that its production subsidiaries are in compliance with all current existing environmental legislation in the countries in which it operates, and therefore the Group has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation continues to evolve and potential changes in the legislation and its interpretation may give rise to material liabilities in future.

## 28. Operational risks

### (a) Mines

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, (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 necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) delays in transportation, (x) labour disputes, (xi) inability to obtain certain types of insurance coverage, (xii) unavailability of materials and equipment, (xiii) the failure of equipment or processes to operate in accordance with specifications or expectations, (xiv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xv) the results of financing efforts and financial market conditions.

### (b) Metals prices volatility

The Group's financial performance is heavily dependent on the price of copper, molybdenum, gold and antimony which are affected by many factors beyond the Group's control.

**Copper**

Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE).
The Company's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of

substitute materials and (vi)currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the year ended 31 December 2019, LME daily closing spot prices ranged from USD 5,537 to USD 6,448 per ton for copper. The LME spot copper price closed at USD 5,175 per ton on 17 April 2020.

**Gold**

Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The price of gold is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply, (ii) rates of global economic growth, trends in jewellery production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD.

The gold market is volatile, although among commodities gold carries a special function because it is used by investors as a “safe haven” investment, especially during times of economic uncertainty and fears of currency instability. During the three years ended 31 December 2019, London Bullion Market Association daily settlement prices ranged from USD 1,149 to USD 1,543 per ounce of gold, average price of gold in 2019 was USD 1,393 per ounce in comparison with USD 1,269 per ounce in 2018. The average gold price for the first quarter of 2020 was USD 1,584 per ounce.

**Molybdenum**

The Company's financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent.

Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants.

Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The price of molybdenum was averaging to approximately USD 24,846 per ton during 2019 in comparison with USD 26,140 per ton during 2018. The LME spot molybdenum price of USD 17,857 per ton was on 16 April 2020.

**Antimony**

Antimony is included in the group of minor metals. It isn’t traded on Official Metal Exchanges however antimony quotations are published by several information agencies: AntimonyNet; MetalBulletin; Metal Pages as well as Asian Metal. The Company’s antimony is sold at prices based on those quoted on the MetalBulletin and AntimonyNet and varies depending on specific customers. The price of antimony as reported by mentioned sources is influenced significantly by numerous factors, including (i) the worldwide balance of antimony demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the mechanical rubber and polymeric industries, all of which correlate with demand for antimony, (iii) changes in Chinese legislation in relation to the antimony industry as well as the productivity of Chinese antimony companies due to the fact that China is the largest producer of antimony metal in the world, (iv) the availability and cost of substitute materials and (v) currency exchange fluctuations, particularly cross-rate USD/RMB.

The antimony market is volatile and cyclical. In the majority of antimony purchase contracts the average monthly low price is used, 12 months average price in 2019 was USD 6,509 per ton in comparison with USD 8,159 per ton in 2018. The average price for the first quarter of 2020 was USD 5,975 per ton.

## 29. Capital commitments

As at the year ended 31 December 2019 the Group has several contractual commitments for the upgrade of its current plant, purchase of mining equipment and spare parts for USD 42,584 thousand (31 December 2018: USD 10,341 thousand).

## 30. Related party transactions

For the purpose of these financial statements, parties are considered to be related if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (a) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

| | 2019<br>’000 USD | 2018<br>’000 USD |
|---|---|---|
| Salaries and bonuses | 4,416 | 11,195 |
| Remuneration of Board of Directors | 2,250 | 1,452 |
| | 6,666 | 12,647 |

### (b) Transactions with other related parties

The Group had related party relationships with the entities over which the Shareholder of the Group is able to exercise significant influence.

The loan from shareholder is bearing interest at 4,5%.

In September 2019 the Group issued a loan to the Shareholder in the amount of USD 12,009 thousand maturing in 2023. The loan bears interest at 9%. The loan was repaid in March 2020.

***Loan from shareholder***

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| **At 1 January** | (11,403) | (10,985) |
| Interest expense capitalized to PPE | (441) | (418) |
| Discounting of LT interest | 364 | - |
| **At 31 December** | (11,480) | (11,403) |

***Loans to Shareholder and employees***

| **’000 USD** | **2019** | **2018** |
|---|---|---|
| **At 1 January** | - | - |
| Loans given to related parties | 12,079 | |
| Interest income | 309 | - |
| Currency translation reserve | 543 | - |
| **At 31 December** | 12,931 | - |

***Bank balances at other related party***

| | **2019** | **2018** |
|---|---|---|
| | **’000 USD** | **’000 USD** |
| Bank balances at other related party | - | 4,845 |

During 2019 the Group did not sell any goods to a related party (2018: USD 8,174 thousand).

## 31. Subsequent events

The principal amount of the loan granted with carrying amount of USD 12,535 thousand as at 31 December 2019 has been received in March 2020.

On 8 April 2020 Sarilakh-Surma obtained the license for exploration and evaluation of the Khokhsolan gold and antimony mine, located in Oymyakon ulus of the Yakutia in Russia. The license is expired on 30 April 2027.The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the local currencies of operating companies. These developments are further increasing the level of uncertainty in the business environment.

The outbreak of coronavirus resulted in such general operational risks as decrease in demand, temporary cessation/slow-down of operations and supply chains, staff absences due to illness and increased credit losses from trade receivables. However, the impact on the Group is limited as it has not decreased its operational activity and despite non-significant shift in the shipments’ schedule, the quantity and quality of metals and concentrates produced remains stable, there are no cases of staff illness to the moment and no significant payment delays from major customers. 65% of Group revenue is the revenue from gold sales. Gold prices increased during the 1$^{st}$ quarter of 2020 and continue to increase in April 2020. Despite of the decrease of copper and antimony prices in 2020the Group management believes that high gold prices and demand will maintain Group’s financial performance on planned level.
Therefore the Group management considers that outbreak of the coronavirus will not have significant influence over ability of the Group to continue as a going concern.