

INDEPENDENT AUDITORS' REPORT

To the Management and Supervisory Board of "AzerGold" CJSC

Opinion

We have audited the financial statements of "AzerGold" CJSC (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Responsibilities of Management and the Supervisory Board for the Financial Statements

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

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with the Supervisory Board 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.

April 20, 2020
Baku, the Republic of Azerbaijan


"AZERGOLD" CLOSED JOINT STOCK COMPANY

**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019**


(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Intangible assets	7	45,484,442	61,725,441
Exploration and evaluation assets	8	11,973,605	6,203,090
Property, plant and equipment	9	21,756,421	19,830,577
Prepayments	10	25,758	108,161
Deferred tax assets	11	2,112,475	2,246,648
Total non-current assets		81,352,701	90,113,917
Current assets			
Cash and cash equivalents	12	17,137,209	4,707,563
Trade and other receivables	13	10,138	11,996
Prepayments	10	1,304,781	523,347
Inventories	14	7,799,301	13,563,756
Other current assets	15	2,584,481	1,862,749
Total current assets		28,835,910	20,669,411
TOTAL ASSETS		110,188,611	110,783,328
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	16	7,178,953	1,296,600
Retained earnings		20,393,035	7,946,871
Total equity		27,571,988	9,243,471
LIABILITIES:			
Non-current liabilities			
Borrowings	17	36,988,887	72,488,229
Provision for rehabilitation	18	5,349,557	4,438,323
Lease liability	19	1,325,819	-
Total non-current liabilities		43,664,263	76,926,552
Current liabilities			
Trade and other payables	20	2,655,391	3,219,791
Lease liability	19	408,389	-
Borrowings	17	35,556,814	21,165,684
Other current liabilities	21	331,766	227,830
Total current liabilities		38,952,360	24,613,305
Total liabilities		82,616,623	101,539,857
TOTAL EQUITY AND LIABILITIES		110,188,611	110,783,328

On behalf of the management:


Zakir Ibrahimov
Chairman of the Executive Board

May 19, 2020
Baku, the Republic of Azerbaijan


Anar Mansurov
Head of Finance department

May 19, 2020
Baku, the Republic of Azerbaijan

The notes on pages 8-54 form an integral part of these financial statements.

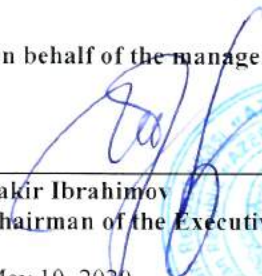
"AZERGOLD" CLOSED JOINT STOCK COMPANY

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019**


(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Revenues	22	86,168,368	58,369,947
Cost of sales	23	<u>(55,707,114)</u>	<u>(38,986,497)</u>
Gross profit		<u>30,461,254</u>	<u>19,383,450</u>
Impairment losses	7, 8	(5,695,123)	(1,582,754)
Other operating expenses	24	(665,206)	(281,457)
General and administrative expenses	25	(4,898,593)	(3,765,102)
Other (expense) income		<u>(344,133)</u>	<u>313,334</u>
Operating profit		<u>18,858,199</u>	<u>14,067,471</u>
Finance expenses	26	<u>(3,765,987)</u>	<u>(4,118,147)</u>
Profit before income tax		<u>15,092,212</u>	<u>9,949,324</u>
Income tax expense	11	<u>(2,646,048)</u>	<u>(1,908,384)</u>
Profit for the year		<u>12,446,164</u>	<u>8,040,940</u>
Total comprehensive income for the year		<u>12,446,164</u>	<u>8,040,940</u>

On behalf of the management:


Zakir Ibrahimov
Chairman of the Executive Board

May 19, 2020
Baku, the Republic of Azerbaijan


Anar Mansurov
Head of Finance department

May 19, 2020
Baku, the Republic of Azerbaijan

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“AZERGOLD” CLOSED JOINT STOCK COMPANY

**STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019**


(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	Share capital	Retained earnings	Total equity
January 1, 2018		<u>1,296,600</u>	<u>(94,069)</u>	<u>1,202,531</u>
Total comprehensive income for the year		<u>-</u>	<u>8,040,940</u>	<u>8,040,940</u>
December 31, 2018		<u>1,296,600</u>	<u>7,946,871</u>	<u>9,243,471</u>
Increase in share capital		5,882,353	-	5,882,353
Total comprehensive income for the year		<u>-</u>	<u>12,446,164</u>	<u>12,446,164</u>
December 31, 2019		<u>7,178,953</u>	<u>20,393,035</u>	<u>27,571,988</u>

On behalf of the management:


Zakir Ibrahimov
Chairman of the Executive Board

May 19, 2020
Baku, the Republic of Azerbaijan


Anar Mansurov
Head of Finance department

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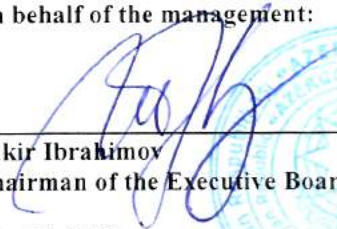
"AZERGOLD" CLOSED JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019


(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		15,092,212	9,949,324
Adjustments to reconcile profit before income tax to net cash flows:			
Finance expenses	26	3,765,987	4,118,147
Depreciation and depletion of property, plant and equipment	23, 25	13,551,623	6,429,356
Amortization and depletion of intangible assets	23, 25	11,466,594	11,779,872
Impairment losses	7, 8	5,695,123	1,582,754
Other non-cash transactions		134	804
Operating cash flows before working capital changes		49,571,673	33,860,257
Change in operating assets and liabilities:			
Trade and other receivables		1,858	115,736
Prepayments		(781,434)	521,999
Inventories		6,952,812	(1,246,161)
Other current assets		(3,233,607)	(2,469,951)
Trade and other payables		88,973	401,236
Other current liabilities		103,936	(665,043)
Cash flows from operating activities		52,704,211	30,518,073
Income tax paid		-	(500,000)
Net cash inflow from operating activities		52,704,211	30,018,073
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditure on property, plant, equipment and mine development		(13,909,522)	(3,272,642)
Investment in exploration and evaluation assets		(7,117,318)	(5,537,819)
Investment in other intangible assets		(89,109)	(242,909)
Acquisition of group of assets from ex-contractors		-	(700,000)
Net cash used in investing activities		(21,115,949)	(9,753,370)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from increase in share capital		5,882,353	-
Proceeds from borrowings	17	-	8,200,000
Repayments of borrowings	17	(21,081,034)	(24,730,847)
Interest paid	17	(3,482,178)	(3,998,427)
Interest payment for lease liability	19	(85,076)	-
Principal payment for lease liability	19	(392,681)	-
Net cash used in financing activities		(19,158,616)	(20,529,274)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		12,429,646	(264,571)
CASH AND CASH EQUIVALENTS, <i>at the beginning of the year</i>	12	4,707,563	4,972,134
CASH AND CASH EQUIVALENTS, <i>at the end of the year</i>	12	17,137,209	4,707,563

On behalf of the management:


Zakir Ibrahimov
Chairman of the Executive Board

May 19, 2020
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