

CHAARAT

**THE NEXT LEADING
EMERGING MARKETS
GOLD COMPANY**



Chaarat Gold Holdings Limited
Annual Report & Accounts 2019

BUILDING A LEADING EMERGING MARKETS GOLD COMPANY WITH A FOCUS ON THE FORMER SOVIET UNION REGION

Chaarat Gold Holdings Limited is an AIM-quoted gold mining company which owns the Tulkubash and the Kyzyltash Gold Projects in the Kyrgyz Republic, as well as the Kapan operating mine in Armenia. The Company has a clear strategy to build a leading emerging markets gold company with an initial focus on Central Asia and the Former Soviet Union through organic growth and selective mergers and acquisitions.

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Our Highlights

944koz

Tulkubash resource at 1.21g/t within 5.5km of a 24km strike zone

5,377koz

Kyzyltash sulphide resource at 3.75g/t within 3km of a 24km trend

Transformed from a Developer to a Producer

During 2019 we completed the acquisition of the Kapan Mine for a consideration of US\$50 million, our first producing mine and our entry point into Armenia.

Joint venture agreement

A conditional agreement for a joint venture to collaborate on our assets in the Kyrgyz Republic was signed during 2019.

Local Communities

Provide improvements to infrastructure, education and healthcare to improve the living standards and opportunities for local populations.

Employees

Generate a stable and secure work environment in which employees learn, are mentored and can progress and develop their careers.

Operational Overview

Armenia Kapan

Overview

The Kapan Mine and Processing Company was acquired by Chaarat in early 2019 for a consideration of US\$50 million.

Read more: Operational Review on p.12 to 15.

Kyrgyz Republic Tulkubash

Overview

The Tulkubash oxide heap leach represents the first phase of development for the Chaarat project via a simple, low-cost processing method.

Read more: Operational Review on p.16 to 19.

Kyrgyz Republic Kyzyltash

Overview

The large, higher grade Kyzyltash sulphide ore body will form the second phase of development at the Chaarat project.

Read more: Operational Review on p.20 and 21.

CHAARAT'S ASSETS ARE LOCATED IN WELL-ESTABLISHED MINING JURISDICTIONS WITH KAPAN IN ARMENIA AND TULKUBASH AND KYZYLTAH IN THE TIEN SHAN GOLD BELT IN THE KYRGYZ REPUBLIC



**Armenia
Kapan**

Overview
The Kapan Mine and Processing Company was acquired by Chaarat in early 2019 for a consideration of US\$50 million.

Read more: Operational Review on p.12 to 15.



**Kyrgyz Republic
Tulkubash & Kyzyltash**

Overview
The Tulkubash oxide heap leach represents the first phase of development for the Chaarat project via a simple, low-cost processing method.

Read more: Operational Review on p.16 to 21.

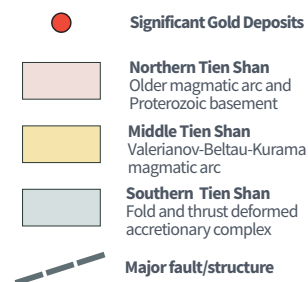


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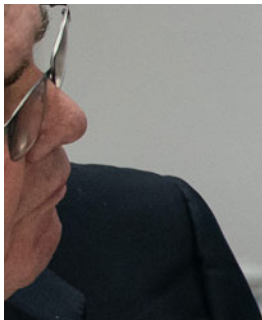
Resources as at 31 December 2019

Tulkubash open pit heap leach cut-off grade ("COG") 0.3g/t Au

	Tonnes	Au (g/t)	Metal (oz)
Measured	5,266,000	1.28	215,568
Indicated	18,080,000	1.21	701,976
Measured and Indicated	23,346,000	1.22	917,545
Inferred	910,000	0.90	26,205
Total	24,256,000	1.21	943,749

1. Chaarat has used a cut-off grade of 0.30 grams per tonne g/t gold based on the likely economic cut-off for open pit mining and heap leach processing.
2. Quantity and grade are estimates and are rounded to reflect the fact that the resource estimate is an approximation.
3. Mineral resources are not ore reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted to reserves.

BUILDING A LEADING EMERGING MARKETS GOLD COMPANY



We consider ourselves to be local operators and we understand the importance of good relations with all our stakeholders, at both the local and government level.

It is a pleasure to update all our stakeholders on what has been another important year for Chaarat. During 2019 the Company progressed well in several important workstreams, which have seen Chaarat transform from developer to producer in a single step.

To all our stakeholders, I would like to reiterate our firm commitment to adhering to the highest standards of sustainable development and responsible mining. We are dedicated to caring for the environment where we mine and the well-being of our employees. Our actions are informed by and based on understanding and respecting our local host communities. Being a responsible corporate citizen is at the very core of our strategic objectives.

With COVID-19 spreading globally, our priority is the safety and health of our people and ensuring the resilience of the Company's operations. While the impact of the coronavirus on the global economy is significant, demand for our products has remained relatively healthy. In addition, we are seeing positive trends in cost reduction in both of our jurisdictions due to the declining price of fuel and the depreciation of local currencies versus the US Dollar. Early in the financial year, we completed the acquisition of the Kapan Mine, our first producing mine and our entry point into Armenia. Securing this asset under attractive terms bears testament to the strength in execution of our M&A strategy in the Former Soviet Union ("FSU"), where we aim to be a leading consolidator of the gold sector. This acquisition is an excellent and complementary addition to Chaarat's portfolio, transforming the Company from a developer to producer, with two solid assets in two jurisdictions in the FSU and clearly shows the team's capability to implement this strategy successfully.



Several successful fundraises were completed during the year, not least the substantial amount raised for the Kapan acquisition, which demonstrates Chaarat's ability to creatively fund the business on accretive terms for the Company and its shareholders. Our strategy as a Company is to continue to evaluate capital opportunities to refinance existing financing facilities, to fund working capital and reduce overall cost of capital, with a main objective of maximising value for shareholders. What remains key, however, is, where possible, to look for funding opportunities that are the least dilutive for all our shareholders. An example of this is our partnership with Çiftay, an appointed construction and long-term mining contractor for the Tulkubash project, which mobilised equipment to the Tulkubash site in the Chatkal Valley last year. Under our conditional agreement, Çiftay will progressively invest US\$31.5 million for a 12.5% equity stake in Chaarat's Tulkubash and Kyzyltash mining projects in the Kyrgyz Republic. I, together with Çiftay, am delighted with this conditional agreement - Çiftay's proposed investment and commitment to acquire a direct equity stake represents a significant milestone for the funding of Tulkubash and clearly demonstrates the Company's inherent value. I look forward to

the positive developments expected at Kyzyltash and Tulkubash as we continue towards first gold pour which, in light of the impact of COVID-19 on the Kyrgyz Republic operations, is likely to be delayed from late 2021 to Q3 2022.

The stability of Chaarat's future operations with the Tulkubash and Kyzyltash projects was endorsed by the Government of the Kyrgyz Republic with the announcement of a stabilisation agreement between the Company and the Government. The Agreement is based on the Investment Law of the Kyrgyz Republic, which stimulates investors to make substantial investments, including into the country's mining industry, by providing investors with formal assurances on the stability of the tax regime. Chaarat and its local subsidiary, CJSC Chaarat Zaav, will be entitled to benefit from any future changes in direct taxes and from several non-tax payments during the 10 years from the date of the Agreement. In return, Chaarat will invest US\$20 million within 5 years from the date of the Agreement.

The Company remains fully committed to developing strong local and government ties in the countries in which we operate, whether that is by providing jobs for the local community at both mining operations, investing in local outreach programmes or by paying fair tax to governments. We are pleased that work has started on a good footing with all our stakeholders and look forward to building even stronger relationships.

In March 2019, I was delighted to welcome Warren Gilman to the Board as an independent Non-Executive Director. Warren brings decades of experience and success in the mining sector and is a welcome addition to our hugely experienced Board. At the same time, Martin Wiwen-Nilsson decided to step down from his role as Non-Executive Director of the Company and instead take on a role as Senior Advisor to the Company. He remains a shareholder in Chaarat. We have also made several appointments to strengthen the senior management team, which are set out in the following CEO Statement.

I can also report that the management incentive plan, which was set out in last year's annual report, was implemented as planned during the year. This ensures that the Chaarat management team will be fully aligned with shareholders in creating value via stock ownership through share options issued at a premium to the prevailing share price and a performance based share incentive programme.

The first quarter of 2020 has seen the outbreak of the COVID-19 virus, and countries around the globe are facing challenges in all aspects of normal life. Chaarat has strong ties to its communities and is proactively contributing towards solving the issues faced by our communities and offering support where needed. The Company has taken this virus seriously and, since early February, has implemented precautionary measures by disinfecting at sites and ensuring the availability of hand sanitisers for each department. Our medical staff regularly checks the temperature of employees and provides the necessary equipment. To date, there are no cases. In Kapan, the Company has purchased multifunctional hospital beds, disinfectants and face masks for the Kapan Medical Centre. Together with the Kapan Medical Centre, Chaarat Kapan has started the renovation of the first and second floors of the former surgical building, which has been out of operation for 5 years. It will become the Department of Infectious Diseases for those who have contracted the virus. Chaarat Kapan will also provide the centre with medical equipment and other necessities.

In Chatkal, Chaarat has purchased 10 tonnes of flour and disinfectants to be distributed to remote regions and vulnerable groups. With the assistance of the Kyrgyz Embassy to the United Kingdom, 5,000 rapid COVID-19 infection tests have been ordered and are being delivered to our communities. Another 5,000 antibody tests have been ordered from China to better understand when people will be safe to continue their employment. Health and safety are and remains the top priority for Chaarat.

I would like to take this opportunity to thank all the Board and the Company's employees for their continued hard work during what has been another transformational year for Chaarat Gold. I would also like to extend my thanks to all our stakeholders for their continued backing over the years.

I look forward to 2020, which will be another important year for the Company, as we continue to build on our strategy.

Martin Andersson
Executive Chairman

9 April 2020





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2019 HAS PAVED THE WAY FOR AN EXCITING 2020



In 2019 we transformed from a developer to a producer with the acquisition of Kapan and further strengthened our Board and management team.

I am pleased to report on the events of the 2019 year, the course of which has seen a transformation across all aspects of the company.

Not only have we transformed from a developer to a producer with the acquisition of the Kapan Gold Mine in Armenia early in the year, but we also clearly demonstrated our operating abilities with significant improvements in productivity and cost optimisations at Kapan, as well as a significant promotion of a “safety first” culture. We also made significant progress with the development of Tulkubash project in Kyrgyz republic. We continued to add top talent the management team and further refreshed the Board of Directors, enhanced this year, to being majority independent.

COVID-19

As COVID-19 spreads globally, we are prioritising the safety and health of our people and ensuring resilience of the Company's operations. Supporting our communities in these difficult times is equally important to us. Chaarat is currently implementing various programmes, including delivery of essential goods to villages located in the Chatkal region (Kyrgyz Republic), supplying the regional hospital in Kapan (Armenia) with masks, sanitiser and goggles, renovating additional building in Kapan for hospital use, buying COVID-19 testing kits for distribution both countries of our operations and other support measures as required.

The coronavirus pandemic has created a series of unprecedented challenges with regards to future fundraising. We expect the timelines for fundraisings to be impacted by, the uncertainty and market turbulence stemming from the pandemic, liquidity constraints on investors resulting in a reduced appetites to enter into new long-term capital commitments and the challenges for investors to undertake their due diligence (in particular, face-to-face meetings), receive appropriate internal approvals and obtain relevant signatories.

Our people

We continue to strengthen the management team; in early 2019 we welcomed Vyacheslav Pilipenko as Vice President for Government Relations and Security. Vyacheslav has 15 years of experience working for major Russian and world leading companies as well as working 7 years for the Presidential Administration of Russian Federation.

In June we were pleased to welcome Darin Cooper, with more than 30 years' experience in the metals and mining industry, as Chief Operating Officer of the Company. Darin has a proven track record of increasing performance across a range of mining operations and his expertise will be immensely valuable. Robert Benbow, previous Chief Operating Officer of Chaarat, continues to serve on the Board of the Company as a Non-Executive Director and will remain the Chair of the Technical Committee.

As part of our continued focus on improving our corporate governance, Frances Robinson joined Chaarat as company secretary in January 2020. Mrs Robinson is a qualified lawyer in England and Wales and has more than 15 years' experience as a FTSE company secretary.

In February 2020, Vladimir Shvetsov joined the Chaarat team as Senior Vice President for Geology and Exploration. Vladimir has over 40 years of mining industry experience and has been involved at every level of mineral exploration in the gold mining business. Dorian Nicol, previous Senior Vice President for Geology and Exploration will continue to take a role as senior advisor to the Company. Dorian has been a key member of the Chaarat team and we are grateful that he will continue to play an important role.

As noted in the Chairman's Statement, we were delighted to implement the management incentive plan set out in last year's annual report during the year. This is a share-based plan which ensures that the management team are fully aligned with shareholders through share options and performance-based restricted stock units. The management incentive plan comprises three tranches, the first of which vested in September 2019, the second of which vested between December 2019 and February 2020, and the third of which is expected to vest at the end of 2020. Consequently, approximately two-thirds of the cost of this plan, which is entirely non-cash, has been accounted for in the 2019 accounts resulting in a significant charge of US\$9.8 million this year. Further details of the management incentive plan are given in the Remuneration Report and the notes to the Financial Statements.

Kapan Mine

At Kapan we have been able to achieve major increases in productivity, cost optimisation and the addition of a new mine plan since acquiring the asset. These gains were made due to improvements in fleet availability, better grades and recoveries.

For the full 2019 year, the Kapan Mine produced approximately 60,252 oz of gold equivalent, revenue of US\$73 million, gross profit of US\$13.5 million, loss before tax of US\$0.2 million and generated an Earnings Before Tax, Interest, Depreciation and Amortisation (EBITDA) of US\$10.5 million. The EBITDA at the standalone Company level, before Group accounting and non-cash adjustments, was US\$12.7 million for the full 2019 year. We include commentary on the full year 2019 results and 2018 results for comparable purposes however the results that have been consolidated in the Group financial statements only include Kapan from the date of acquisition being 30 January 2019.

In November we were pleased to announce a revised Mine Plan and Reserves Update for Kapan, the first Ore Reserve statement from Chaarat since acquiring the Mine in January 2019. The resource and reserve update showed that depletion continued to be replaced with new reserves through our well-developed and successful exploration program.

In addition, the work in the year allowed us to improve mine life while at the same time maintaining production levels. This ongoing replacement of resource through exploration continues to give us the confidence that the mine should have many years of ongoing operation well beyond the current LOMP. When we bought the Kapan Gold Mine in early 2019 it had a 5-year life of mine (LOM). Now, net of depletion, we have increased this to 7-years, supporting our confidence in extending the projects life.

We are also encouraged by the fact that there is still significant exploration potential in the broader area including areas flanking the existing workings. These areas of potential will be investigated over the next year or two, as we continue to develop the Kapan mine to its full potential.

While we have taken big strides in the turnaround process and achieved much, there are still challenges to overcome and targets to meet, all of which I am confident we will accomplish in the coming months.

Additional upside will come from increased optimisation at the plant, with improved grade control and maximising capacity. To do so, we have started to process some third-party ore, in addition to our own. In the long term, forward planning for the Kapan Gold

Mine, over the next few years rather than months, will see further potential in extending the mine life, as well as investigating the areas that flank the current mine.

As an operator, of course, we do not speculate on gold prices – although we do see favourable factors affecting the current and projected gold price, and are comfortable with the price dynamics in the market, our focus must be the successful extraction and processing of ore, maintaining, optimising and reducing where possible our operating costs, and ultimately creating value for our shareholders. Amidst the pandemic we are seeing potential benefits for our operations derived from the oil price drop and the local (AMD) devaluation versus the US Dollar for goods and services paid in local currency.

Tulkubash & Kyzyltash

From an exploration and development perspective, the Tulkubash project in the Kyrgyz Republic was the key focus of 2019. Our work there included an updated feasibility study which included the cost of capital expenditure.

Included in this report are the exploration results achieved during the year's drilling programme, which revealed significant potential of the overall licence area, over which only a relatively small area has been delineated as a resource to date.

Importantly we entered into a conditional joint venture agreement with Çiftay İnşaat Tahhüt ve Ticaret A.S ("Çiftay"), the Turkish mining and mine construction contractor for the development of Tulkubash and Kyzyltash. Under the conditional agreement, Çiftay has committed to an investment of US\$31.5 million in exchange for a 12.5% equity stake in the two Kyrgyz resources valuing them at US\$252 million post money combined.

Kyzyltash, meanwhile, with its large well-defined resource which will benefit from its close proximity to and the construction of Tulkubash, is an exciting prospect for the future.

As the Kyrgyz Republic government has declared a state of emergency, we have started to experience a slowdown in construction speed at the Tulkubash project. This delay will likely cause the first gold pour to be moved by six months from late 2021 to Q3 2022. The oil price drop and depreciation of the Kyrgyz SOM is likely to have a favourable economic impact on the Tulkubash Project.

CEO's Statement continued

Environmental, Social and Governance

This year we completed a thorough environmental audit of the Kapan Mine and established methods of best practice in and around the operation. As mentioned earlier, we have worked to establish a safety-first culture at the mine which was a marked change from previous management. We have also helped fund the renovation of a hospital wing in the Kapan town, sponsored “Chaarat Cup” – a major sport and community event in Chatkal, Kyrgyz Republic and continued to organise the Kyrgyz Republic Investment forum held in London, helping promote the country as an investment destination. Closer to home we have changed the Board of Directors and management teams to ensure that levels of governance are also kept at the highest standard.

As ever, we continue to look ahead to new goals and targets. We want to build on the foundation we have laid this year; further enhancing our team and continually developing our overall company structure, in addition to the construction of the Tulkubash mine.

Financing / M&A

During the year we received strong support from our shareholders and funders, including the raising of US\$60.9 million comprising bank funding to acquire Kapan and, in addition, other borrowings to fund the Group's activities, together with equity raisings during 2019.

The Company continues with its efforts to advance project financing for the Tulkubash Project. However, in the current environment each funding institution is assessing the situation and implications for their own businesses. The efforts to optimise the funding structure, as well as the project financing discussions for the construction of

the Tulkubash gold project in the Kyrgyz Republic are ongoing with interest from multiple parties. However, the timeline on those discussions is likely to be impacted by the pandemic. On 7 April 2020, the Company agreed an extended maturity date of 31 December 2020 from 31 March 2020 for the loan, originally announced on 15 November 2018. The working capital facility from Chaarat's largest supporting shareholder, Labro Investments Limited, provides a further US\$7.0 million of additional liquidity. Nevertheless, future financing will be necessary and reconsidered when the COVID-19 pandemic subsides. Please refer to the going concern disclosure in Note 2 for further detail.

We are constantly reviewing M&A options and opportunities, with focus on ensuring that any deals are brokered along the lines of strict criteria and value creation which combined will enhance the shareholder's portfolio.

In summary, we want to work towards building Chaarat into a leading publicly listed gold company with its focus across the countries of the Former Soviet Union. A Company with world class assets and proven excellence in environmental standards, social awareness and good governance.

I would like to thank all at Chaarat for their hard work during a very rewarding year, a year where we have transformed into a company with production, growth and vision.

Artem Volynets

Chief Executive Officer

9 April 2020





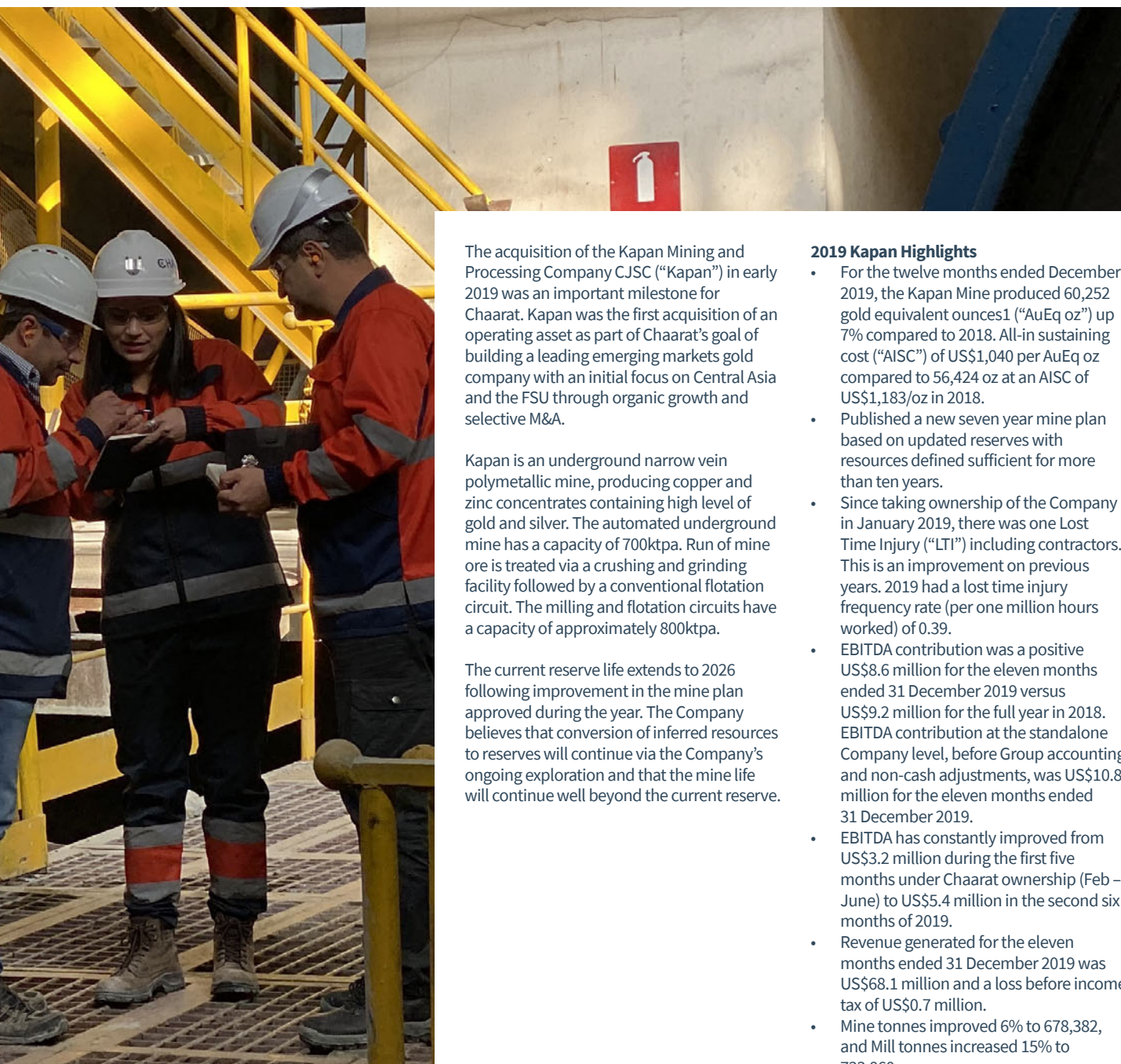
KAPAN

TRANSFORMATION FROM DEVELOPER TO PRODUCER



Overview

The Kapan Mine and Processing Company was acquired by Chaarat in early 2019 for a consideration of US\$50 million.



The acquisition of the Kapan Mining and Processing Company CJSC (“Kapan”) in early 2019 was an important milestone for Chaarat. Kapan was the first acquisition of an operating asset as part of Chaarat’s goal of building a leading emerging markets gold company with an initial focus on Central Asia and the FSU through organic growth and selective M&A.

Kapan is an underground narrow vein polymetallic mine, producing copper and zinc concentrates containing high level of gold and silver. The automated underground mine has a capacity of 700ktpa. Run of mine ore is treated via a crushing and grinding facility followed by a conventional flotation circuit. The milling and flotation circuits have a capacity of approximately 800ktpa.

The current reserve life extends to 2026 following improvement in the mine plan approved during the year. The Company believes that conversion of inferred resources to reserves will continue via the Company’s ongoing exploration and that the mine life will continue well beyond the current reserve.

2019 Kapan Highlights

- For the twelve months ended December 2019, the Kapan Mine produced 60,252 gold equivalent ounces¹ (“AuEq oz”) up 7% compared to 2018. All-in sustaining cost (“AISC”) of US\$1,040 per AuEq oz compared to 56,424 oz at an AISC of US\$1,183/oz in 2018.
- Published a new seven year mine plan based on updated reserves with resources defined sufficient for more than ten years.
- Since taking ownership of the Company in January 2019, there was one Lost Time Injury (“LTI”) including contractors. This is an improvement on previous years. 2019 had a lost time injury frequency rate (per one million hours worked) of 0.39.
- EBITDA contribution was a positive US\$8.6 million for the eleven months ended 31 December 2019 versus US\$9.2 million for the full year in 2018. EBITDA contribution at the standalone Company level, before Group accounting and non-cash adjustments, was US\$10.8 million for the eleven months ended 31 December 2019.
- EBITDA has constantly improved from US\$3.2 million during the first five months under Chaarat ownership (Feb – June) to US\$5.4 million in the second six months of 2019.
- Revenue generated for the eleven months ended 31 December 2019 was US\$68.1 million and a loss before income tax of US\$0.7 million.
- Mine tonnes improved 6% to 678,382, and Mill tonnes increased 15% to 733,860 year-on-year.
- Recoveries improved to 81.4% in 2019 versus 77.8% in 2018 following improvements achieved in the grinding and flotation circuits.
- Fleet availability improved as equipment issues seen at the beginning of the year were resolved by the end of Q3 2019 and improved further in Q4 2019 by 5%.
- Cost improvements were achieved due to retendering all services and goods, bringing outsourced contracts in-house and monitoring use of consumables.

2019 full year production consists of:

Kapan	2019	2018	% Change
Production (oz)	60,252	56,424	7
All-in sustaining cost (US\$) ¹	1,040/oz	1,183/oz	(14)
Sales (oz)	55,255	50,915	9
Gold production (oz)	32,791	30,179	9
Silver production (oz)	557,001	486,963	14
Copper production (t)	1,719	1,583	9
Zinc production (t)	6,476	6,330	2.3
Realised gold price (US\$)	1,413/oz	1,268/oz	11

* Full year production costs given for comparative purposes. The Group consolidated results include 11 months of Kapan operations.

Operational Review

Armenia continued

Kapan continued



Realised gold price for the year was US\$1,413/oz (2018: US\$1,268/oz), which is US\$163/oz higher than the 2019 internal budget price.

Recoveries improved to 81.4% in 2019 versus 77.8% in 2018 following improvements in the grinding and flotation circuits. The Mill treated two types of ore during the year. 733,860t of Kapan ore was treated which was a 15% increase over 2018. The higher tonnage was due to a 6% improvement in mined tonnes and the treatment of the ROM ore stockpile. In addition, 8,500t of third-party gold ore was treated through the mill on a batch basis to take advantage of the additional mill capacity. Third Party ore is a straight gold containing ore making a gold concentrate that is sold as a separate product. This ore contains high

levels of clay and refractory gold, both of which lead to lower recoveries compared to the normal Kapan ore treated.

The fleet availability issues seen in Q2 were fully resolved at the end of Q3. This allowed for improved mining rates. Replacement of aging equipment will be an area of focus during 2020 to allow for continued optimisation and cost reduction.

Cost improvements were achieved in 2019 thanks to an improved tendering process, bringing outsourced contracts back in-house, and improved monitoring and use of consumables. The tendering process utilises the local company website to advise suppliers of all open tenders and allows for a highly competitive and transparent procedure.

Underground development was 23,136 metres for the year. Increased meterage is improving flexibility and availability of faces underground, allowing for consistent delivery of ore to the plant.

Reserve and Resource Update

During the year the Company reported updated resources and reserves for Kapan following the guidelines and requirements of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("the JORC Code"), 2012 (JORC 2012).

The Mineral Resources account for depletion as well as new assay and geological data derived from 24,321 meters of underground drilling completed in 2019.

Mineral Resources

The following table summarizes the current Mineral Resources:

Classification	Tonnes (mt)	Density	Grade					Metal				
			Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)	AuEq (g/t)	Au (koz)	Ag (koz)	Cu (t)	Zn (t)	AuEq (koz)
Measured	0.76	3.04	4.23	68.62	0.74	3.24	8.21	103	1,674	5,640	24,648	200
Indicated	8.04	3.02	2.72	52.37	0.57	2.31	5.67	703	13,515	46,132	186,016	1,463
Measured and Indicated	8.80	3.02	2.85	53.77	0.59	2.39	5.89	806	15,189	51,772	210,664	1,663
Inferred	7.64	3.01	2.46	51.22	0.58	2.16	5.29	602	12,562	44,034	164,792	1,298

1. The effective date of the Resources is 1st August 2019. Mineral Resources that are not mineral Reserves do not have demonstrated economic viability. Numbers may not sum due to rounding.

2. The gold equivalency formula is: Au Eq = Au + ((Ag g/t * (US\$15.5 / US\$1,250)) + ((Cu % * (US\$6,000 * 31.1035 / US\$1,250)) / 100) + ((Zn % * (US\$2,500 * 31.1035 / US\$1,250)) / 100).

3. Mineral Resources are Inclusive of Ore Reserves

4. The resource estimate was classified following the requirements of the JORC Code (2012) reporting code.



The Updated Mine Plan

The Mineral Resources formed the basis for the revised Ore Reserves and Life of Mine plan (LOMP) announced during the year:

The new LOMP increased mine life from 5 to 7 years and AuEq production averaging 55 koz per annum. The Mine Plan was developed to maximize both value and mine life. The Plan is based on an average mine production of 700,000 tonnes per annum (tpa). Mill throughput of 750,000t is planned to be achieved by purchasing and treating an additional 50,000t of third-party ore per annum.

Ore Reserves

For the Kapan Ore Reserves, Chaarat developed a mining block model by applying the modifying factors necessary for conversion of Mineral Resources to Ore Reserves. Those factors included amongst others, operating costs, mining dilution and extraction factors.

The LOMP's average Operating Cash Cost and All in Sustaining Cost ("AISC") are US\$817/AuEq oz produced and US\$1,032/AuEq oz produced respectively. Pre-tax cash flow for the LOMP averages US\$16 million per annum and Pre-tax NPV is US\$78 million at a discount rate of 10%. Sustaining Capex guidance for the LOMP is approximately US\$4 million per annum.

Geology, Exploration and Future Potential at Kapan

The Shahumyan mineralisation is characterised by narrow veins (0.2-2.0 m), steeply dipping (70°-85°), east-west orientation, and contains gold-base metals (Cu-Zn-Pb-Au-Ag). There is one Exploration Licence covering 90.7km² which draws from the Shahumyan deposit.

- Total resources that presently sit outside of the Plan amount to 7.64 Mt at 5.29 g/t AuEq for 1.298koz AuEq oz.
- These resources will continue to be drilled to move Inferred Resource to M&I.
- There are several known areas of satellite mineralization that sit within the license area that have the potential for future development.
- Additional target areas exist in close proximity to the mine that have future potential as exploration targets.

Significant production potential remains through the conversion of resources currently outside the LOMP and as a result the actual mine life is expected to be longer than 7 years. There is good potential to add reserves from upgrading and conversion of these resources. Historically Kapan reserve depletion has been replenished through ongoing exploration and development. This is expected to continue.

In addition, there are known exploration targets within the existing licence area and further away but close to the current mine infrastructure. Exploration and development of these areas over the next few years should allow Kapan to develop new operating areas with the potential to debottleneck mine production and allow further expansion of the mill. Capacity for up to 1.2Mt of ore is already installed in the mill and can be put into service with minimal capital cost.

Ore Reserves

The following table summarizes the current Ore Reserves:

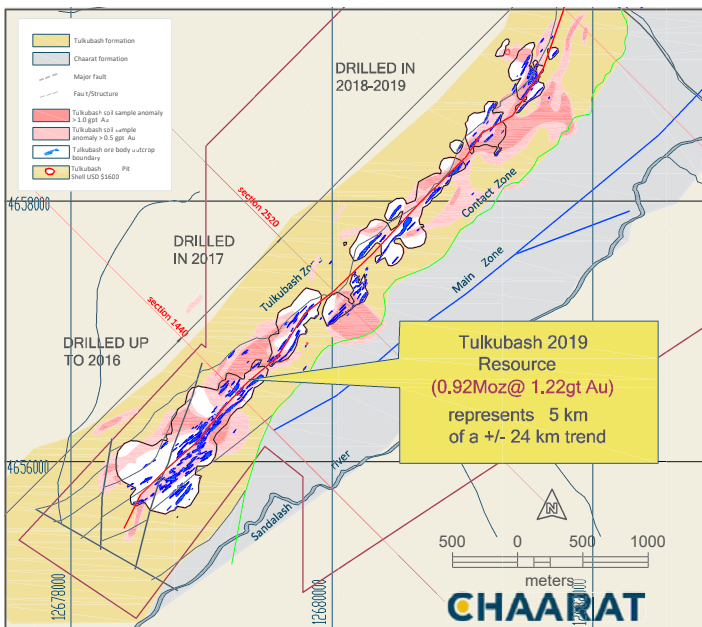
Classification	Tonnes (Mt)	Grade					Metal				
		Au (g/t)	Ag (g/t)	Cu (%)	Zn (%)	AuEq (g/t)	Au (Koz)	Ag (Koz)	Cu (Kt)	Zn (Kt)	AuEq (Koz)
Proven	0.17	2.65	40.39	0.42	2.06	4.8	14	220	0.71	3.49	26
Probable	4.34	1.65	31.38	0.34	1.31	3.19	230	4373	14.86	56.88	445
Total Proven and Probable	4.5	1.69	31.72	0.35	1.34	3.25	245	4594	15.57	60.38	471

Notes:

- The Ore Reserves have been compiled and reported fulfilling the requirement of the JORC Code (2012) reporting code.
- Ore Reserves are based on long-term metal prices of US\$1,400/oz Au, US\$17/oz Ag, US\$6,000/t Cu, and US\$2,400 Zn.
- Ore Reserves are based on a gold equivalent cut-off of 2.5g/t Au.
- Mineral Resources which are not Ore Reserves do not have demonstrated economic viability.
- Table subject to rounding errors.
- The average density of Measured and Indicated Resources is 3.02 t/m³. A density of 2.64 t/m³ was used for diluting waste material.
- Tones reported are in situ, dry tonnes.

TULKUBASH

PROJECT DEVELOPMENT VIA A SIMPLE, LOW-COST PROCESSING METHOD



Overview

The Tulkubash oxide heap leach represents the first phase of development for the Chaarat project via a simple, low-cost processing method.



Projects Overview

The Company's focus in the Kyrgyz Republic is on the development of its Tulkubash Gold project. An extensive drilling programme and feasibility studies carried out over many years have delineated a Resource of over 940,000 ounces of gold in the Tulkubash deposit. Mineralization remains open along strike, with only about 5.5 kms of a prospective 24-kilometre trend having been drilled to date.

2019 Tulkubash Highlights

- The project feasibility study was updated and confirmed an initial five-year mine life based on a Proven and Probable Reserve of 24.6Mt grading 0.95g/t gold containing 749koz, an increase of 14% from the published bankable feasibility study.
- Conditional Joint Venture ("JV") agreement signed with Çiftay İnfaat Tahhüt ve Ticaret A.S., a Turkish mining and mine construction contractor
- No lost time injuries for the project.
- First year of significant construction on a year-round basis.
- 2019 drill program increased Proven & Probable Reserves from 22Mt to almost 25Mt, with gold ounces increased by 14% to 749 koz compared to 658 koz in the published bankable feasibility study.
- AISC of US\$802/oz at an annual average production rate of 94koz.
- Signed a Stabilisation Agreement with the Government of the Kyrgyz Republic in respect of the Company's Tulkubash and Kyzyltash projects. It is the first such agreement signed by the Government of the Kyrgyz Republic.

Reserve and Resource Update

Approximately 20,000 metres of drilling took place at Tulkubash in 2019. Results continue to be encouraging and continue to validate the belief that Tulkubash will grow into a world-class gold deposit with the potential to become a new emerging gold district hosting numerous gold deposits.

Resources as at 31 December 2019

Tulkubash open pit heap leach cut-off grade ("COG") 0.3g/t Au

	Tonnes	Au (g/t)	Metal (oz)
Measured	5,266,000	1.28	215,568
Indicated	18,080,000	1.21	701,976
Measured and Indicated	23,346,000	1.22	917,545
Inferred	910,000	0.90	26,205
Total	24,256,000	1.21	943,749

1. Chaarat has used a cut-off grade of 0.30 grams per tonne g/t gold based on the likely economic cut-off for open pit mining and heap leach processing.
2. Quantity and grade are estimates and are rounded to reflect the fact that the resource estimate is an approximation.
3. Mineral resources are not ore reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted to reserves.

Early drilling in 2019 focused on infill and step-outs near the existing resource. This drilling better defined the mineralization in the north-eastern portion of the resource footprint and identified new shallow mineralisation within and adjacent to the current pit outlines.

In addition, roadcut and outcrop mapping and sampling demonstrated extensions of gold mineralisation northeast along strike from the current resource footprint, demonstrating that Tulkubash is a significant gold system with extensive further discovery potential. Drilling and district-scale exploration were accelerated to better increase the understanding of district-scale prospectivity. Satellite imagery interpretation was integrated with geological mapping and geochemical sampling to define new targets.

The roadcut and outcrop mapping and sampling along the strike identified a broad area of >1 g/t Au in rock chip samples in Shir Canyon, immediately to the northeast and along strike from the current resource boundary. Surface mineralisation at Shir Canyon is comparable in grade and extent to that over the Main pit zone of Tulkubash (1 million ounces Au). Rock chip sampling in this area demonstrated wide zones of continuous gold mineralization, defining a corridor of 100 to 150m in width and at least 550m along the strike.

Initial drilling in Shir Canyon has given encouraging results. The year's drilling results were used as the basis for the updated Mineral Resource Estimate and Reserve Estimate. The new Tulkubash mine plan and economic model, will be released, incorporating the new estimate.

The reserve and resource for the current mine life is derived from approximately 5.5kms of a defined 24km strike length for the Tulkubash trend, with mineralisation remaining open along strike.

Operational Review

Tulkubash continued



749koz

Updated Tulkubash Reserves
at 0.95g/t

The pit shell constraint reduced the Tulkubash Resource by approximately 640,000 ounces of gold that would otherwise have been included in the Resource estimate. The loss in tonnage and ounces with respect to the 2018 year-end Mineral Resource Estimate is due principally to the pit shell constraint that was not applied in 2018. This excludes mineralisation that does not fall within the US\$1,600 gold price pit shell.

The focus of the 2020 program will entail infill drilling as required within the current resource footprint to improve confidence and allow finalisation of pit designs as well as further drilling in the Shir Canyon area to further expand and develop the resource there. Surface work on district-scale targets will continue defining targets for the future.

Tulkubash Reserves as at 31 December 2019

Classification	Tonnes	Au (g/t)	Metal (oz)
Proven	6,300,000	0.98	197
Probable	18,300,000	0.93	552
Total	24,600,000	0.95	749

- Ore Reserves are reported with appropriate modifying factors of dilution and recovery. The Reserve is higher tonnage than the Resource due to dilution.
- Numbers are rounded in accordance with disclosure guidelines and may not sum accurately.
- Ore reserves based on a gold price of US\$1300 per ounce.

944koz

Tulkubash Resources at 1.21g/t within 5.5km of a 24km strike zone



Geology and Exploration

Gold mineralisation at Tulkubash, a thickly bedded massive quartzite, occurs in quartzite breccias, quartz stockwork zones, and intensely silicified quartz flooded zones that form multiple parallel lodes trending northeast and dipping 60-80° to the northwest.

The individual gold-bearing lodes combine to form a mineralised zone that varies from 110 to 250 metres wide. This has been developed over a strike length of approximately 4kms. Mineralisation is open to the northeast along strike and down dip below the limits of the current drilling (± 150 metres).

The gold is very fine grained and is associated with minor pyrite and stibnite. Much of the Tulkubash Zone is strongly oxidised and is amenable to heap leach processing.

Major Project Developments

In March 2019, Chaarat signed a binding term sheet for a Joint Venture (“JV”) with Çiftay İnsaat Tahnüt ve Ticaret A.S., a Turkish mining and mine construction contractor, to collaborate on its assets in the Kyrgyz Republic. The conditional and non-binding joint venture agreement was concluded in September 2019. Çiftay will progressively invest up to US\$31.5 million in cash for a corresponding 12.5% equity stake in the two Kyrgyz assets.

In April 2019 Chaarat updated its Bankable Feasibility Study (BFS). A significant outcome of the 2019 Feasibility Study is the reduction in anticipated initial capital investment from around US\$132 million to US\$109.7 million, which includes a US\$10 million contingency. The feasibility study also confirmed average annual production of 94koz, at an AISC of US\$802/oz.

In November 2019 Chaarat received formal permits to allow for the removal of trees in the construction and mining areas of the project. The fee for the permit provides for the replanting of the same number and type of tree in other parts of the country. Obtaining this permit was a critical milestone in the overall project timeline.

In late December, Chaarat concluded a Stabilisation Agreement with the Government of the Kyrgyz Republic in respect of the Company’s Tulkubash and Kyzyltash projects. The Agreement provides formal assurances related to taxes and licence retention fees for the 10-year period of the Agreement. Under the Agreement the parent Company, Chaarat Gold Holdings Limited has a commitment to invest a minimum of US\$20 million in the share capital of its subsidiary located and operating in the Kyrgyz Republic, Chaarat Zaav, within the first five years of signing the stabilization agreement. This is a very important step for the Company as it provides an increased level of certainty for the project going forward. It is the first such agreement signed by the Government in Kyrgyz Republic.

Engineering and Construction Update

The Tulkubash oxide heap leach project has advanced well during 2019. The updated feasibility study confirmed an initial five-year mine life based on a Proven and Probable Reserve of 24.6Mt grading 0.95g/t gold containing 749koz, an increase of 14% from the published bankable feasibility study. The nominal processing rate is 4.9 million tonnes of ore per annum, at an average life of mine strip ratio of 2.64 (waste:ore).

The recently released Mineral Resource Estimate and Reserve Estimate will be incorporated into an updated Tulkubash mine plan and economic model.

LogiProc is engaged as the lead engineering company alongside Ausenco, Azmet, YPT, Metso and Agrekko to develop the project to a final detailed engineering level. In country adaptation and legalisation to country codes is progressing well.

Detailed engineering has progressed, and several project components have been finalized. These comprise Initial earthworks including mobilization of equipment, second phase of equipment mobilization, ore haul

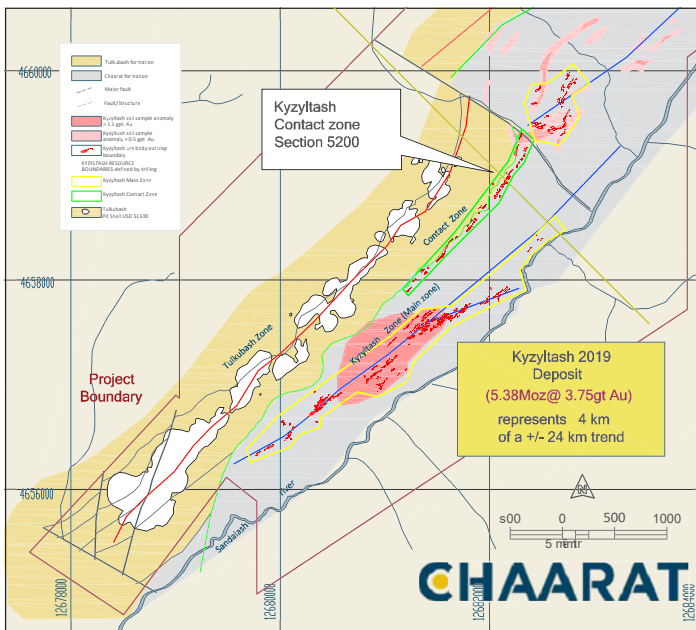
road and platforms construction, camp, explosives and AN storage platform completed, site access road upgrade to improve year-round access, installation of 360-man advance construction camp, detailed design of HLF, Crushing Circuit and ADR is advancing, local designs to ensure early start of construction are advancing; and tree cutting permit for the whole site has been secured and tree-cutting has commenced.

The significant global restrictions on the movement of people due to COVID-19 will impact our workforce mobilization for the summer construction period at our Tulkubash Project. This delay will likely cause the first gold-pour to be moved by six months from late 2021 to Q3 2022. Project cost is still estimated to be in line with the BFS level of US\$110 million, which includes a US\$10 million contingency.

Since the start of works, 343,000m³ of soil and rock have been moved during the construction of haul roads and compacted platforms for the camp area, crusher, and other areas. In late 2019 Pamir Mining LLC (Çiftay’s designated entity in the Kyrgyz Republic) mobilised additional equipment to start the earthworks for the heap leach area. 2019 drilling confirmed the Company’s opinion that there is significant potential to increase the existing Tulkubash resources prior to the first gold pour in Q3 2022, and that this exploration success is expected to add gold resources in future years.

KYZYLTASH

HIGHER GRADE SULPHIDE ORE BODY WILL FORM THE SECOND PHASE OF DEVELOPMENT



Overview

The large, higher grade Kyzyltash sulphide ore body will form the second phase of development at the Chaarat project.

5,377koz

Kyzyltash Resources at 3.75g/t defined within 3km of 24km trend



The other project in country, is the Kyzyltash project, a higher grade, refractory deposit adjacent to the Tulkubash oxide mineralization, at which an additional 5 million ounces of gold has been delineated. Its extraction will be more complex given the refractory nature of the ore. There are a number of proven technologies available to economically extract the gold from this type of ore body. Over 40% of the annual world gold production coming from this type of ore.

In 2019 our major focus in the region was on the exploration and development of the Tulkubash oxide deposit. Our plan for 2020 is to carry out drilling and metallurgical test work to further develop this project.

The refractory Kyzyltash ore will be processed through a refractory processing plant, recovering gold via pre-oxidation followed by direct cyanidation. The exact processing method has yet to be confirmed.

The currently defined resource remains 4.5 million ounces of gold which is potentially capable of supporting a seven to eight-year mine life at a production rate of 300,000 ounces of gold per year.

The Kyzyltash ore body continues to offer Chaarat a clear path to organic growth. In the medium term, subject to further metallurgical work on Kyzyltash, the Company's plans remain to have both Tulkubash and Kyzyltash in production in parallel, producing up to 400,000 ounces of gold per annum.

Mineral Resources

Following the update to the 2016 resource for Tulkubash, the Kyzyltash resources were restated at a cut-off grade of 2.0 g/t. This is based on a block model which had been prepared on a basis suitable for selective mining in an underground environment.

Mineral Resources

Underground COG 2.0g/t Au

	Tonnes	Au (g/t)	Content (koz)
Measured	6,722	3.26	681
Indicated	32,794	3.79	3,864
Measured and Indicated	39,516	3.70	4,545
Inferred	6,611	4.05	832
Total	46,127	3.75	5,377

1. The Kyzyltash resource is based on the block model originally developed for the November 2014 resource update.
2. Resources have been stated on the basis of underground mining as this reflects the selectivity of mining consistent with the estimation parameters.
3. The potentially open pitable resources at Kyzyltash, previously announced in 2016, have not been re-estimated to understand the impact of dilution - all resources have been included within the underground mineable resource table.
4. A new block model would be required prior to reporting resources at Kyzyltash suitable for open pit mining.
5. The underground resources at Kyzyltash have been reported at a cut-off grade of 2.0g/t. The previously reported underground mineable resources in 2016 were reported at a cut-off grade of 1.8g/t.

MANAGEMENT ARE COMMITTED TO CONTINUE RAISING FUNDS TO DELIVER ON OUR AMBITIONS



Income statement

Revenues during 2019 amounted to US\$68.1 million, compared with nil in the corresponding period in 2018. This represented sales of concentrate at Kapan for the eleven-month period following acquisition by the Group from 30 January to 31 December. During this period, Kapan sold 4,025dmt of copper concentrate and 5,283dmt of zinc concentrate, containing a combined 55,255 ounces Au Eq.

The operating loss for the Group for the year ended 31 December 2019 was US\$18.4 million. This included a positive EBITDA contribution from Kapan of US\$8.6 million and loss before tax of US\$0.7 million (refer to Note 7 for further detail), offset by depreciation and amortisation of US\$5.1 million as well as corporate and overhead costs of US\$21.4 million at head office and in the Kyrgyz Republic. The EBITDA contribution at the standalone Company level, before Group accounting and non-cash adjustments, was US\$10.8 million for the eleven months ended 31 December 2019. The increased operating loss of US\$18.4 million compared with US\$13.7 million for the 2018 financial resulted mainly from non-cash charge of US\$9.8 million for share-based payments

in respect of the Group's management incentive plan (2018: US\$0.4 million). Acquisition-related costs of US\$3.5 million and US\$1.4 million were charged to administrative expenses in the consolidated income statement for the years ended 31 December 2018 and 31 December 2019, respectively.

Finance costs were US\$9.4 million compared with US\$3.4 million in 2018. This resulted from additional funding taken out both in the second half of 2018 and the 2019 financial year to finance the Group's activities, including the bank loans for the acquisition of Kapan. Income taxes were US\$1.5 million compared with no taxes in the comparable year, which is as a result of the acquisition of Kapan. Consequently, the Group made a loss for the year after tax of US\$29.4 million compared with US\$17.0 million in the 2018 financial year.



Revenues during 2019 amounted to US\$68.1 million, compared with nil in the corresponding period in 2018.

Balance sheet

The Group's balance sheet at 31 December 2019 includes the consolidation of Kapan following its acquisition on 30 January 2019. Kapan's assets and liabilities have been consolidated under the acquisition accounting method using fair values at 30 January 2019.

Non-current assets increased from US\$48.7 million at 31 December 2018 to US\$103.1 million at 31 December 2019. The increase was mainly due to the inclusion of property, plant and equipment at Kapan and a deferred tax asset on acquisition fair value adjustments which will be amortised over the life of the Kapan operation. Additionally, exploration and evaluation costs of US\$11.5 million were capitalised in the period relating to the asset in the Kyrgyz Republic.

Current assets are US\$23.9 million at 31 December 2019 compared with US\$6.4 million at 31 December 2018. This increase is mainly related to the inclusion of inventories (both spare parts and concentrate stocks), receivables and prepayments at Kapan. Current assets at 31 December 2019 included cash and cash equivalents of US\$3.6 million.

Total liabilities at 31 December 2019 were US\$106.8 million compared with US\$31.4 million at 31 December 2018. This was mainly due to an increase in borrowings of US\$60.9 million, mainly due to the third-party bank funding totalling US\$40.0 million used to fund the acquisition of Kapan, which has since been partly repaid, as well as additional borrowings to fund the Group's corporate and development activities and the issuing of convertibles to new investors. The movement in borrowings is set out in more detail in Note 22, Note 23 and Note 26. In addition, there is a rehabilitation provision of US\$8.6 million relating to Kapan following its acquisition and consolidation.

Total equity was US\$20.2 million at 31 December 2019 compared with US\$23.6 million at 31 December 2018. This mainly reflects the loss for the period of US\$29.4 million which has been offset by the increase in the share option reserve of US\$9.2 million as a result of the management incentive plan that was implemented during 2019 as well as the increase in share premium of US\$16.6 million. The movement in share capital is set out in more detail in Note 20 (b).

Cash flow

During the year 2019, the Group generated operating cash flows of US\$2.6 million, compared with an operating cash flow consumed of US\$8.8 million in 2018. The positive cash generation mainly represented the positive EBITDA contribution from Kapan and favourable working capital movements, partly offset by expenditure on corporate overheads and development costs.

Net cash used in investing activities in the 2019 financial year was US\$54.3 million, compared with US\$19.3 million in the corresponding 2018 financial year. This mainly reflected the payment for the acquisition of Kapan together with capitalised exploration and development spend in the Kyrgyz Republic.

Cash flow from financing activities in the period amounted to US\$54.1 million, compared with US\$21.9 million in the corresponding 2018 financial year. This mainly related to the bank funding to acquire Kapan and other borrowings to fund the Group's activities as explained in the balance sheet section above, net of direct transaction costs, together with the equity raise in the period.

Cash and cash equivalents at 31 December 2019 were US\$3.6 million compared with US\$1.2 million at the start of the year.

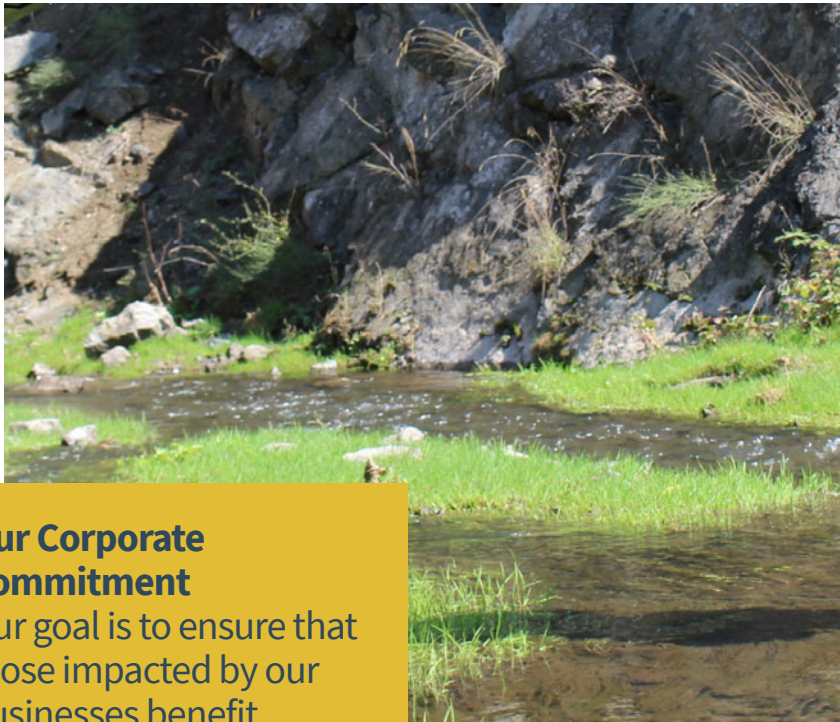
Financing

In order to achieve the planned operational outlook management will need to raise future financing. Apart from the funds still available under the Labro facility agreement, there are currently no binding agreements in place in respect of any additional funding and there is no guarantee that any course of funding will proceed. Management is committed to raising additional funds and has an established track record of successfully achieving this in the past.

Going concern

Further details of the Group's status as a going concern and expected future financing plans are set out below in Note 2 to the financial statements.

CHAARAT IS COMMITTED TO GOOD INTERNATIONAL INDUSTRY PRACTICE



Our Corporate Commitment

Our goal is to ensure that those impacted by our businesses benefit economically, socially and environmentally from our activities.

At Chaarat, we believe good performance starts with how we effectively engage with the communities and countries in which we operate. It is through these interactions, whether they be at government level or with the local businesses we buy from, that we can maintain our credibility, respect and social licence to operate. Our goal is to ensure that those impacted by our businesses benefit economically, socially and environmentally from our activities.

Our commitment is to provide a legacy, not just an immediate financial impact. Therefore, our core focus regarding community engagement is to enhance the educational, health, and social wellbeing for those communities impacted by our activities.

We work not only to meet the guidelines of good international industry practice, but to ensure we work within the culture to help promote the goals and priorities of our host communities.

By working in this way, we have helped improve child welfare and education, women's health and fostered the creation of businesses offering equal employment in the nearby communities where we operate.

We have also ensured that we work to the highest standards of environmental stewardship and find ways to minimise not just our future footprint, but also that of those that have impacted the environment previously.

With regards to health and safety, we believe in ensuring the highest standards for all those working at our sites, not just our direct employees.

Health and Safety

For Chaarat creating and maintaining a safe workplace is a core value. We are committed to the belief that all incidents that could injure our employees, contractors and visitors are preventable.

One of our primary objectives for 2019 was to ensure that we successfully embedded our safety management systems into Kapan. This involved changing beliefs and culture to ensure that safety standards and values were applied to all personnel, whether direct employees or employed via the many contracting and service companies we work with. This culture change is built on the following guiding principles:

- All incidents are preventable.
- No work is so important that we can't take the time to do it safely.
- Everyone has the right to refuse work which they believe to be unsafe.
- Working together, we can find safe ways to get the job done.
- Production is only sustainable if we carry it out in a safe manner.

Our focus has been on integrating our contract personnel into our safety management systems and ensuring that their performance is the same as our own employees. Historically this has not been the case at Kapan, and consequently there has been a cultural change including all parties since Chaarat took control. In less than a year of ownership we are happy to report that there has been significant change, and everyone is working together to reach even higher levels of performance.

Providing the knowledge, skills and ability through effective training is essential for us to maintain and grow our safety culture. This is especially true in Kyrgyzstan where we are rapidly increasing our local work force. They are engaged in operating heavy mobile fleet in mountainous terrain, field geology work, construction and many other tasks that have inherent high risk if not done correctly. Our safety staff at site spend significant time in developing and conducting training programs, monitoring success and ensuring positive performance.

Another key focus for our Tulkubash project has been the continuous redevelopment and refining of our safety management system as we have moved through the various project stages. From pure exploration in 2018, to camp and road construction and the management of a heavy mobile fleet in 2019. This evolution will continue as we ramp up construction during 2020 and 2021 on the heap leach pad, crusher pads and other major items.

The winter of 2019/20 was our most active winter to date. Operating in this region during the winter period adds a significant level of complexity due to the cold, snow and ice, and avalanche risk. To effectively manage these hazards, we have implemented and trained highly effective mountain rescue & avalanche management teams. As with all effective teams, their primary focus is on prevention of an incident, but their training, expertise and experience means they are as ready as any Mine rescue team to act if needed.

Given the remoteness of our operation, we have made significant changes to the medical facilities at our site. What previously was a First Aid room is now a small hospital capable of dealing with most issues that might affect our staff. We now also have a full-time medical staff including a 24-hour doctor and a paramedic on each shift. Our emergency rescue, medical and ambulance staff practise and train regularly in the event their services are needed.

Through the success of our people and our safety management programs, our Armenian operation had just one lost time injury and, achieved a Lost time injury frequency rate ("LTIFR") of 0.39 per one million hours worked. Since the start of the project, Tulkubash has worked over 500,000 hrs with no lost time injuries.

Environment

Tailing Storage

Sadly, at the start of 2019 we were all reminded of the consequences that can occur in mining if risks are not effectively managed with the tragic failure of the tailings dam at Vale's Brazil Operation.

The stability of the Tailing storage facility at Kapan has been a key focus from the beginning. We engaged international consultants prior to our purchase to evaluate the condition of the current tailings storage facility (TSF), and immediately started developing a plan for improving the strength of the dam to meet international standards. The initial TSF construction was done using a method called upstream construction. This design was very popular in the 1980's and 1990's due to ease and cost of construction.

The new design we are implementing negates the problems of upstream construction by reinforcing (buttressing) the front faces of both dams using compacted rock to bring the strength of the dam up to modern design standards for seismic resistance.

As well as the rock buttresses, other changes are being made to increase stability in the short term including the installation of horizontal drainage holes. The drainage holes have already been implemented with good success on the Northern wall.

Water Conservation and Reuse

During the year we worked with a local company and government to develop a new process to address one of the legacy water discharge issues that has historically affected the city of Kapan.

The Centralny mine was operated and closed prior to Chaarat's ownership. When the mine closed, liability remained with the Armenian government. Water run-off from the old mine contains dissolved copper and other metals at elevated levels. Prior to the implementation of this new plant, the Centralny mine runoff water flowed into the local river and nearby natural areas.

The new water treatment plant collects these historical water sources and uses a simple metal cementation process to precipitate the dissolved metals. The precipitated copper is then further processed to make copper sulphate solution, which is used as a reagent in the Kapan Mill.

This simple low-cost, low-tech solution has resulted in new employment in the community, cleaned up an historical legacy environmental issue, generated a saleable product to the mine, and reduced greenhouse emissions through reduced transportation.

In our efforts to reduce water usage, the water pumped from the mine now goes through a two-stage cleaning process in the mill ready to be used as raw process water. If the mill is down for any reason, the water is bypassed to a water treatment pond for use at a later date.

Minimising our Footprint

In both the Kapan and Chatkal regions we employ a network of constant environmental monitoring to help us minimise our environmental impact on the region. Data collected, analysed and acted on includes air, groundwater, soil, noise, vibration and seismic information. We also carry out visual inspections of our sites and surrounding areas to ensure that the local flora and fauna are being appropriately protected from both the direct and indirect activities associated with our operations

Environmental, Social and Governance

Continued



Community Engagement

In keeping with our ESG guiding principles, our main areas of focus in our host communities are health, education and sustainable development opportunities.

For many years, despite ever-growing demand, there was no kindergarten in the Geghanush village, which is close to Kapan. As a result, residents had to take their children to other preschools in nearby villages. Through discussions with the leaders of the local region, the Company worked with local tradespeople to transform several rooms in the Geghanush Secondary School into preschool classrooms, complete with a separate entrance and all appropriate requirements needed for a preschool.

The Company also helped construct an outdoor-classroom to provide the students and teachers with the opportunity to have more varied lessons, as well as a venue to hold different events and initiatives. For 2020, the Company will be working with the school to construct a greenhouse so they can learn about ecology, agriculture and sustainability.

In June 2019, the company signed a socio-economic cooperation program with the Kapan community, under which 100 million AMD (US\$0.2 million) has been set aside for the reconstruction of a new preschool located at 16 Lernagortsneri Street, Kapan. Construction has already begun and is due for completion in mid-2021. This preschool will be one of the few in the region with multifunctional facilities and is designed for approximately 150 children.

At the end of 2019 the newly refurbished Female Health Clinic at Kapan Medical Centre's Polyclinic was officially opened and put into operation. Old doors and windows were replaced, walls repaired and painted, ceilings replaced and the lighting, heating, and ventilation systems throughout the department were upgraded. Approximately 3,000 women from the Kapan region visit the department annually.

The Company has also funded the repair and refurbishment of the Kapan Music and Fine Arts School, which will be completed in April 2020.

The repair works of the Shmavon Movsisyan history museum will be complete by the end of April. A separate hall will be on display for mining companies, past and present, in Syunik marz. Photos and archive materials related to their history will be exhibited.



Doctors and Nurses at the newly renovated female health department of Kapan Medical Center sponsored by Chaarat Kapan.

In 2020, Chaarat Kapan will be working with local government to upgrade the city's garbage collection service, as well as upgrading the roads adjacent to the Tailings storage facility that connect Kapan to the village of Geghanush. Chaarat Kapan will invest about 40-45% of the necessary funds, with the remaining being invested by the central government.

In the Kyrgyz Republic, we organized the second "Chaarat Cup" to support the growth of sporting activities in the region. Attendees from all over Chatkal participated in the annual event. The sporting event featured wrestling, volleyball and ulaq-tartysh (a traditional nomadic horse game). For the first time, the Cup included a women's volleyball team event involving several teams from across the district. In addition to the sporting events, this year's event also included a fair featuring locally produced goods and products, and an exhibition of children's crafts. The event also featured a festive lunch and concert for all in the community. The Fair also highlighted products from the various community businesses created as part of Chaarat's community engagement programs.

We at Chaarat are proud to contribute to development of local children and youth, to share our knowledge and skills to enhance their creative capacity. Our staff members gathered talented children from different villages of Chatkal district to show how to make souvenir plates as a present for their nearest and dearest with their own hands. Also, a master class on modern technique of the traditional nomadic craft - wool felting was organised for local women.

Chaarat Zaav supports local suppliers of goods and services, providing opportunities for the development of small and medium-sized businesses, which additionally creates jobs and contributes to the positive economic development of the region. Thus, with the assistance of the Company, a sewing shop was launched, and uniforms provided, not only for Chaarat Zaav but also for drilling and construction contractors. Currently the local sewing shop also produces overalls for hospitals, uniforms for tax service officials and officers of the Department of Internal Affairs as well as for kindergartens and schools.

Every year Chaarat Zaav agrees to a "social package" of support with the local communities in the immediate vicinity around the Chaarat deposit. It does this through open public hearings in which all stakeholders participate including local authorities, community leaders and residents of the region. In June 2019, a cooperation agreement was signed between the Chatkal district administration and Chaarat Zaav for an amount of US\$0.2 million. Funds were used to finance a scholarship program for 15 local students, paving roads and repairing social infrastructure facilities. One example is the reconstruction of the bridge in the village of Korgon Sai, so that residents of not only this village but also the neighboring ones have direct access to their field plots. The bridge connects the village and agricultural fields with a total area of 300 hectares, where more than 80% of local farmers have crops. Previously, they had to go around the river in order to do field work and transport their crops as the bridge was not suitable for heavy vehicles.

Environmental, Social and Governance

Continued



“The leadership of Chaarat Kapan has always been by our side and it is not a surprise that they are supporting the Medical Center these days, for which we are extremely grateful”

Quote from Karen Melkonyan, Director of the Kapan Medical Center

COVID-19 response

The outbreak of the COVID-19 virus globally also affects the communities we are part of.

Chaarat has treated this virus outbreak seriously from the beginning. After a thorough assessment of precaution measures and an understanding where human and financial resources can be allocated to support the communities, Chaarat implemented several initiatives to address the virus spread.

Chaarat has been adhering to strict sanitary and hygienic measures from the initial outbreak of the virus. The company’s medical staff regularly checks the employees’ temperature providing them with necessary protective equipment and provides regular briefings on precaution measures. Some employees have switched to full-time or part-time online working. The health and safety of employees is number one priority of the company these days.

Kapan, Armenia

The company has purchased and provided the Kapan Medical Center with multifunctional hospital beds, disinfectants and face masks. Chaarat’s operation is one of the largest employers in the region and supporting the country in this situation and to contribute to preventive measures against the virus is another form of our continuous efforts in the community. Jointly with the Kapan Medical Center, the Company has started the renovation of the first and second floors of the former surgical building (which

has been out of operation for 5 years). It will now be turned into the Department of Infectious Diseases, for those who have contracted the virus. Chaarat Kapan will also provide the center with medical equipment and other necessities.

Chatkal valley, Kyrgyz Republic

In Chatkal, Chaarat purchased 10 tons of flour and disinfectants to remote regions and vulnerable groups. In addition, the company made a donation to the Rayon Emergency Fund for the purchase of chlorine-containing disinfection products. In this way, it promotes quarantine and sanitary standards and the implementation of preventive measures that allow the population of the area to have access to both food and disinfectants, which reduce the likelihood of the virus entering surfaces.

With the assistance of the Kyrgyz Embassy to the United Kingdom, 5,000 rapid COVID-19 infection tests have been ordered and are being delivered to our communities. Another 5,000 antibody tests have been ordered in China to understand when people are safe to continue their employment.

Employment

Chaarat is focused on delivering real and long-term economic benefit for all from the very start of its projects.

Our goal is to continuously hire the best local personnel and train them rapidly to gain the skills and experience necessary to do all the required tasks. Consequently, our workforce in the Kyrgyz Republic is already comprised of more than 80% Kyrgyz nationals, and at Kapan the workforce is almost 100% Armenian. The replacement of foreign workers was one of the key transitional activities considered during the Kapan purchase.

As well as employing people from the local community directly, Chaarat supports the local economy by creating indirect job opportunities via contractors, and supply companies.

Government Relations

In November 2019, Chaarat co-sponsored the third Annual Kyrgyz-British Investment Forum in London along with the Kyrgyz Republic government and European Bank for Reconstruction and Development which is based in London. The Kyrgyz delegation was led by the First Vice Prime Minister Kubatbek Boronov. The central focus of the Forum was to identify opportunities for investors in Kyrgyz Republic mining, tourism, IT, banking, development of its regions and entrepreneurship. In total, representatives of about 10 Kyrgyz and 40 British business and consulting companies attended the event. During the forum, a Memorandum of Cooperation was signed between Chaarat Zaav and the Investment Promotion and Protection Agency of the Kyrgyz Republic, which highlights their intention to put joint efforts towards development of the Chaarat project as well as the country's economy.

Another significant event illustrating our positive interaction with government was the signing of a Stabilization Agreement between the Ministry of Economy of the Kyrgyz Republic, Chaarat Gold Holdings Limited and Chaarat Zaav CJSC. This is the first Stabilization Agreement in the history of the country, which is undoubtedly a great achievement for the company. The Stabilization Agreement provides the investor with the right to choose the most favorable conditions for paying taxes should tax rates increase. In case of a change in legislation, the investor may determine whether it is more convenient to maintain the previous conditions or pay according to the adopted amendments. In return Chaarat will invest US\$20 million within 5 years from the date of the Agreement.

In 2020, an investment agreement between Chaarat Zaav and the government is expected to be signed, which will provide even more stable conditions for the successful implementation of the project.

“We are grateful that Chaarat Zaav does not stand aside in the fight against coronavirus and continues to participate with the community within the district”

Quote from Kanzharbek Eshaliev, head of Chatkal district





CORPORATE GOVERNANCE

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Board of Directors



Executive Directors

Non-Executive Directors

Name	Martin Andersson	Artem Volynets	Gordon Wylie
Position held	Executive Chairman	Chief Executive Officer and Executive Director	Deputy Chairman and Senior Independent Director
Date of appointment	October 2016	March 2018	November 2017
Committee membership	N	N	A R N H T
Biography	<p>With previous work in mergers and acquisitions at Booz Allen Hamilton, Mr Andersson has also advised the Russian Government on its privatization programme, in addition to co-founding Brunswick Brokerage, where he held the position of CEO until 1999 when he became Chairman of the joint venture, Brunswick UBS Warburg. Between 2006 and 2013 he was a shareholder and served on the Board of Siberian Coal Energy Company (SUEK), one of the largest thermal coal producers in Russia. Mr Andersson manages an active investment portfolio with an interest in real estate, financial services and information technology.</p>	<p>Mr Volynets has extensive experience in Russian aluminium and energy sectors - including roles as CEO of En+ Group, Deputy CEO and Director for Corporate Strategy at UC RUSAL, and SVP Strategy at SUAL International. Prior to that Mr Volynets was a management consultant with Monitor Group in London. Mr Volynets also served as Chairman of the International Aluminium Institute (2009/10), as executive director on Rusal and En+ Boards in 2007-2013 and as independent director of Norilsk Nickel in 2018-19. Mr Volynets has led private and public transactions worth over US\$30 billion and managed leading businesses in the metals and mining industry. His executive experience in the sector, combined with his industry and investor connections in Russia and Asia, is invaluable in building Chaarat into a leading producer in the FSU region.</p>	<p>As a member of AngloGold Ashanti's senior management team, responsible for their global exploration programme, Mr Wylie worked with prospective, higher risk, geographical regions. Previously the Chairman of Lydian International, which has been constructing a mine at the Amulsar open pit, heap leach, gold project in Armenia. Mr Wylie has 45 years' experience in the mining industry and relevant knowhow of growing companies from exploration to production.</p>

- A** Audit Committee
- R** Remuneration Committee
- N** Nomination Committee
- H** Health, Safety, Environment & Community Committee
- T** Technical Committee
- Denotes Committee Chair



Hussein Barma
Independent
Non-Executive Director

December 2018

A R N

Dr Barma has significant FTSE-50 senior executive experience, gained over 15 years as UK based CFO at Antofagasta plc. He is a qualified lawyer and chartered accountant and has extensive knowledge of the global mining industry and governance and regulations, finance, audit, accounting and investor relations. Dr Barma is an Independent Non-Executive Director and the Audit Chair of Atalaya Mining plc. He is also a principal at Barma Advisory and holds a number of other directorships.

Robert Benbow
Non-Executive Director

July 2018

N H T

Until 31 May 2019, Mr Benbow was the Company's Chief Operating Officer and his responsibilities included oversight of the Company's operations and project development. During his 45-year career, Mr Benbow has taken three greenfield gold developments into production, including Alacer Gold Corp.'s Çöpler Gold Mine in Turkey, which has produced over 1 million ounces as one of the world's lowest cost producers and which recently successfully commissioned a Sulfide Plant that Mr Benbow led through project development. Mr Benbow is also a Director of Powderhouse Gulch LLC (Colorado).

Robert Edwards
Independent
Non-Executive Director

September 2018

N H T

The former Chairman of Global Mining at Renaissance Capital, Mr Edwards has also worked for HSBC and the Royal Bank of Canada. For over 27 years Mr Edwards has worked in the natural resources industry across mining production, new business, investment banking, advisory and board roles. Mr Edwards has extensive experience of the FSU in this capacity. Mr Edwards is currently an Independent Non-Executive Director as well as Chairman of the Corporate Governance and Remuneration and a member of the Audit committees of PJSC MMC Norilsk Nickel. In addition, he is an adviser to several private natural resource companies.

Warren Gilman
Independent
Non-Executive Director

March 2019

A R N

Mr Gilman was Chairman and CEO of CEF Holdings Ltd, a mining investment company, and founded CIBC's Global Mining Group in 1988. While at CIBC, he ran the mining investment banking teams in Canada, Australia and Asia, serving as Managing Director and head of the Asia Pacific region, and later as Vice Chairman for CIBC World Markets. He has advised main mining companies including BHP, Rio Tinto, and Anglo American, and was responsible for some of the largest equity capital markets financings in Canadian mining history. Mr Gilman was also a board member of Niobec Inc. Since 2019, Mr Gilman has been Chairman and CEO of Queen's Road Capital Investment Ltd. He is also a Board member of NexGen Energy Ltd and Aurania Resources Ltd.

Senior Management



Chris Eger
Chief Financial Officer

Appointed July 2018

Mr Eger has extensive financial, M&A and commercial expertise from a 20 year career in investment banking, metals trading and private equity. Previously the CFO of Nyrstar NV, M&A Director at Trafigura AG, and a member of the investment banking group of Bank of America Merrill Lynch, where he specialised in working with metals and mining companies on debt and equity financing, and M&A. He also worked as a director in the global metals and mining group at BMO.



Darin Cooper
Chief Operating Officer

Appointed June 2019

With more than 30 years' experience in the industry, Darin Cooper was most recently Head of Mining at Fusion Capital, a Swiss investment firm. He has held senior roles at Nyrstar, latterly as Vice President of Zinc Smelting. He has also served as COO of Talvivaara Mining Company (Finland) where he worked with the government, creditors and investors to secure financing options during their restructuring.

Directors' Report

The directors of the Company (the “Directors” and/or the “Board”) present their report and audited financial statements for the year ended 31 December 2019.

Principal Activities

The principal activity of the Group is exploration for gold and the development of the Chaarat Gold project in the Kyrgyz Republic. Since the acquisition of the Kapan mine in Armenia on 30 January 2019, its activities also include the production of gold. The Group has a clear strategy to build a leading emerging markets gold company through organic growth and selective mergers and acquisitions (“M&A”) with an initial focus on Central Asia and the Former Soviet Union. Further information is included in the Strategic Report, which is set out on pages 8 to 29 of this Annual Report.

Business Review

The Strategic Report incorporates the Chairman’s Statement, Chief Executive Officer’s Report, Operational Review and Corporate Social Responsibility Report. The Strategic Report contains certain forward-looking statements, particularly concerning the development plans at the Chaarat Gold project and the Group’s M&A strategy. These statements have been made by the Directors in good faith based on the information available at the time of the approval of the Annual Report.

By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors such as, inter alia, increased costs, possible variations in mineral resources, grades or recovery rates, disruption of supplies, failure of equipment or processes to operate as anticipated, a weaker gold market and changes in exchange rates.

Results and Dividends

The Group made a consolidated loss after taxation for the year of US\$29.4 million (2018: US\$17.0 million). The Directors do not recommend the payment of a dividend (2018: nil).

Financial Instruments

The Group’s exposure to financial risks and its policies in relation to the use of financial instruments are explained in Note 30 to the financial statements.

Details of shares issued during the year pursuant to the exercise of financial instruments are set out in Note 20 to the financial statements.

Details of convertible loan notes issued during the year are set out in Note 22 to the financial statements.

Share Capital and Substantial Share Interests

The Company’s authorised share capital as at 31 December 2019 was US\$13,951,670.15 divided into 1,395,167,015 ordinary shares of US\$0.01 each par value (“Ordinary Shares”) (2018: US\$6,000,000). There were 468,811,330 Ordinary Shares in issue as at 31 December 2019 (395,167,015 as at 31 December 2018). Further details of the Company’s share capital, including share options and warrants, and shares and share options issued in the year, are disclosed in Note 20 to the financial statements.

On 9 April 2020, the Company was aware of the following holdings of 3% or more in the Company’s issued share capital:

	Number of shares	%
Labro Investments Limited*	165,254,167	35.15
China Nonferrous Metals Int’l Mining Co. Ltd	22,469,289	4.78
Sarastro Group Limited	17,892,011	3.81
PTML Holdings Limited	14,638,020	3.11

* Martin Andersson, the Company’s Executive Chairman, is the ultimate controlling party of Labro Investments Limited. He is also personally beneficially interested in 3,260,128 Ordinary Shares, representing 0.69% of the Company’s issued share capital. Mr Andersson’s interests combined with Labro’s total 35.84%.

Directors

The Directors who served during the year were:

Executive Directors

Martin A C Andersson	Executive Chairman
Artem O Volynets	Chief Executive Officer

Non-Executive Directors

Hussein Barma	Independent Non-Executive Director
Robert D Benbow	Non-Executive Director*
Robert W J Edwards	Independent Non-Executive Director
Warren P Gilman	Independent Non-Executive Director appointed 21 March 2019
Martin Wiwen-Nilsson	Non-Executive Director resigned 20 March 2019
Gordon F Wylie	Deputy Chairman and Senior Independent Director

* Mr Benbow was an executive director of the Company until 31 May 2019.

The Board considers that there is an appropriate balance of skills within the board and that each of the Directors contributes effectively. In accordance with the Company’s Articles of Association (the “Articles”), Robert Benbow and Gordon Wylie, being the Directors who have been longest in office since their last election, will retire by rotation at the forthcoming Annual General Meeting (“AGM”) and will stand for re-appointment at the AGM.

During the year directors’ and officers’ liability insurance was maintained for the Directors and other officers of the Company.

Going concern

In assessing the Group's going concern status the Directors have taken into account the following factors and assumptions: the current cash position, the latest development plans for the Tulkubash project, the short-term gold price, the cash flow forecasts for Kapan and the Group's capital expenditure and financing plans.

The Directors' assessment of going concern is set out in full in Note 2 of the financial statements, including funding requirements under different scenarios. After making appropriate enquiries and considering the uncertainties involved in the above, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there are currently no binding agreements in place in respect of any additional funding and therefore, as set out in the going concern Note 2 of the financial statements, this indicates the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with applicable legislation in the British Virgin Islands governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Provision of information to auditor

The directors in office at the date of this report are not aware of any relevant information that has not been made available to the auditor and each director has taken steps to be aware of all such information and to ensure that it is available to the Company's auditor.

Corporate Governance

The Company is an AIM listed company and is required to apply a recognised corporate governance code. The Board continues to apply the QCA Corporate Governance Code (the "QCA Code").

The Board has considered how the Company applies the 10 principles of the QCA Code and the corporate governance statement which includes the required disclosures. Explanations can be found on the Company's website at <https://www.chaarat.com/corporate-governance/>.

During 2019, the Chairman continued to focus on articulating a clear strategy for the Company to drive long-term shareholder value. The new management team has continued to work closely with the Chief Executive Officer to develop the highest standards of performance and ethical behaviour. Continuous assessment and an emphasis on continuous improvements are the foundation of the Company's approach. All employees are encouraged to contribute ideas to improve operations whether in safety or efficiency.

The Board and each of its committees considered and discussed their respective performances during 2019. The Board and each of its committees agreed that there were some additional actions that could be undertaken in order to make the Board more effective, but nevertheless agreed that, overall, the Board functioned effectively during the period under review and that its committees continued to discharge their duties in line with their respective terms of reference.

Risk management

The Board has overall responsibility for the Group's systems of internal control and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. Any system can only provide reasonable and not absolute assurance against material misstatement or loss.

The board recognises the need for an effective and well-defined risk management process and, whilst it oversees and regularly reviews the current risk management and internal control mechanisms, it has delegated this responsibility primarily to the audit committee of the Board and senior management.

The Board confirms that there are ongoing procedures for identifying, evaluating and managing significant risks faced by the Group.

Independence

Relationship Agreement with Labro Investments Limited

Chaarat's Chairman, Martin Andersson, is the largest shareholder of Chaarat as he is indirectly beneficially interested in the majority of the shares in Labro Investments Limited (Labro) which as at 9 April 2020 holds 35.15% of the Company's issued share capital.

A relationship agreement has been put in place between the Company and Labro which provides, inter alia, that for so long as Labro beneficially owns or is interested in 20% or more of the issued share capital of the Company, Labro shall have the right to nominate one director to the Board, and not take any action which will circumvent the proper application of the AIM Rules or enter into any transactions with the Company or the Group on any other than on normal commercial terms.

There is a provision in the Articles which states that the Board has the right to require any holder of more than 20% of the Company's shares to make a mandatory offer to all the Company's shareholders to acquire their shares if they acquire an additional interest in any shares. The Board has previously exercised its discretion to waive the requirement for a mandatory offer when Labro acquired Shares in excess of a 20% holding.

The Board believes this is best practice for corporate governance purposes in order to protect minority holders of the Company's shares so that there is no perception that shares are being accumulated with the objective of acquiring the Company at a potentially depressed valuation.

Between 2016 and 2018, the Board considered that Martin Wiwen-Nilsson, Willem de Geer and Sarastro Group Limited should be considered as forming a concert party with Labro for the purposes of the Articles. In December 2018, the Board determined that Sarastro Group Limited should no longer be treated as a member of the concert party. On 21 March 2019, the Board concluded that Labro, Martin Wiwen-Nilsson and Willem De Geer should no longer be considered to be acting in concert and the concert was effectively disbanded from that date.

Directors' Report

Continued

Board and Committees

The Board is currently comprised of seven directors, five of whom are non-executives.

The Board has a breadth and depth of skills and experience to discharge its duties. The current balance of skills of the Board as a whole reflect a range of commercial and professional skills across mining, accounting, banking and finance.

The Chairman of the Board is not defined as independent according to the QCA Code, owing to his executive status and significant beneficial interest in the Company. Gordon Wylie is the Senior Independent Non-Executive Director and Deputy Chairman of the Board.

Four Non-Executive Directors, namely Hussein Barma, Robert Edwards, Warren Gilman and Gordon Wylie, are considered by the Board to be independent in character and judgement. The remaining Non-Executive Director, Robert Benbow, was until 31 May 2019, a former executive of the Company and is therefore not considered by the Board to be independent.

Other than their interests in shares in the Company and the receipt of fees for acting as directors, none of the non-executive directors has business relationships that would interfere with their independent judgement.

Each director is expected to commit such time as is necessary to perform his duties as an officer of the Company and is expected to attend all Board meetings. The Directors and senior management meet quarterly to review progress, to approve strategy and budgets, major capital expenditure and the financial statements and certain other matters which are reserved for decision by the Board. Regular Board calls also take place to provide an update between the quarterly meetings. The quarterly meetings were attended by all Directors during 2019.

The Board is kept informed on an ongoing basis by the Company Secretary about their duties and corporate governance requirements. Training is provided to the Board each year regarding their duties. The Directors and senior management have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of their duties.

Audit Committee

Committee membership during the year under review.

Current committee members	Committee member since
Hussein Barma (chair)	14 December 2018
Warren Gilman	16 May 2019
Gordon Wylie	13 November 2017
Former committee member	
Martin Wiwen-Nilsson	resigned 21 March 2019

The audit committee consists of three independent non-executive directors. The board is satisfied that the committee has recent and relevant financial experience.

Role of the committee: The role of the committee is to assist the Board in discharging governance responsibilities in respect of external audit, risk and internal control, compliance activities and to oversee the integrity of the Group's financial and associated narrative statements. The membership, responsibilities and authorities of the Committee are set out in its terms of reference which are available from the Company's website.

Committee meetings and attendance: The committee met formally six times during the year under review with all meetings being attended by all committee members with the exception of one meeting which was attended by two committee members. When invited, the executive directors, chief financial officer, group financial controller and company secretary attend meetings of the committee. The external auditors also met the committee without executive directors and other employees being present. There were no matters of concern raised during that meeting.

Committee activity: During the year, the committee reviewed the Company's 2018 annual financial statements and 2019 interim financial statements before submission to the Board for approval. As part of this, it considered principal judgemental accounting matters affecting the Group as well as external audit plans and reports including external auditor observations and recommendations made. The committee also considered the external audit plan for the 2019 annual financial statements as part of this year-end close process. Key accounting matters which the committee considered as part of the planning process included carrying values of mining assets, the going concern assumption, acquisition accounting for Kapan, the Çiftay conditional joint venture agreement, share based payments including the management incentive plan, lease accounting under IFRS 16 and revenue recognition. The committee recommended to the board that these 2019 annual financial statements should be approved.

The committee also kept under review internal control and risk management matters, including progress made in the development of management's compliance programme, and the need for an internal audit function. The committee reviewed and amended its terms of reference which were approved by the board. It also reviewed the fees of, the external auditors as well as their independence and the non-audit services provided. In 2019 the non-audit services comprised the review of the interim statement and an audit of Kapan at 31 December 2018 for financing purposes.

External audit: BDO LLP ("BDO") has been external auditor to the Group since April 2013 when PFK (UK) LLP ("PFK") merged with BDO, PFK had been appointed external auditor to the Group in 2009. The committee is satisfied with both the effectiveness of the external audit and with regard to BDO's independence. The committee has therefore recommended the re-appointment of BDO to the board. BDO has expressed its willingness to continue in office as auditor and a resolution to re-appoint BDO LLP will be proposed at the forthcoming annual general meeting.

Remuneration Committee

Committee membership during the year under review.

Current committee members	Committee member since
Gordon Wylie (chair)	14 December 2018
Hussein Barma	14 December 2018
Warren Gilman	16 May 2019
Former committee member	
Martin Wiwen-Nilsson	resigned 21 March 2019

Role of the committee: The role of the committee is to review the performance of the executive directors and senior management and to set the scale and structure of their remuneration, having due regard to the interests of shareholders as a whole and the performance of the Group. The committee also oversees the Company's share incentive arrangements under The Chaarat Gold Holdings Limited Management Incentive Plan (the "MIP").

Committee meetings and attendance: The committee meets as required and, during the year under review, met formally four times with all meetings being attended by all committee members. When invited, the executive directors, chief financial officer and company secretary attend meetings of the committee.

Committee activity: During the year, the committee implemented the MIP referred to in last year's annual report, set the associated KPIs to be achieved and assessed the extent of their achievement. The committee also reviewed and amended its terms of reference. The remuneration of the non-executive directors is reviewed by the whole Board. Details of directors' emoluments and share-based incentives are disclosed in the Remuneration Report.

Technical Committee

Committee membership during the year under review.

Current committee members	Committee member since
Robert Benbow (chair)	14 December 2018
Robert Edwards	14 December 2018
Gordon Wylie	13 November 2017

Role of the committee: The role of the committee is to assist the board in discharging governance responsibilities in respect of technical matters including operational aspects, resource and reserve disclosures, technical aspects of mergers and acquisitions and high value and/or technically complex projects.

Committee meetings and attendance: The committee meets as required and, during the year under review, met formally three times with all meetings being attended by all committee members. When invited, the executive directors and members of senior management attend meetings of the committee.

Committee activity: During the year, the committee reviewed and provided input to all technical reports and provided guidance to senior management. The committee considered JORC compliance, resource and reserve updates and received reports on the operational status of Kapan and Tulkubash. The committee also reviewed and amended its terms of reference.

Health, Safety, Environment and Community Committee

Committee membership during the year under review.

Current committee members	Committee member since
Gordon Wylie (chair)	13 November 2017
Robert Benbow	14 December 2018
Robert Edwards	14 December 2018

Role of the committee: The Committee is responsible for the overall health, safety and environmental performance of the Company and its operations and its relationship with the local communities in the Kyrgyz Republic and Armenia.

Committee meetings and attendance: The committee meets as required and, during the year under review, met formally twice with both meetings being attended by all committee members. When invited, the executive directors and other members of senior management attend meetings of the committee.

Committee activity: During the year, the committee received reports from, and made recommendations to, management concerning health and safety, the environment and community relations matters at its sites. Following completion of the Group's acquisition of the Kapan mine in January 2019, the committee reviewed the results of management's review of that site's SHEC practices versus IFC standards and the plan to address the areas that required improvement. The committee also reviewed and amended its terms of reference.

Nominations Committee

Committee membership during the year under review.

The Nominations Committee is comprised of the whole Board of Directors.

Role of the committee: The Committee is responsible for keeping under review the structure, size and composition of the board, giving consideration to succession planning for directors and other senior executives and identifying and nominating for the approval of the board, candidates to fill board vacancies as and when they arise. Committee activity: Further to the five new appointments to the board following the comprehensive review of the board's composition during 2018, the committee did not wish to propose any further changes to the board's composition during the year. Consequently, the committee did not meet formally during the year. However, the board as a whole kept under review those matters which fell within the remit of the committee.

Relations with shareholders

The Board recognises the importance of maintaining a dialogue with all its shareholders and carefully considering the feedback and taking appropriate action. Dialogue can take the form of individual meetings or presentations to retail investors. The Chairman, Chief Executive Officer and Chief Financial Officer meet with shareholders, analysts and other institutions regularly throughout the year to keep them updated. The AGM and website encourage engagement with the Board and all correspondence and queries are dealt with promptly by the Company Secretary.

Remuneration Report

Policy

The policy of the Company is to ensure the members of the Board are fairly remunerated with regard to the responsibilities undertaken and with regard to comparable pay levels in the mining industry. Bonuses and the award of share options are used to attract, retain and motivate Directors and senior management where appropriate. The award of bonuses and share options is recommended to the Board for approval by the Remuneration Committee.

Total remuneration of directors serving in the year:

Year ended 31 December 2019	Salary US\$'000	Fees US\$'000	Termination payments US\$'000	Share based payments US\$'000	Total US\$'000
Executive Directors					
Martin Andersson [#]	-	375	-	2,820	3,195
Artem Volynets	588	-	-	3,006	3,594
Non-Executive Directors					
Hussein Barma	-	58	-	116	174
Robert Benbow [*]	191	36	-	271	498
Robert Edwards ^{**}	-	45	-	116	161
Warren Gilman	-	35	-	116	151
Martin Wiwen-Nilsson ^{***}	-	497	-	(3)	494
Gordon Wylie	-	154	-	232	386
Total	779	1,200	-	6,674	8,653

[#] these fees have not yet been paid to Mr Andersson

^{*} executive director until 31 May 2019

^{**} appointed 21 March 2019

^{***} resigned 20 March 2019 but remains a senior advisor of Chaarat. The fees comprise, 1,212,121 ordinary shares in the capital of the Company which were issued to Mr. Wiwen-Nilsson at 33p (US\$0.41) per share on or about 23 July 2019. The shares are subject to a lock-up period of 24 months from the date of Mr Wiwen-Nilsson's resignation as a director.

Year ended 31 December 2018	Salary US\$'000	Fees US\$'000	Termination payments US\$'000	Share based payments US\$'000	Total US\$'000
Executive Directors					
Martin Andersson [#]	-	188	-	-	188
Robert Benbow [*]	375	-	-	102	477
Artem Volynets ^{**}	335	-	-	-	335
Non-Executive Directors					
Hussein Barma	-	1	-	-	1
Robert Edwards	-	9	-	-	9
Linda Naylor ^{***}	153	-	163	(52)	264
Dorian Nicol ^{****}	301	25	-	-	326
Richard Rae ^{*****}	-	32	-	7	39
Gordon Wylie	-	30	-	-	30
Total	1,338	127	177	62	1,704

[#] these fees have not yet been paid to Mr Andersson

^{*} appointed 4 July 2018

^{**} appointed 26 March 2018 as a non-executive director and became an executive director on 25 June 2018

^{***} resigned 15 August 2018

^{****} resigned 13 December 2018 but remained a full-time senior executive of the Group until 29 February 2020

^{*****} resigned 13 December 2018

Directors' Interests

Directors' interests in Ordinary Shares

The interests of the directors who held office as at 31 December 2019 (and of persons connected with them), in the Company's Ordinary Shares as at year end and as at the date of this report are shown below:

Director [*]	Ordinary Shares of US\$0.01 each		
	at 9 April 2020	at 31 December 2019	at 31 December 2018
Executive Directors			
Martin Andersson	**168,514,295	***166,548,824	132,196,925
Artem Volynets	5,286,673	3,837,727	0
Non-Executive Directors			
Hussein Barma	166,722	166,722	0
Robert Benbow	960,812	792,866	0
Robert Edwards	131,722	131,722	0
Warren Gilman	481,722	481,722	n/a
Gordon Wylie	327,277	327,277	0

^{*} Refer to Note 28 Related party transactions for further detail on transactions with certain directors.

^{**} This figure comprises 165,254,167 Ordinary Shares held by Labro and 3,260,128 Ordinary Shares in which Mr Andersson is personally interested following the vesting of awards under the MIP.

^{***} This figure comprises 164,737,642 Ordinary Shares held by Labro and 1,811,182 Ordinary Shares in which Mr Andersson is personally interested following the vesting of an award under the MIP.

The Chaarat Gold Holdings Limited Employee Benefit Trust (the "EBT") holds shares to satisfy the vesting of MIP awards. Executive directors are deemed to have an interest in the Ordinary Shares held by the EBT. As at each of 31 December 2019 and the date of this report the EBT held 21,585,108 Ordinary Shares (including the 12,564,494 Ordinary Shares that have already vested under the MIP but which remain in the EBT as they are subject to a holding

period until 31 December 2020 and which are included in the numbers of Ordinary Shares held by directors as disclosed in the table above).

Directors' interests in convertible loans and warrants

As at each of the date of this report, 31 December 2019 and 31 December 2018, Martin Andersson was indirectly interested in loan notes for US\$1,000,000 convertible into 2,849,330 Ordinary Shares (assuming full conversion of principal and interest to maturity).

As at 1 January 2019 Martin Andersson was indirectly interested in 21,367,521 warrants to subscribe for Ordinary Shares. These warrants were exercised in full on 4 November 2019. As at the date of this report and 31 December 2019, Martin Andersson was not directly or indirectly interested in any warrants to subscribe for Ordinary Shares.

Save as disclosed above, no directors of the Company who held office as at 31 December 2019 (or any persons connected with them), had any interest in loan notes convertible into, and warrants to subscribe for, Ordinary Shares as at year end or as at the date of this report.

The Chaarat Hold Holdings Limited Management Incentive Plans

During the year the directors and members of senior management were granted:

- conditional rights to acquire Ordinary Shares (the "RSUs"); and
- options to acquire Ordinary Shares at an exercise price of £0.42 per share (the "Options").

	Performance conditions (exec directors)	Performance conditions (non-exec directors*)	Earliest Vesting Dates	Earliest Delivery Dates	Holding Period
RSUs – 18 September 2019					
Tranche 1 (1/3)	None	None	15 October 2019	31 December 2019	until 31 December 2020
Tranche 2 (1/3)	KPIs for 2019	None	31 December 2019	31 December 2019	until 31 December 2020
Tranche 3 (1/3)	KPIs for 2020	None	31 December 2020	31 December 2020	until 31 December 2020
RSUs – 04 October 2019**					
Tranche 1 (1/2)	None	None	15 October 2019	31 December 2019	until 31 December 2020
Tranche 2 (1/2)	None	None	31 December 2020	31 December 2020	until 31 December 2020

* Robert Benbow was an executive director until 31 May 2019, whereupon he became a non-executive director. Tranche 2 of his RSU award was subject to performance conditions.

** These awards were made in exchange for the surrender of outstanding options under an old plan.

Options – 18 September 2019

(not subject to performance conditions)

	Exercise price	Earliest exercise dates	Latest exercise dates
Tranche 1 (1/3)	£0.42	15 October 2019	18 September 2029
Tranche 2 (1/3)	£0.42	31 December 2019	18 September 2029
Tranche 3 (1/3)	£0.42	31 December 2020	18 September 2029

Full details of the numbers of RSUs and options granted to individual directors and numbers of RSUs that vested during the year are disclosed in the table on page 40.

Award targets for tranche 2 of RSUs granted on 18 September 2019

During the year under review, the remuneration committee set five key performance objectives for the executive directors related to environmental, safety, social and governance matters, achievement of the Kapan mine business plan, M&A activity, progress with the Tulkubash project and investor relations and funding.

The committee has reviewed the performance of the executive directors (including that of Robert Benbow who was an executive director until 31 May 2019) and determined that the KPIs applicable to tranche 2 of their respective RSUs should vest as follows:

Martin Andersson	Executive Chairman	80%	1,448,946
Artem Volynets	Chief Executive Officer	80%	1,448,946
Robert Benbow	Chief Operating Officer*	85%	167,946

* until 31 May 2019

Remuneration Report

Continued

Award targets for tranche 3 of RSUs granted on 18 September 2019

The remuneration committee has established the performance objectives for the executive directors for 2020. These objectives relate to environmental, social and governance matters, corporate governance, corporate finance, human capital, achievement of the Kapan mine business plan for 2020, M&A activity and the Company's Tulkubash and Kyzyltash projects.

Directors' interests in restricted share awards at 31 December 2019 the directors held the following restricted share awards in the Company:

Director	Date of award	Market price at award	Market price at vesting	Number at 01 January 2019	Number awarded during 2019	Number (vested) during 2019	Number (lapsed) during 2019	Number 31 December 2019
Executive Directors								
Martin Andersson*	18 September 2019	£0.314	£0.373	-	5,433,546	(1,811,182)	-	3,622,364
Artem Volynets**	18 September 2019	£0.314	£0.373	-	5,433,546	(1,811,182)	-	3,622,364
Artem Volynets***	04 October 2019	£0.359	£0.373	-	742,425	(371,212)	-	371,213
Non-Executive Directors								
Hussein Barma	18 September 2019	£0.314	£0.373-£0.352	-	197,584	(131,722)	-	65,862
Robert Benbow****	18 September 2019	£0.314	£0.373-£0.352	-	592,751	(197,584)	-	755,451
Robert Benbow***	04 October 2019	£0.359	£0.373-£0.352	-	720,566	(360,282)	-	360,284
Robert Edwards	18 September 2019	£0.314	£0.373-£0.352	-	197,584	(131,722)	-	65,862
Warren Gilman	18 September 2019	£0.314	£0.373-£0.352	-	197,584	(131,722)	-	65,862
Gordon Wylie	18 September 2019	£0.314	£0.373-£0.352	-	395,167	(263,444)	-	131,723

* Since year end, 1,488,946 Ordinary Shares have vested under the MIP.

** Since year end, 1,488,946 Ordinary Shares have vested under the MIP.

*** These awards are not subject to performance conditions and are due to vest on 31 December 2020.

**** Robert Benbow was an executive director until 31 May 2019, whereupon he became a non-executive director. Tranche 2 of his 18 September 2019 RSU award was subject to performance conditions and, since year end, 167,946 Ordinary Shares comprises in that tranche have vested.

Directors' interests in share options

At 31 December 2019 the directors held options to subscribe for Ordinary Shares as follows:

Director	grant	price	Number of Ordinary Shares under option as at 2019	Number 2019	Number surrendered 2019	Number of Ordinary Shares under option as at 2019	Earliest date	Exercise end date
Executive Directors								
Martin Andersson	18 September 2019	£0.42	-	16,300,639	-	16,300,639	One third 15 October 2019	18 September 2029
							One third 31 December 2019	18 September 2029
							One third 31 December 2020	18 September 2029
Artem Volynets	18 September 2019	£0.42	-	16,300,639	-	16,300,639	One third 15 October 2019	18 September 2029
							One third 31 December 2019	18 September 2029
							One third 31 December 2020	18 September 2029
Non-Executive Directors								
Hussein Barma	18 September 2019	£0.42	-	592,751	-	592,751	One third 15 October 2019	18 September 2029
							One third 31 December 2019	18 September 2029
							One third 31 December 2020	18 September 2029
Robert Benbow	13 February 2017	£0.15	3,500,000	-	(3,500,000)	-	12 February 2017	2 February 2021
	10 July 2017	£0.16	500,000	-	(500,000)	-	10 July 2017	10 July 2025
	18 September 2019	£0.42	-	1,788,252	-	1,788,252	One third 15 October 2019	18 September 2029
RRobert Edwards	18 September 2019	£0.42	-	592,751	-	592,751	One third 15 October 2019	18 September 2029
							One third 31 December 2019	18 September 2029
							One third 31 December 2020	18 September 2029
Warren Gilman	18 September 2019	£0.42	-	592,751	-	592,751	One third 15 October 2019	18 September 2029
							One third 31 December 2019	18 September 2029
							One third 31 December 2020	18 September 2029
Gordon Wylie	18 September 2019	£0.42	-	1,185,501	-	1,185,501	One third 15 October 2019	18 September 2029
							One third 31 December 2019	18 September 2029
							One third 31 December 2020	18 September 2029

By Order of the Board

Frances Robinson
Company Secretary

9 April 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements and have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in order to give a true and fair view of the state of affairs of the Group and of its profit or loss for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping records that are sufficient to show and explain the Group's transactions and will, at any time, enable the financial position of the Company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities and for the preparation of any additional information accompanying the financial statements that may be required by law or regulation.





FINANCIAL STATEMENTS

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Independent Auditor's Report to the Members of Chaarat Gold Holdings Limited

to the Members of Chaarat Gold Holdings Limited

Opinion

We have audited the financial statements of Chaarat Gold Holdings Limited (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements concerning the group's ability to continue as a going concern. The matters explained in the note indicate that the group requires additional funding before Q3 2020 to meet operational commitments and overheads as it has two loans falling due within one year which will need to be renewed or replaced. There is no certainty that the funding required by the group will be secured within the necessary timescale. In addition to this, the group has noted further uncertainty created by the COVID-19 pandemic and potential temporary closure of the Kapan mine which could also impact the ability to raise further funds. These events or conditions, along with the other matters as set out in note 2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We considered going concern to be a Key Audit Matter based on our assessment of the risk and the effect on our audit. Our response to the key response to this key audit matter:

- We challenged the directors' forecasts to assess the group's ability to meet their financial obligations as they fall due within the period of twelve months from the date of approval of the financial statements by reviewing the assumptions and inputs in the directors' cash flow forecasts to assess whether these were in line with our understanding of the group's operations and other information obtained by us during the course of the audit. This included understanding Management's assessment of the potential impact of the COVID-19 pandemic to the mining operations, including potential temporary suspension of operations for more than one month.
- We discussed the potential impact of COVID-19 with management and the Audit Committee including their assessment of risks and uncertainties associated with areas such as the Group's workforce, supply chain, customer sales and commodity market prices that are relevant to the Group's business model and operations. We formed our own assessment of risks and uncertainties based on our understanding of the business and mining sector.
- We compared the forecast income and expenditure for both the Kyrgyzstan project and Kapan by reference to actual income and expenditures in 2019 and the directors' budgeted expenditure in 2020 and 2021 to ensure that the forecast expenditure is accurate and includes scenarios of potential temporary suspension of operations.
- We performed a mechanical check on the cash flow forecast model prepared by the directors.
- We reviewed documents which demonstrate ongoing activity in respect of the potential financing options.
- We reviewed the existing contractual debt agreements including the covenants and forecast covenants assessment by the directors.
- We obtained management's stress testing analysis - which was performed to determine the point at which the group requires further funding - and we considered whether such scenarios, including potential temporary mine closure and reductions in production, were possible given the potential impacts of COVID-19 and the level of uncertainty.
- We evaluated potential mitigating actions identified by management. In doing so we reviewed the correspondence with some existing lenders and assessed the risk that further funding may be harder to raise than it has historically been, given uncertainties associated with COVID-19 and the potential for covenant breach.
- We reviewed the adequacy and completeness of the disclosure included within the financial statements in respect of going concern.

Independent Auditor's Report to the Members of Chaarat Gold Holdings Limited

to the Members of Chaarat Gold Holdings Limited

Key audit matters

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Carrying value of the mining assets

As at 31 December 2019, the group's mining assets were carried at US\$93.3m comprising US\$62.1m related to the Chaarat Gold Project in Kyrgyzstan and US\$31.2m to the Kapan project in Armenia as disclosed in notes 13 and 15.

The directors performed an impairment indicator review to assess whether there were any indicators of impairment for the exploration asset and production asset. Following this assessment, management and the directors concluded that there were no indicators of impairment and therefore no impairment review was required for the exploration asset in Kyrgyzstan. Management performed an impairment review for the production asset in Armenia. Management applied the value in use method of valuing the mine and prepared a discounted cash flow model.

Given the inherent judgement involved in the assessment of impairment indicators and significant estimates and judgements involved in the impairment review, such as selling price, grade, recovery, discount rate, we considered this area to be a key audit matter.

How the matter was addressed in our audit

Chaarat Gold Project - exploration asset

We assessed the directors' review of indicators of impairment. In doing so we performed the following procedures:

- We obtained and read the existing licences to confirm that the group holds a valid right to explore the Chaarat Gold Project.
- We assessed reviewed the commitments and obligations associated with the licences to confirm compliance with the licences.
- We read Board minutes, made specific inquiries of management and reviewed budgets and work programmes submitted to the Kyrgyz authorities to confirm that further drilling and exploration is planned.
- We inspected capital expenditures made during the year, which indicate that the Group continues to invest in the exploration of the project.
- We made enquiries of Management and reviewed budgets and forecasts to establish whether there was a plan to continue exploration.
- We reviewed the disclosures included in the financial statements at notes 13 and 15.

Kapan project – production asset

We obtained and examined management's impairment indicator paper and obtained management's impairment test assessments.

- We obtained management's discounted cash flow models and performed data integrity and mechanical checks on the models.
- We determined whether the basis of preparation of the models was appropriate and in line with our expectations and valuation methodology.
- We compared the actual performance of the mine during 2019 to budgets for the period in order to assess the quality of management's forecasting.
- We critically challenged the discounted cash flow model, focussing on the appropriateness of estimates with reference to empirical data and external evidence with specific emphasis on the following assumptions: metal prices, recoveries, grade, reserves and production levels, operating and development costs and discount rate.
- We assessed the consistency of production profiles and capital expenditure forecasts against the mine plan, approved budget, external reserves statement, and met with operational management to inform our assessment and understanding of these plans and budgets.
- We compared the proven and probable reserves included in the models to Reserve Statement prepared by the Group's internal and external reserve engineers and performed procedures to assess for both their independence and competence. We met with both the internal and external reserve engineers as part of this process and ascertained there had been no limitation to their scope.
- We reviewed management's sensitivity analysis and performed our own sensitivity analysis on key inputs to assess the impact of changes in assumptions.
- We read the key licence agreements and confirmed that the Group holds valid licences.
- We reviewed the disclosures included in the financial statements including within note 15.

Our observation

We found the directors' conclusion that no impairment exists on the group's mining assets to be appropriate.

Independent Auditor's Report to the Members of Chaarat Gold Holdings Limited

to the Members of Chaarat Gold Holdings Limited

Key audit matter (continued)

Key audit matter

Accounting for the fair values of the assets and liabilities of Kapan at the date of acquisition

As described in note 31 the Group acquired 100% interest in Kapan Mining and Processing Company during the year. Management appointed an external expert to assist with the accounting treatment of the Kapan acquisition. The Kapan acquisition meets the definition of business combination under IFRS 3 and the acquisition method applies. The assets and liabilities acquired are required to be measured at fair value on the date of acquisition. The consideration transferred in a business combination is measured at fair value.

The valuation of the assets and liabilities, particularly the mining assets, inventory, decommissioning provision and deferred tax, requires significant estimates and judgements and is inherently uncertain.

Given the estimation of the fair values of assets and liabilities and fair value of consideration involve significant judgement, we consider accounting for the acquisition of Kapan to be a key audit matter.

How the matter was addressed in our audit

We have assessed external expert's competence and independence.

We obtained and examined the external expert's report on the accounting treatment of the Kapan acquisition.

We audited the opening balances of Kapan as at 30 January 2019 and visited the underground mine and production facilities.

We verified the completeness of the fair value assessment, by reviewing nature of each of the assets and liabilities acquired and considering whether the book value approximated fair value.

We reviewed and challenged management's assessment of inventory valuation. This involved by physically verifying inventory and checking the valuation estimates with reference to the estimated market prices, recent contracted prices, and costs to sell.

We assessed the calculations of decommissioning provision as of 30 January 2019 and challenged the assumptions used. We assessed the competence and independence of the expert who estimated the decommissioning provision. We also reviewed management's updated estimate of the decommissioning provision and corroborated the changes to the mine plan and aerial photos of the mine. We verified that discount rate and long-term inflation rate are reasonable by comparing to the external source and market data.

We obtained and evaluated the deferred tax asset recognised on acquisition. Our assessment involved checking the calculations to tax computations and checking whether the recognition was in accordance with IFRS. We also checked the recovery of the deferred tax asset by checking whether there are expected to be sufficient future profits with which to realise the deferred tax asset over the life of mine. We assessed the appropriateness of the accounting for the adjustment to the acquisition price to ensure that it is in accordance with IFRS. We also reviewed the value of the shares issued with reference to the share price at the date of acquisition.

We obtained and examined management's assessment of the valuation of the mine, which included assessing whether there was any indication that goodwill or negative goodwill arose on acquisition. In determining the most appropriate valuation we considered whether the acquisition was at arms length and therefore whether the acquisition price represents the most appropriate value of the mine.

We reviewed the disclosures of the Kapan acquisition.

Our observation

We found the accounting treatment of the Kapan acquisition fair values to be appropriate based on relevant accounting standards.

Our application of materiality

Group materiality as at 31 December 2019	Basis for materiality
US\$965,000	0.75% of total assets

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the group financial statements as a whole was set at US\$965,000, being 0.75% of total assets (2018: US\$770,000, being 1.4% of total assets). Following the acquisition of Kapan, the Group is focused on both exploration and production. A lower percentage was applied this year due to the inclusion of the results of Kapan. We consider total assets to be the most relevant consideration of the group's financial performance as the group continues to focus on enhancing its assets.

Independent Auditor's Report to the Members of Chaarat Gold Holdings Limited

to the Members of Chaarat Gold Holdings Limited

In performing the audit we applied a lower level of performance materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. Performance materiality for the group financial statements was set at US\$724,000, being 75% of financial statement materiality (2018: US\$500,000, being 65% of financial statement materiality). In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors), the amount of areas of estimation within the financial statements and the type of audit testing to be completed. Each significant component of the group was audited using a lower level of performance materiality ranging from US\$350,000 to US\$700,000 (2018: US\$290,000).

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of US\$20,000 (2018: US\$15,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement in the financial statements at the group level.

The group's operations principally comprise exploration of gold deposits located in the Kyrgyz Republic, production of copper and zinc concentrate from a deposit located in Armenia. We assessed there to be three significant components. These were subject to full scope audits and non-significant components were principally covered using analytical review procedures. All audit work was performed by BDO LLP and BDO member firm in Armenia and included an onsite visit by BDO LLP to Kyrgyzstan and Armenia.

We set out above the risks that had the greatest impact on our audit strategy and scope.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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. We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are 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 the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Chartered Accountants
London
9 April 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

For the year ended 31 December 2019

	Note	2019 US\$'000	2018 US\$'000
Revenue	3	68,088	-
Cost of Sales	4	(55,652)	-
Gross Profit		12,436	-
Selling expenses		(3,024)	-
Administrative expenses	6	(27,834)	(13,705)
Other operating income		-	24
Operating loss	5	(18,422)	(13,681)
Interest receivable		9	-
Interest payable	10	(9,447)	(3,361)
Loss before tax for the year, attributable to equity shareholders of the parent		(27,860)	(17,042)
Income tax credit/(charge)	11	(1,545)	-
Loss after tax for the year, attributable to equity shareholders of the parent		(29,405)	(17,042)
Loss per share (basic and diluted) – US\$ cents	12	(7.06)	(4.52)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 US\$'000	2018 US\$'000
Loss for the year, attributable to equity shareholders of the parent	(29,405)	(17,042)
Other comprehensive income:		
Items which have been reclassified to profit and loss		
Exchange differences on translating foreign operations liquidated during the year		
Items which may subsequently be reclassified to profit and loss	-	74
Exchange differences on translating foreign operations and investments	523	-
Other comprehensive income for the year, net of tax	523	74
Total comprehensive loss for the year attributable to equity shareholders of the parent	(28,882)	(16,968)

The notes on pages 52 to 86 are an essential part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	2019 US\$'000	2018 US\$'000
Assets			
Non-current assets			
Exploration and evaluation costs	13	55,070	43,527
Other intangible assets	14	1,609	54
Property, plant and equipment	15	38,269	5,094
Prepayments for non-current assets		501	-
Deferred income tax assets	16	7,652	-
Total non-current assets		103,101	48,675
Current assets			
Inventories	17	9,676	-
Trade and other receivables	18	6,665	190
Prepayment on acquisition of Kapan	18	-	5,000
Deferred VAT receivable		837	-
Prepayments		3,117	-
Cash and cash equivalents	19	3,585	1,168
Total current assets		23,880	6,358
Total assets		126,981	55,033
Equity and liabilities			
Equity attributable to shareholders			
Share capital	20(b)	4,688	3,951
Share premium	20(b)	168,616	152,063
Own shares reserve	20 (g)	(216)	-
Share warrant reserve	20(d)	-	1,352
Convertible loan note reserve	20(f)	2,493	2,360
Merger reserve		10,885	10,885
Share option reserve	20(c)	10,624	1,414
Shares to be issued	20(e)	217	-
Translation reserve		(14,875)	(15,398)
Accumulated losses		(162,253)	(132,984)
Total equity		20,179	23,643
Liabilities			
Non-current liabilities			
Provision for rehabilitation	21	8,638	-
Convertible loan note	22	19,994	16,303
Lease liabilities	25	302	-
Total non-current liabilities		28,934	16,303
Current liabilities			
Trade and other payables	24	16,759	4,924
Deferred VAT payable		837	-
Lease liabilities	25	276	-
Other loans	26	22,343	10,163
Borrowings	23	36,915	-
Other provisions for liabilities and charges	27	738	-
Total current liabilities		77,868	15,087
Total liabilities		106,802	31,390
Total liabilities and equity		126,981	55,033

The financial statements were approved and authorised for issue by the Board of Directors on 9 April 2020.

Artem Volynets
Chief Executive Officer

Chris Eger
Chief Financial Officer

The notes on pages 52 to 86 are an essential part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019

Note	Share	Share	Own shares	Share	Convertible	Merger	Share	Shares to	Translation	Accumulated	Total
	Capital	Premium	Reserve	Warrant	loan note		Option				
	US\$'000	US\$'000	US\$'000	Reserve	Reserve	Reserve	Reserve	US\$'000	Reserve	Losses	US\$'000
As at 1 January 2018	3,569	138,184	-	1,352	867	10,885	2,912	1,926	(15,472)	(118,952)	25,271
Loss for the year	-	-	-	-	-	-	-	-	-	(17,042)	(17,042)
Translation gains for liquidated subsidiary	-	-	-	-	-	-	-	-	74	-	74
Total comprehensive income for the year	-	-	-	-	-	-	-	-	74	(17,042)	(16,968)
Share options lapsed	-	-	-	-	-	-	(1,857)	-	-	1,857	-
Share options expense	-	-	-	-	-	-	377	-	-	-	377
Share options exercised	2	63	-	-	-	-	(18)	-	-	-	47
Issuance of shares for cash	20 (b)	145	4,738	-	-	-	-	(1,926)	-	-	2,957
Conversion of loan notes	20 (f)	230	8,858	-	(1,153)	-	-	-	-	1,153	9,088
Equity element of convertible loan note	-	-	-	-	2,646	-	-	-	-	-	2,646
Issuance of shares for a fee	-	5	220	-	-	-	-	-	-	-	225
As at 31 December 2018	3,951	152,063	-	1,352	2,360	10,885	1,414	-	(15,398)	(132,984)	23,643
Loss for the year	-	-	-	-	-	-	-	-	-	(29,405)	(29,405)
Translation gains for the year	-	-	-	-	-	-	-	-	523	-	523
Total comprehensive income for the year	-	-	-	-	-	-	-	-	523	(29,405)	(28,882)
Share options lapsed	-	-	-	-	-	-	(204)	-	-	136	(68)
Share options expense	-	-	-	-	-	-	9,847	-	-	-	9,847
Share options exercised	3	95	-	-	-	-	(20)	-	-	-	78
Share scheme modification	-	-	-	-	-	-	(413)	-	-	-	(413)
Issuance of shares for cash	20 (b)	157	6,387	-	-	-	-	-	-	-	6,544
Issuance of shares for settlement of liabilities	20 (b)	69	3,041	-	-	-	-	-	-	-	3,110
Issuance of treasury shares	20 (g)	216	-	(216)	-	-	-	-	-	-	-
Issuance of shares for acquisition of Kapan	20 (b)	146	5,109	-	-	-	-	-	-	-	5,255
Equity element of convertible loan note	20 (f)	-	-	-	133	-	-	-	-	-	133
Warrants exercised	20 (b)	146	1,921	-	(1,352)	-	-	217	-	-	932
As at 31 December 2019	4,688	168,616	(216)	-	2,493	10,885	10,624	217	(14,875)	(162,253)	20,179

The notes on pages 52 to 86 are an essential part of these financial statements.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2019

	Note	2019 US\$'000	2018 US\$'000
Cash flows from operating activities			
Operating loss		(18,422)	(13,681)
Depreciation and amortisation	5	5,079	326
Loss/(gain) on disposal of property, plant and equipment	5	185	(7)
Non-cash transactions - expenses		496	-
Change in provisions	18, 27	297	-
Foreign exchange gain/loss	5	(45)	-
Translation losses for liquidated subsidiary		-	74
Reversal of provision		-	(50)
Share based payments	5	9,780	377
Increase in interest payable on loans		-	239
(Increase)/decrease in inventories		7,828	-
(Increase)/decrease in trade and other receivables		(5,218)	4
Increase/(decrease) in trade and other payables		4,036	3,875
Cash generated/(used) in operations		4,016	(8,843)
Income taxes paid		(1,034)	-
Cash payments for RSUs replaced		(413)	-
Net cash generated/(used) in operations		2,569	(8,843)
Investing activities			
Acquisition of subsidiary, net of cash acquired	31, 32	(38,479)	-
Purchase of property, plant & equipment	15	(3,970)	(2,165)
Purchase of intangible assets	14	(1,385)	-
Exploration and evaluation costs	13	(10,482)	(12,142)
Payment on acquisition of Kapan		-	(5,000)
Proceeds from sale of property, plant & equipment		31	8
Interest received		-	11
Net cash used in investing activities		(54,285)	(19,288)
Financing activities			
Proceeds from issue of share capital, net of costs	20	6,622	3,004
Receipt of funds for shares to be issued	20	161	-
Receipt of funds for warrants exercised	20	49	-
Repayments of principal portion of lease liabilities	22	(120)	-
Proceeds from convertible loan notes issued, net of costs	22	1,072	13,554
Payment of funds for redemption of convertible loans	22	-	(4,620)
Repayments of principal amount of loan	23	(4,000)	-
Repayments of interest	23	(2,727)	-
Proceeds from loans, net of costs	22	53,000	9,924
Net cash from financing activities		54,057	21,862
Net change in cash and cash equivalents		2,341	(6,269)
Cash and cash equivalents at beginning of the year		1,168	7,461
Effect of changes in foreign exchange rates		76	(24)
Cash and cash equivalents at end of the year	19	3,585	1,168

The notes on pages 52 to 86 are an essential part of these financial statements.

Notes to the Financial Statements

1 General information and group structure

Chaarat Gold Holdings Limited (the Company) (registration number 1420336) was incorporated in the British Virgin Islands (BVI) and is the ultimate holding company for the companies set out below (the Group). The Group is quoted on the Alternative Investment Market of the London Stock Exchange (AIM:CGH).

The legal address of the Company is: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110. The Group's principal place of business is at: 10th floor, Business Centre "Victory", 103, Ibraimov str., Bishkek, Kyrgyz Republic 720011.

At 31 December the Group consisted of the following companies all of which are wholly owned:

Group company	Country of incorporation	Principal activity
Chaarat Gold Holdings Limited	BVI	Ultimate holding company
Zaav Holdings Limited	BVI	Holding company
Chon-tash Holdings Limited	BVI	Holding company
At-Bashi Holdings Limited	BVI	Holding company
Akshirak Holdings Limited	BVI	Holding company
Goldex Asia Holdings Limited	BVI	Holding company
Chon-tash Mining LLC*	Kyrgyz Republic	Exploration
At-Bashi Mining LLC*	Kyrgyz Republic	Exploration
Akshirak Mining LLC*	Kyrgyz Republic	Exploration
Goldex Asia LLC*	Kyrgyz Republic	Exploration
Chaarat Zaav CJSC*	Kyrgyz Republic	Exploration
Chaarat Gold International Limited	Cyprus	Holding company
Chaarat Gold Services Limited	UK	Services company
Chaarat Kapan CJSC*	Armenia	Production company
Chaarat Eurasia Limited	Russia	Services company

*Companies owned indirectly by Chaarat Gold Holdings Limited

2 Accounting policies

The significant accounting policies which have been consistently applied in the preparation of these consolidated financial statements are summarised below:

Basis of preparation

The financial information has been prepared in accordance with IFRS as adopted by the European Union and on a historical cost basis.

New and revised standards and interpretations

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2019.

Standard	Description	Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

Impact of initial application of IFRS 16 Leases

In the current year, the Group has applied IFRS 16 Leases which is effective for annual periods beginning on or after 1 January 2019. The Group has therefore changed its accounting policies as a result of adopting this standard.

The Group has applied IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. The right-of use asset is recognised at the date of initial application, 1 January 2019, at an amount equal to the lease liability, using the entity's current incremental borrowing rate. Therefore, there is no impact on equity at the date of initial application.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below and in Note 25. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases as well as low value leases.

IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment (on-balance sheet) in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance. Under the new standard, a lessee is required to recognise the present value of the contractual lease payments as a lease liability on the statement of financial position with a corresponding right-of-use asset. The unwind of the financial charge on the lease liability and amortisation of the leased asset are recognised in the income statement based on the implied interest rate and contract term respectively. The Group's recognised assets and liabilities will increase and affect the presentation and timing of related depreciation and interest charges in the consolidated income statement.

In the consolidated cash flow statement for the year ended 31 December 2019, the total amount of cash paid will be separated between repayments of principal and repayment of interest, both presented within cash flows from financing activities.

Impact of initial application of IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses how to determine the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over treatment under IAS 12, Income Tax for the purpose of accounting for income taxes.

The Group has determined that this amendment is not applicable to the Group.

Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Business combinations

IFRS 3 Business Combinations applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against the fair value of the assets and liabilities acquired. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRS 9 Financial Instruments with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired, and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Notes to the Financial Statements

Continued

2 Accounting policies (continued)

Revenue Recognition

Revenue is recognised in a manner that depicts the pattern of the transfer of goods and services to customers. The amount recognised reflects the amount to which the Group expects to be entitled in exchange for those goods and services. Sales contracts are evaluated to determine the performance obligations, the transaction price and the point at which there is transfer of control. The transactional price is the amount of consideration due in exchange for transferring the promised goods or services to the customer, and is allocated against the performance obligations and recognised in accordance with whether control is recognised over a defined period or a specific point in time.

Performance obligation and timing of revenue recognition

The revenue arises from extraction of complex ore and production of copper and zinc concentrates to wholesale customers. Though in all contracts the total transaction value mainly depends on the market prices of the metals based on the preliminarily estimated contents in the concentrates, those separate materials are not distinct but represent a bundle of materials. As there are no other significant promises, each contract contains one performance obligation to which the total transaction value is allocated.

The control passes to the customers and the revenue is recognized either at the moment when the concentrate is loaded on vessels at the port determined in the contract (e.g. port of Poti, Georgia) or when the concentrate is made available to customers at a specified location determined in the contract, before being loaded.

Determining the transaction price

Consideration is variable and depends on the fluctuations of metal prices for the quotation period (usually one or three months) and the changes in estimated metal contents and price deductions.

At the date the concentrate is landed on vessels at the specified port the provisional invoice is issued based on the estimates of the amount of consideration.

At the end of each month, the Group updates the estimate of transaction price based on London Metal Exchange (LME) commodity forward prices for the quotational period (usually one or three months) and changes in the estimates of the metal content. The change is recognised as revenue, or as a reduction of revenue, in the period in which the estimated transaction price is finalised.

Final prices of copper and zinc concentrates are determined at the contract settlement date based on the LME commodity market prices and final adjustments for weighting, sampling or moisture determination changes.

Royalties (included in cost of sales)

Under the Armenian law a royalty is payable to the state, the base of which is driven by the revenue earned from the supply of concentrates. Royalty expense is included in cost of sales.

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income or payments over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Taxation

The income tax expense includes the current tax and deferred tax charge recognised in the income statement.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate. The Group is not subject to corporate tax in the British Virgin Islands, therefore as at 31 December 2019 the Group's operations in this region have an effective tax rate of 0%. Companies engaged in the production and sale of gold in the Kyrgyz Republic pay a revenue-based tax on the sales of gold rather than tax on profit. The remaining Group's operations are subject to income tax at a rate of 20% in Armenia, 19% in the United Kingdom and 12.5% in Cyprus (Note 11). Non-profit based taxes are included within administrative expenses and Kapan's royalty taxes are included within cost of sales.

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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Probable taxable profits are based on evidence of historical profitability and taxable profit forecasts limited by reference to the criteria set out in IAS 12 Income Taxes. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction (other than a business combination) that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint arrangements and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis with that taxation authority.

Non-current Assets

Intangible Assets

Exploration and evaluation costs

During the initial stage of a project, exploration costs are expensed in the income statement as incurred.

Exploration expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage that permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within exploration and evaluation assets for mining projects at the exploration stage. Capitalised evaluation and exploration costs are classified as intangible assets.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration and evaluation assets are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project which is when a bankable feasibility study is obtained, and project finance is in place.

Other intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost or at fair value when acquired as part of a business combination. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised over the estimated useful lives using the straight-line-basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Other intangible assets comprise computer software and other intangible assets, which are initially capitalised at cost. Amortisation is provided on a straight-line basis over a period of 1 to 10 years.

Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less any subsequent accumulated depreciation and impairment losses. The historical cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged on each part of an item of property, plant and equipment so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. Depreciation is charged to the income statement, unless it is considered to relate to the construction of another asset, in which case it is capitalised as part of the cost of that asset. Land and assets in the course of construction are not depreciated.

The estimated useful lives are as follows:

• Land and buildings	5 to 20 years
• Mining Properties	Mining properties that are used in production are depreciated under the unit of production basis, and other physical assets depreciated over their useful lives which are 5 to 20 years
• Fixtures and fittings	2 to 20 years
• Motor vehicles	2 to 7 years
• Right-of-use assets	5 to 20 years

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments and improvements expenditure, where the benefit enhances the capabilities or extends the useful life of an asset, is capitalised as part of the appropriate asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Notes to the Financial Statements

Continued

2 Accounting policies (continued)

Non-current Assets (continued)

Mining properties

Mining properties include the cost of acquiring and developing mining assets and mineral rights. Mining properties, which include development structures, are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production.

Mineral rights for the assets not ready for production are included within Exploration and evaluation costs. When a production phase is started, mineral rights are transferred into Mining assets and are depreciated as described above.

Assets under construction

Assets under construction are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

Assets under construction include costs incurred for the development of tangible assets that will form part of a category of property, plant and equipment which is not yet complete. Once the project is capable of commercial production capitalisation will cease (other than for large development programmes), the asset will be reclassified to the respective property, plant and equipment category it relates to from assets under construction, and depreciation will commence.

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

Impairment of exploration and evaluation assets

All capitalised exploration and evaluation assets and other intangible assets are monitored for indications of impairment. Where a potential impairment is indicated, assessment is made for the group of assets representing a cash generating unit. Indicators of impairment include:

- i. the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- ii. substantive expenditure on further exploration of mineral resources in the specific area is neither budgeted nor planned;
- iii. exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- iv. sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Such impairment losses are recognised in profit or loss for the year.

Impairment of property, plant and equipment

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss or there are impairment reversal indicators. If any such indication exists, the carrying amount of the asset is compared to the estimate recoverable amount of the asset in order to determine the extent of the impairment loss or reversal (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. The carrying amounts of all cash-generating units are assessed against their recoverable amounts determined on a fair value less costs to sell calculation. Fair value is based on the applicable Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. Impairment loss may be subsequently reversed if there has been significant change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

A reversal of impairment loss is recognised in the consolidated income statement immediately.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognised a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low value assets and leases for the purposes of mining and exploration activities, which fall out of the IFRS 16 scope. For these leases, the Group recognises the leases payments as operating expenses on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability based on the effective interest method and by reducing the carrying amount to reflect the lease payments made. The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses and are presented as a separate line in the consolidated financial statements.

Right-of-use assets are depreciated over shorter period lease term and useful life of the underlying asset. The Group applies IAS 36 to determine whether the right-of use asset is impaired and accounts for any identifiable impairment loss as described above.

Inventories

Copper and zinc concentrates

Inventories including metals in concentrate and in process are stated at the lower of production cost or net realisable value.

Cost of finished goods are determined on the weighted average cost of mining that concentrate. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) and excluding borrowing costs.

Consumables and spare parts

Consumables and spare parts are stated at the lower of cost or net realisable value. Costs are determined on the first-in-first-out (FIFO) method and the average cost method.

The Company's policy is to write-down to nil the items that have not moved for more than twelve months.

Cash and Cash Equivalents

Cash includes petty cash and cash held in current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Own shares reserve" represents the nominal value of equity shares that have been repurchased by the company.
- "Share warrant reserve" represents the equity portion of warrants in issue.
- "Convertible loan note reserve" represents the equity component of convertible loan notes issued by the Company.
- "Merger reserve" represents the difference between the issued share capital and share premium of Chaarat Gold Holdings Limited and its former subsidiary Chaarat Gold Limited arising as a result of the reverse acquisition.
- "Share option reserve" represents the equity component of share options issued.
- "Shares to be issued" represents cash received for shares during a period for which equity was not yet issued.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Accumulated losses" includes all current and prior period results as disclosed in the income statement.

Notes to the Financial Statements

Continued

2 Accounting policies (continued)

Functional and Presentation Currency

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. The functional currency of the Group's entities located in the Kyrgyz Republic, Cyprus and BVI is US Dollars (US\$). The functional currency of our Russian subsidiary is the Russian Rouble (RUB) and the subsidiary located and operating in Armenia is the Armenian Dram (AMD). The functional currency of the parent company Chaarat Gold Holdings Limited is the US Dollar.

The Group has chosen to present its consolidated financial statements in US Dollars (US\$), as management believe it is a more comparable presentation currency for international users of consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- All assets and liabilities are translated at closing exchange rates at each reporting period end date;
- All income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- Resulting exchange differences are recognised in other comprehensive income and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve in equity; and
- In the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the period presented, except for significant transactions that are translated at rates on the date of the transaction.

Foreign currency transactions

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

Share-based employee remuneration

The Company operates equity-settled share-based remuneration plans for some of its employees. The Company awards share options to certain Company directors and employees to acquire shares of the Company.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee.

The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Fair value of restricted stock units is measured by reference to the share price at the date of grant. Fair value of options is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if the number of share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

After the vesting date no subsequent adjustments are made to total equity. In the year when the share options lapse the total accumulated charge to the share-based payment reserve is transferred to retained earnings.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions (the "original fair value") and under the modified terms and conditions (the "modified fair value") are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

The Group operates an Employee Benefit Trust and has de facto control of the shares held by the trust and bears their benefits and risks. The Trust is consolidated into the group accounts with a debit to equity for the cost of shares acquired. Finance costs and administrative expenses are charged as they accrue.

Exchange of financial liabilities for equity

For equity-settled share-based payment transactions with creditors, the Group measures the services received, and the corresponding increase in equity, directly, at the fair value of the services received, unless that fair value cannot be estimated reliably. If the fair value of services received cannot be estimated reliably, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Retirement and other benefit obligations

The Group offers pension arrangements in the United Kingdom as well as under the State pension system of the Kyrgyz Republic, which requires current contributions by the employer, calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. The Group does not have any obligations in respect of post-retirement or other significant compensation benefits.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL) depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

Trade receivables without provisional pricing that do not contain provisional price features, loans and other receivables are held to collect the contractual cash flows and therefore are carried at amortised cost adjusted for any loss allowance. The loss allowance is calculated in accordance with the impairment of financial assets policy described below.

Trade receivables arising from sales of copper and zinc concentrates with provisional pricing features are exposed to future movements in market prices and have contractual cash flow characteristics that are not solely payments of principal and interest and are therefore measured at fair value through profit or loss and do not fall under the expected credit losses model (ECL) described below.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all commitment, drawdown and other fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade and other receivables and contract assets, except for trade accounts receivable with provisional pricing. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and other receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Derivative financial instruments

Derivatives embedded in the Group's sale contracts are accounted for at fair value with gains or losses reported in the statement of comprehensive income. These embedded derivatives are not separated from the sale contracts and therefore any gains or losses are included in the lines of sale of concentrates in the year.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the Financial Statements

Continued

2 Accounting policies (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances and deposits in banks and similar institutions, which are readily convertible to cash and which are subject to insignificant risk of changes in value.

Financial liabilities

All financial liabilities, (including trade payables, other loans and borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Convertible loan notes

Convertible loan notes are compound financial instruments that can be converted to ordinary shares at the option of the holder.

The liability component of convertible loan notes is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the convertible loan note as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a convertible loan note is not remeasured.

Interest related to the financial liability is recognised in profit and loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognised.

Derecognition of financial liabilities

A financial liability is removed from the balance sheet when it is extinguished, being when the obligation is discharged, cancelled or expired. On extinguishment of a financial liability, any difference between the carrying amount of the liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

A modification or exchange of a financial liability is either accounted for as an extinguishment of the original financial liability or a renegotiation of the original financial liability. An extinguishment or substantial modification of a financial liability results in de-recognition of the original financial liability and any unamortised transaction costs associated with the original financial liability are immediately expensed to the profit and loss account. Where the change in the terms of the modified financial liability are not substantial, it is accounted for as a modification of the original liability, with the modified financial liability measured at amortised cost using the original effective interest rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Bonus Tax provision in Kyrgyz Republic

Under Article 301 of the Tax Code of the Kyrgyz Republic an entity is subject to a payment for the right to use subsoil, for the purpose of developing a mineral deposit. The calculation of the payment is the amount of geological reserves and forecast resources which is registered with the Kyrgyz Republic.

A provision is recognised based on an estimate of the amount which will be payable, relating to past discoveries of reserves and resources which are expected to be registered with the Kyrgyz Republic.

Contingent liability

Contingent liabilities are recognised when the Group has a potential obligation that may arise from an event that has not yet occurred. A contingent liability is not recognised in the Group's financial statements however disclosure within the notes to the financial statements will be included unless the possibility of payment is remote.

Provision for Rehabilitation

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately as a reduction in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes in risk free interest rate.

Value Added Tax

Output value added tax (VAT) related to sales generated in Armenia is payable to tax authorities on the delivery of goods and services to customers. The standard rate of VAT on domestic sales of goods and services and the importation of goods is 20%. Input VAT is recoverable against output VAT upon receipt of the VAT invoice. Per Armenian Tax laws deferred VAT will be considered as Input VAT and may be recovered against Output VAT only after the payment of differed VAT amount therefore deferral VAT asset is mirrored as VAT liability. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. The VAT assets and liabilities are short term and will be settled within 12 months and are therefore not discounted.

Under the Kyrgyz Republic Tax Code, the supply and export of metal-containing ores, concentrates, alloys and refined metals are considered to be a VAT exempt supply and therefore all VAT is expensed as incurred.

Going concern

As at 30 March 2020 the Group had approximately US\$2.2 million of cash and cash equivalents and US\$86.8 million of debt (including accrued interest to the date of maturity, the terms of which are disclosed in the notes) comprising the following:

- US\$26.4 million Convertible loan note, repayable on 31 October 2021, including accrued interest to 31 October 2021 (Note 18).
- US\$19.4 million loan including interest to 31 March 2020 (Note 17). On 9 April 2020 the loan terms were amended, and the maturity date was extended to December 31, 2020 (Note 33).
- Term loan for US\$34.8 million entered into in connection with the acquisition of Kapan in January 2019. The loan is repayable through quarterly instalments over a period of four years, the final payment being January 2023 (Note 23).
- The revolving term loan facility agreement with Labro for a total amount of US\$15 million. To date US\$8.0 million has been drawn down, US\$2.5 million has subsequently been repaid, US\$6.1 million is outstanding and a further US\$7.0 million remains available to the Group. The facility is due for repayment on 14 July 2020 (Note 19).

The Board has reviewed the Group's cash flow forecast for the period to 31 December 2021. The cash flow forecasts reviewed by the Board exclude cash inflows from funding which is not contractually committed. The forecasts show that the Labro loan will need to be extended or refinanced before 14 July 2020, the US\$19.4 million loan will need to be extended or refinanced by 31 December 2020, and in addition the Group forecasts it will require further funding before Q3 to meet operational commitments and overheads. The forecasts also show that if COVID 19 had an adverse impact on the Kapan mine then a covenant on the Kapan term loan may be breached, and in addition to that the Group would require further funding if the mine was temporarily suspended for more than one month.

Kyrgyzstan

The significant global restrictions on the movement of people will impact our workforce mobilisation for the summer construction period at our Tulkubash Project. This delay will likely cause the first gold pour to be moved by six months from late 2021 to Q3 2022. For the purpose of making an assessment of going concern, the cash flow forecasts do not include discretionary expenditure in relation to the Kyrgyzstan projects, taking into account the delay to the Project. The forecasts include minimum commitments in respect overheads and, based on a non-binding agreement, exclude payments to the mining contractor until further funding is raised.

Kapan

The Board has reviewed the Group's cash flow forecast for the period to 31 December 2021. For the purpose of making an assessment of going concern, the cash flow forecasts reviewed by the Board exclude additional funding which is not contractually committed and also exclude discretionary expenditure in relation to the Kyrgyzstan projects and take into account the delay of the Project.

The Board have based the cash flow forecasts for Kapan on the most recent budgets. Chaarat Kapan has experienced minimal disruptions to supply chains and shipment as a result of COVID-19. However, if there was an unexpected adverse combination of factors or the temporary closure of Kapan for more than one month, then a covenant on the Kapan loan may be breached and the Group would require further additional funding.

US\$ 19.4 million loan

On 9 April 2020, the Group entered into an agreement with the lender to extend the maturity date of the US\$19.4 million loan to 31 December 2020. The terms of the loan include a requirement to repay the loan prior to or in conjunction with any additional debt financing that the Group may raise with limited exceptions.

Notes to the Financial Statements

Continued

2 Accounting policies (continued)

Going concern (continued)

Labro loan

Matures in July. The Group is in advanced negotiations in respect of extending the Labro loan and has a reasonable expectation that an extension agreement will be agreed in due course. However, there is no guarantee that an extension will be received. Depending on the terms of the extension, the Labro loan may need to be refinanced within the going concern period.

The Board has a reasonable expectation that the Group will be able to raise additional funds as demonstrated by the Group's established track record in historical fund raisings and refinancing events. Since June 2018 or when the new management joined the Company, the management team has successfully raised over US\$115 million through equity, debt or debt like instruments and has established strong relationships with key stakeholders. As a result of historical and ongoing proactive discussions with stakeholders, the Board has a reasonable expectation that the Group will be able to raise further funds in order to meet its obligations. Notwithstanding this, COVID-19 has had a significant negative impact on the global economy which may mean it is harder to secure additional funding than has historically been the case.

Subject to the above, which the Board has a reasonable expectation can be achieved the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there are currently no binding agreements in place in respect of any additional funding and there is no guarantee that any course of funding will proceed. Therefore, as set out above, this indicates the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Critical accounting judgements and key sources of estimation uncertainty

In the course of preparing the financial statements, management necessarily makes judgements and estimates that can have significant impact on those financial statements. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information.

Estimated and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in the future periods affected. The judgements involving a higher degree of estimation or complexity are set out below.

Critical accounting judgements

The following is the critical accounting judgement (apart from judgements involving estimation which are dealt with separately below), made in the process of applying the Group's accounting policies during the year that has the most significant effect on the amounts recognized in the financial statements.

Costs capitalised to exploration and evaluation assets

Judgement is applied in the determination of the type of costs that are capitalised as exploration and evaluation assets as described in the accounting policy note above. Payroll costs that are directly attributable to mining related activities are capitalised. During the year ended 31 December 2019, any costs that were not clearly considered directly attributable to mining related activities were expensed.

Recoverability of exploration and evaluation assets

Exploration and evaluation assets include mineral rights and exploration costs, including geophysical, topographical, geological and similar types of costs. Exploration and evaluation costs are capitalised if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operation can be established as a result of exploration activities and internal assessment of mineral resources.

According to IFRS 6 Exploration for and evaluation of mineral resources, the potential indicators of impairment include: management's plans to discontinue the exploration activities, lack of further substantial exploration expenditure planned, expiry of exploration licences in the period or in the nearest future, or existence of other data indicating the expenditure capitalised is not recoverable. At the end of each reporting period, management assesses whether such indicators exist for the exploration and evaluation assets capitalised, which requires significant judgement.

At 31 December 2019, the capitalised costs of the exploration and evaluation assets amounted to US\$54.6 million (prior to carrying out any impairment review), details of which are set out in Note 13.

The assets relate partly to the Chaarat Gold Project in Kyrgyzstan, which comprises two distinct mineralised zones: Tulkubash and Kyzyltash, which will be developed separately. Both zones are located on a single mining licence and are therefore not capable of being independently sold. At 31 December 2019 the Chaarat Gold Project is considered a single CGU. All exploration and evaluation assets have been included in this CGU.

At 31 December 2019 management do not consider any indications of impairment exist in respect of the assets included in the Chaarat Gold Project CGU. On 18 March 2019, the Group announced that it has signed a binding term sheet to enter into a joint Venture agreement with Çiftay İnsaat Tahhüt ve Ticaret A.S. ("Çiftay"), the Turkish mining and mine construction contractor, to collaborate on the Tulkubash and Kyzyltash projects in the Kyrgyz Republic. The binding term sheet is based on an agreed valuation of US\$252 million (post money) for the two assets. The value of the capitalised costs are significantly below this agreed valuation, therefore this balance is not considered to be impaired.

Application to extend annual development program levels under the mining license in Kyrgyzstan

Management have applied judgement that this extension, which is a condition under the mining license will be approved. The development target was delayed due to a change in the mine development targets and a delay in obtaining the tree cutting permit. This does not violate the license terms and there is no risk that the mining license will be suspended or annulled. Management is in the process of completing the new detailed mining plan in line with the revised BFS and once this is finalised and approved by the State experts the request for extension will be re-submitted which will provide the necessary legal grounds for extension.

Mining costs capitalised to property, plant and equipment

Judgement is applied in the determination of the type of costs that are capitalised as mining properties as described in the accounting policy note above. During the year ended 31 December 2019, any costs where it is not considered probable that future economic benefits will flow to the entity or cannot be measured reliably were expensed.

Costs capitalised to property, plant and equipment

Judgement is applied in the determination of the type of costs that are capitalised to property, plant and equipment as described in the accounting policy note above. During the year ended 31 December 2019, any costs where it is not considered probable that future economic benefits will flow to the entity or cannot be measured reliably were expensed.

Recoverability of property, plant and equipment (including mining properties)

According to IAS 36 the determination of the recoverable amount of assets, the estimates, judgments and assumptions applied for the value in use calculations relate primarily to growth rates, expected changes to average selling prices, shipments and direct costs. Assumptions for average selling prices and shipments are based on historical experience and expectations of future changes in the market. Discount rates are reviewed annually.

Ciftay agreement

The agreement with Ciftay specifies that completion shall be conditional upon receiving all requisite consents to the transaction from the security trustee of the convertible loan notes and the requisite majority of the holders of the convertible loan notes. As at 31 December 2019, the security trustee has not granted its consent to the transactions proposed and therefore the Ciftay agreement is not legally binding on the Group. Payments incurred by Ciftay on behalf of the Group are recognised as liabilities.

Impact of COVID-19

COVID-19 has a significant impact on the global economy and management has applied judgement in deciding what impact it has on the going concern assessment including future economic impact on suppliers, operations, customers, demand, commodity prices, foreign exchange rates and operating costs. Further disclosure is included in the going concern disclosure within this note above.

Key sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry the most significant risk of material effect on this year's and next year's accounts, being items where actual outcomes in the next 12 months could vary significantly from the estimates of production costs and future capital expenditure.

Impairment test for property, plant and equipment

A review was undertaken at the reporting date of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review impairment triggers were noted in relation to the Kapan assets due to the history of operating losses.

The DCF was derived by estimating discounted pre tax cash flows for Kapan assets based on the LOM model.

The impairment tests compared the recoverable amount of the Kapan assets to the carrying values.

Cash flow projections for impairment testing of mining properties

Expected future cash flows used in DCF models are inherently uncertain and could materially change over time. They are significantly affected by several factors including ore reserves, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

- Ore reserves and mineral resources – Recoverable reserves and resources are based on the proven and probable reserves and resources in existence. Reserves and resources are incorporated in projected cash flows based on ore reserve standards and exploration and evaluation work undertaken by appropriately qualified persons and approved by a competent person.
- Commodity prices – Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. The Group currently use a flat real long-term gold and silver price of US\$1,400 per ounce and US\$15.5 per ounce respectively. Medium-term assumptions for the years 2020–2022 for gold and silver prices are of US\$1,500 per ounce and US\$18 per ounce respectively.
- Foreign exchange rates – Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information for relevant countries of operation. Management have seen a flat USD/AMD exchange rate over the past three to five years and continues to monitor movements closely.
- Discount rates – The Group used a nominal pre-tax discount rate of 10%. The risk-free rate is based on the 10-year Armenian government bond and average monthly inflation rate for 2019 from the National Statistical Service of the Republic of Armenia. The cost of debt is derived based on the risk-free rate, debt premia payable under the current financing facility with Ameria bank, while the cost of equity has been derived with the capital asset pricing model (“CAPM”) formula. The debt equity ratio is based on the country wide average debt to equity ratio. Cash flow projections used in fair value less costs of disposal impairment models are discounted based on this rate.
- Operating costs, capital expenditure and other operating factors – Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated there with. Underlying input cost assumptions are consistent with related output price assumptions. Other operating factors, such as the timelines of granting licences and permits are based on management's best estimate of the outcome of uncertain future events at the balance sheet date.

At 31 December 2019, the capitalized costs of property, plant and equipment amounted to US\$39.3 million. No impairment for property, plant and equipment was recognised during the year ended 31 December 2019 due to the significant headroom.

Notes to the Financial Statements

Continued

2 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Ore reserves

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used by the Group in the calculation of depletion of mining assets using the units-of-production method; impairment charges and in forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Assets' carrying values due to changes in estimated future cash flows;
- Depreciation charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- Provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and
- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Share based payments

The expected life of share options used in the Black Scholes model for calculating the fair value of those options is based on management's best estimate, adjusted for the effects on non-transferability, exercise restrictions and behavioural considerations. The share price volatility used in that calculation is based on the historical weighted average volatility of the Group's share price in the relevant period to best approximate the Directors' assessment of future volatility expectations. There is an element of judgement in the estimate as to when the restricted share units vest based on the milestones as set out in the option plan. See Note 20 (c) for further information.

Convertible loan notes

The fair value of the equity component of the convertible loan notes has been calculated based on the management's best estimate of the equivalent market rate for a loan without a conversion option. Refer to Note 22 for further information.

Valuation of trade receivables

As described in Note 16, provisions for impairment of trade receivables have been made. In reviewing the appropriateness of these provisions, consideration has been given to the ageing of the debt and the potential likelihood of default, taking into account current economic conditions as at 31 December 2019.

Inventory impairment policy and estimate

For concentrate and ore stockpiles the net realisable value represents the estimated selling price for that product based on forward metal prices according to the applicable contract terms, less the estimated costs to complete production and selling costs, including royalty. Production cost is determined as the sum of the applicable expenditures incurred directly or indirectly in bringing inventories to their existing condition and location. The estimated costs to complete and selling costs are obtained from the current production budgets, approved for the reporting year.

Recoverability of deferred tax assets

Deferred tax assets are raised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Assessment of future taxable profit is performed at every reporting date, in the form of future cash flows using suitable growth rate. Details of deferred taxation can be found in Note 17. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

3 Revenue

The revenue recognised from contracts with customers consisted of the following:

	2019 US\$'000	2018 US\$'000
Copper concentrate	53,917	-
Zinc concentrate	14,170	-
Other	1	-
As at 31 December	68,088	-

The Group's sales of copper and zinc concentrate are based on provisional 1-3 month commodity forward prices and as such, contain an embedded derivative. The Group sells its products to international wholesale customers. Sales to customers in Canada account for 74% of Group revenue in 2019, followed by sales to customers in Belgium and Georgia (Poti), comprising of 21% and 5% of Group revenue, respectively. All the Group's revenue is generated from the Chaarat Kapan mine situated in Armenia.

In 2019, the Group did not recognize any contract assets or liabilities in relation to its contracts with customers. Further, no impairment losses on receivables arising from contracts with customers were recognized in 2019.

The following table provides information on the revenue from contracts with customers by geographic markets:

2019	Copper Concentrate US\$'000	Zinc Concentrate US\$'000	Other US\$'000	Total US\$'000
Primary Geographic Markets				
Canada	50,297	-	-	50,297
Belgium	-	14,170	-	14,170
Georgia (Poti)	3,620	-	-	3,620
Armenia	-	-	1	1
Total	53,917	14,170	1	68,088

4 Cost of sales

	2019 US\$'000	2018 US\$'000
Depreciation and amortisation	4,602	-
Employee benefit expenses	8,783	-
Materials	12,990	-
Services	17,814	-
Royalties	4,552	-
Energy and fuel	5,246	-
Cost of purchased ore	835	-
Short term lease charges	742	-
Other	88	-
Total	55,652	-

Notes to the Financial Statements

Continued

5 Operating loss

The operating loss is stated after charging/(crediting):

	2019 US\$'000	2018 US\$'000
Depreciation of property, plant and equipment	4,898	320
Amortisation of intangible assets	181	6
Short-term/low value lease charges	1,128	282
Share based payment charges	9,780	377
(Gain)/loss on the sale of fixed assets	185	(7)
Gain on foreign exchange	(45)	(12)
Fees payable to Group auditors for the audit of the Group financial statements	219	61
Fees payable to associated firms of the auditor for the audit of Subsidiaries	43	1
Fees payable to Group auditors for audit related assurance services	27	17
Fees payable to Group auditors for other non-audit services	-	245*
Change in legal provision	196	-
Selling expenses	3,024	-

* These fees are in relation to the readmission process and Kapan acquisition.

6 Administrative expenses

The administrative expenses at 31 December consisted of the following:

	2019 US\$'000	2018 US\$'000
Readmission and acquisition costs	1,373	3,573
Legal and compliance	741	1,513
Regulatory	475	256
Investor relations	451	267
Salaries	5,874	3,092
Corporate support	8,206	3,458
Travel and subsistence	934	1,169
Share based payment charges	9,780	377
As at 31 December	27,834	13,705

7 Segmental analysis

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Board, in order to allocate resources to the segments and to assess their performance.

Based on the proportion of revenue and profit within the Group's operations and on the differences in principal activities, the Board considers there to be two operating segments:

- Exploration for mineral deposits in the Kyrgyz Republic with support provided from the British Virgin Islands ("Kyrgyz Republic").
- Exploration and production of copper and zinc concentrates at Kapan in Armenia ("Armenia").

In the previous year the Group consisted of only one operating segment related to operations in the Kyrgyz Republic.

Major customers

During the year ended 31 December 2019, approximately US\$50.3 million and US\$14.1 million of the consolidated external revenue was derived from sales to two customers situated in Canada and Belgium, respectively, through the Armenian operating segment. Refer to Note 3 for further information.

	Kyrgyz Republic US\$'000	Armenia US\$'000	Corporate US\$'000	Total US\$'000
Consolidated - 2019				
Revenue				
Sales to external customers	-	68,088	-	68,088
Total segment revenue	-	68,088	-	68,088
Earnings before interest, tax, depreciation and amortisation	(1,963)	8,624	(19,441)	(12,780)
Adjustment	-	(563)	-	(563)
Depreciation and amortisation	(514)	(4,490)	(75)	(5,079)
Interest receivable	-	9	-	9
Interest payable	-	(4,287)	(5,160)	(9,447)
Profit/(loss) before income tax expense	(2,477)	(707)	(24,676)	(27,860)
Income tax expense	-	(1,540)	(5)	(1,545)
Profit/(loss) after income tax expense	(2,477)	(2,247)	(24,681)	(29,405)
Assets				
Segment assets – non-current	62,195	40,700	205	103,101
Segment assets - current	72	23,023	785	23,880
Total assets	62,267	63,723	990	126,981
Liabilities				
Segment liabilities	2,694	58,795	45,313	106,802
Total liabilities	2,694	58,795	45,313	106,802
Consolidated - 2018				
Revenue				
Sales to external customers	-	-	-	-
Total segment revenue	-	-	-	-
Earnings before interest, tax, depreciation and amortisation	(2,851)	-	(10,433)	(13,284)
Depreciation and amortisation	(326)	-	(71)	(397)
Interest receivable	-	-	-	-
Interest payable	-	-	(3,361)	(3,361)
Profit/(loss) before income tax expense	(3,177)	-	(13,865)	(17,042)
Income tax expense	-	-	-	-
Profit after income tax expense	(3,177)	-	(13,865)	(17,042)
Assets				
Segment assets – non-current	31,306	-	17,369	48,675
Segment assets - current	448	-	5,910	6,358
Total assets	31,754	-	23,279	55,033
Liabilities				
Segment liabilities	411	-	30,979	31,390
Total liabilities	411	-	30,979	31,390

Notes to the Financial Statements

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8 Staff numbers and costs

	2019 Number	2018 Number
Management and administration	228	49
Exploration and evaluation	73	109
Production and service	922	-
Total	1,223	158

The aggregate payroll costs of these persons were as follows:

	US\$'000	US\$'000
Staff wages and salaries	3,282	4,789
Social security and other pension costs	622	262
Employee share-based payment charges	3,106	315

Directors' remuneration as detailed in the Remuneration Report

Wages and salaries	1,970	1,642
Share based payment charge	6,674	62
Total	15,654	7,070

Share based payment charges relate to the historical fair value attributed to share options granted.

The staff wages and salaries and social security and other pension costs includes amounts capitalised to exploration and evaluation assets of US\$2.8 million (2018: US\$1.7 million).

9 Directors' remuneration

The costs of certain Directors' services were charged to the Company via consultancy companies, as separately detailed below and in the related party transactions Note 28, rather than directly as short-term employment costs. These arrangements are in place purely for administrative convenience and are not methods to mitigate, reduce or remove liabilities to taxation in the respective Director's country of residence. Details of Directors' remuneration are provided in the Remuneration Report.

Total remuneration

	2019 US\$'000	2018 US\$'000
Salary and fees paid directly	1,752	1,090
Salary and fees paid via related party consultancy companies	227	375
Termination benefits	-	177
Share-based payment charge	6,674	62
Total	8,653	1,704

The share-based payment charges relate to the fair value charge attributed to share options granted.

10 Interest payable

	Notes	2019 US\$'000	2018 US\$'000
Interest on convertible loan notes	22	2,752	3,122
Interest on loans	23, 26	5,616	239
Interest on lease liabilities	25	32	-
Unwinding of discount – provision for rehabilitation	21	621	-
Financing costs		426	-
Total		9,447	3,361

11 Taxation

The Group is not subject to corporate tax in the British Virgin Islands. Companies engaged in the production and sale of gold in the Kyrgyz Republic pay a revenue-based tax on the sales of gold rather than tax on profit. Accordingly, the Group has an effective rate of tax on profit of 0% in these jurisdictions. In the remaining jurisdictions in which the Group operates, being Armenia, Cyprus and the United Kingdom, profits are subject to corporate income tax at a rate of 20%, 12.5% and 19%, respectively.

Within Armenia, the rate of corporate income tax is 20% for resident companies (with a worldwide tax base) for 2019. The tax period of corporate profit tax is one calendar year (1 January – 31 December). The payment of tax to the budget is provided by using advance payments based on corporate income tax of the previous year. These payments are to be made every three months, but no later than the 20th day of the last month of the quarter. The final payment is to be made no later than 20 April of the year following the reporting year. Profit tax is determined based on rules and principles of accounting defined by the law or other legal acts.

Within the Kyrgyz Republic a fixed royalty of 7% (which comprises a royalty of 5% and a contribution to local infrastructure of 2%) is payable on the sales of gold and a further percentage rate of tax is based on the average monthly international gold price, being 1% if the gold price is below US\$1,300 per ounce and up to 20% when the gold price exceeds US\$2,501 per ounce. The maximum royalty payable when the gold price is above US\$2,501 per ounce is therefore 27%. As the Group's assets in the Kyrgyz Republic are at an exploration stage, the Group has no revenue tax expense in respect of these assets for the years ended 31 December 2019 or 31 December 2018.

Further, under the Article 301 of the Tax Code of the Kyrgyz Republic an entity is subject to a taxation in payment of the right to use subsoil, including for the purpose of developing a mineral deposit. The tax base for calculating the bonus in mining is the amount of geological reserves and forecast resources taken into account by the State Balance of deposits of mineral resources of the Kyrgyz Republic.

At the balance sheet date, the Group has received no tax claims and the Directors believe that the Group is in compliance with the tax laws affecting its operations.

The Group has recognised deferred tax assets which relate to temporary differences arising at the Kapan mine in Armenia, as detailed in Note 16.

A. Analysis of tax charge for the year

	2019 US\$'000	2018 US\$'000
Armenian tax	1,024	-
Cypriot tax	5	-
United Kingdom tax	-	-
Current tax	1,029	-
Origination and reversal of temporary differences	(308)	-
Change in tax rate	824	-
Deferred tax	17	516
Income tax expense	1,545	-

In 2019, an amendment to the Armenian corporation tax regime was subsequently enacted that reduced the rate of corporation income tax, from 20% to 18% for periods beginning after 1 January 2020. Accordingly, deferred tax balances as at 31 December 2019 have been recognised at 18%, the rate of corporation tax enacted by the amendment that will apply for periods from 1 January 2020.

B. Reconciliation of tax charge for the year

The reconciling items between the statutory effective tax rate and the income tax expense are:

	2019 US\$'000	2018 US\$'000
Profit/(loss) before tax	(27,860)	(17,042)
Tax calculated at applicable corporation tax rate	-	-
Armenian corporation tax at 20%	5,572	-
Tax effects of:		
Items non-deductible/taxable for tax purposes	(425)	-
Effect of changes in legislation in Armenia	(824)	-
Different tax rates applied in overseas jurisdictions	(5,327)	-
Current tax losses not recognised	(534)	-
Cypriot corporation tax at 12.5%	(7)	-
Income tax expense	(1,545)	-

Notes to the Financial Statements

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C. Tax losses

	2019 US\$'000	2018 US\$'000
Unused tax losses for which no deferred tax asset has been recognized		
United Kingdom	326	-
Tax benefit at 19%	62	-

Deferred tax assets are not recognised where the timing or probability of future reversal is uncertain.

12 Loss per share

Loss per share is calculated by reference to the loss for the year of US\$29.4 million (2018: loss of US\$17 million) and the weighted average number of ordinary shares in issue during the year of 416,466,724 (2018: 377,347,795).

At 31 December 2019 nil (2018: 22,367,521) warrants, 56,805,258 (2018: 18,922,066) share options and convertible loan notes have been excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

13 Exploration and evaluation costs

	Tulkubash US\$'000	Kyzyltash US\$'000	Total US\$'000
At 1 January 2018	22,216	9,169	31,385
Additions	12,142	-	12,142
At 31 December 2018	34,358	9,169	43,527
Additions	11,510	33	11,543
At 31 December 2019	45,868	9,202	55,070

Exploration and evaluation assets comprise costs associated with exploration for, and evaluation of, mineral resources together with costs to maintain mining and exploration licences for mining properties that are considered by the Directors to meet the requirements for capitalisation under the Group's accounting policies as disclosed in Note 2.

14 Intangible assets

	Computer Software US\$'000	Other intangible assets US\$'000	Total US\$'000
Cost			
At 1 January 2018	27	-	27
Additions	122	-	122
At 31 December 2018	149	-	149
Additions	954	437	1,391
Acquired through business combinations	302	43	345
At 31 December 2019	1,405	480	1,885
Accumulated amortisation			
At 1 January 2018	18	-	18
Charge for the year	77	-	77
At 31 December 2018	95	-	95
Charge for the year	181	-	181
At 31 December 2019	276	-	276
Net book value			
At 31 December 2019	1,129	480	1,609
At 31 December 2018	54	-	54
At 1 January 2018	9	-	9

15 Property, plant and equipment

	Land and buildings US\$'000	Mining properties US\$'000	Fixtures and fittings US\$'000	Motor vehicles US\$'000	Assets under construction US\$'000	Right-of-use Assets US\$'000	Total US\$'000
Cost							
At 1 January 2018	513	997	135	265	2,675	-	4,585
Additions	40	72	88	84	1,881	-	2,165
Disposals	(1)	(96)	-	(13)	-	-	(110)
Transfers	4,199	-	-	-	(4,199)	-	-
At 31 December 2018	4,751	973	223	336	357	-	6,640
Additions	33	3,500	67	108	3,130	272	7,110
Acquired through business combinations	4,295	23,064	1,290	230	710	339	29,928
Transfers	-	1,453	-	-	(1,453)	-	-
Changes in estimates of provision for rehabilitation	-	797	-	-	-	-	797
Disposals	-	(206)	(3)	(14)	-	-	(223)
Effect of translation to presentation currency	65	350	20	3	11	5	454
At 31 December 2019	9,144	29,931	1,597	663	2,755	616	44,706
Accumulated depreciation							
At 1 January 2018	356	722	114	141	-	-	1,333
Charge for the year	152	96	20	52	-	-	320
Disposals	-	(95)	-	(12)	-	-	(107)
At 31 December 2018	508	723	134	181	-	-	1,546
Charge for the year	723	3,706	269	96	-	104	4,898
Disposals	-	(1)	-	(6)	-	-	(7)
Effect of translation to presentation currency	-	-	-	-	-	-	-
At 31 December 2019	1,231	4,428	403	271	-	104	6,437
Net book value							
At 31 December 2019	7,913	25,503	1,194	392	2,755	512	38,269
At 31 December 2018	4,243	250	89	155	357	-	5,094
At 1 January 2018	157	275	21	124	2,675	-	3,252

The Group's property, plant and equipment relating to the operations in Armenia, Kapan, are pledged as security to the respective banks that have supplied bank debt to the Group.

16 Deferred Tax

Deferred tax assets have been recognized as a result of temporary differences where directors believe it is probable that these assets will be recovered. The Group's deferred tax balance relates to the Kapan mine in Armenia. No deferred tax has been recognized in respect of the Group's operations in the Kyrgyz Republic.

The movement in net deferred tax assets during the year is as follows:

	2019 US\$'000	2018 US\$'000
At 1 January	-	-
Acquisition of subsidiary	8,109	-
Charged to the income statement	(516)	-
Effect of currency translation	59	-
At 31 December	7,652	-
Comprising:		
Deferred tax assets	7,652	-
Deferred tax liabilities	-	-

Movements in temporary differences during the years ended 31 December 2019 are presented as follows:

	At 1 January US\$'000	Acquisition of subsidiary US\$'000	Charged to the income statement US\$'000	Effect of currency translation US\$'000	Total US\$'000
Property, plant and equipment	-	6,374	(643)	29	5,760
Trade and other receivables	-	38	(4)	1	35
Inventories	-	1,279	100	23	1,402
Other provisions	-	24	33	-	57
Trade and other payables	-	99	-	2	101
Lease liabilities	-	295	(2)	4	297
Total	-	8,109	(516)	59	7,652

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17 Inventories

Inventories represent goods held for sale in the ordinary course of business (copper and zinc concentrate), ore being processed into a saleable condition (ore stockpiles) and consumables and spares to be used in the production process.

	2019 US\$'000	2018 US\$'000
Consumables and spare parts	6,911	-
Copper and zinc concentrate in stock	1,718	-
Copper and zinc concentrate in transit	611	-
Ore stockpiles extracted	390	-
Purchased ore stockpiles	44	-
Other	2	-
Total	9,676	-

The cost of inventories recognised as an expense and included in cost of sales amounted to US\$11.8 million (2018: nil) for consumables and spare parts and US\$0.8 million (2018: nil) for purchased ore. The inventory write-down provision to net realisable value amounted to nil as at 31 December 2019 (2018: nil).

18 Trade and other receivables

	2019 US\$'000	2018 US\$'000
Trade receivables	6,434	-
Advance payments to sub-contractors	-	171
Prepayment on acquisition of Kapan	-	5,000
Other receivables	332	19
Less: expected credit losses	(101)	-
As at 31 December	6,665	5,190

The movement in the loss allowance for expected credit losses is detailed below:

	2019 US\$'000	2018 US\$'000
At 1 January	-	-
Released during the year	-	-
Charged during the year	101	-
Utilised during the year	-	-
As at 31 December	101	-

19 Cash and cash equivalents

	2019 US\$'000	2018 US\$'000
Cash		
Cash on hand	7	20
Current accounts in UK	496	693
Current accounts in the Kyrgyz Republic	100	455
Current accounts in Armenia	2,982	-
As at 31 December	3,585	1,168

There are no amounts of cash and cash equivalents which are not available for use by the Group. All amounts held in current accounts can be drawn on demand if required.

20 Capital and reserves

The share capital of Chaarat Gold Holdings Limited consists of shares of US\$0.01 par value of a single class. All shares have equal rights to receive dividends or capital repayments and all shares represent one vote at meetings of Chaarat Gold Holdings Limited.

a) Capital management policies and procedures

The Group's objectives for the management of capital have not changed in the year. The Directors seek to ensure that the Group will continue to operate as a going concern in order to pursue the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimises the cost of capital at an acceptable risk. The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing, or acquire or dispose of assets. The Company, following approval from the Board of Directors, will make changes to its capital structure as deemed appropriate under specific circumstances.

The Group considers equity to be all components included in shareholders' funds and net debt to be long term borrowings including convertible loan notes less cash and cash equivalents. The Group's net debt to equity ratio at 31 December 2019 was as follows:

	2019 US\$'000	2018 US\$'000
Total Equity	22,179	23,643
Convertible loan note	19,994	16,303
Other loans	22,228	10,163
Borrowings	36,915	-
Less: cash and cash equivalents	(3,585)	(1,168)
Net debt	75,552	25,298
Net debt to equity ratio	374%	107%

Borrowings relate to external bank financing obtained for the acquisition of Kapan. This bank financing has certain covenants attached to it that the Group needs to adhere to, one of which is the Net debt to last twelve months ("LTM") EBITDA of 2.5x as at 31 December 2019. The Company did not meet this covenant as at 31 December 2019 and as such the full bank debt has been disclosed as a current liability. Refer to Note 23 for further information.

The convertible loan notes and other loans, as disclosed in Note 22 and 26, respectively, do not have covenants attached to them. As the other loans are repayable within the next 12 months, they have been disclosed as a current liability as at 31 December 2019.

b) Share capital

	2019		2018	
	Number of Shares (^{'000})	Nominal Value US\$'000	Number of Shares (^{'000})	Nominal Value US\$'000
Ordinary shares of US\$0.01 each				
Authorised	1,395,167	13,952	600,000	6,000
Issued and fully paid				
As at 1 January	395,167	3,951	356,878	3,569
Issued for cash	15,665	157	14,529	145
Issued as treasury shares	21,585	216	-	-
Issued to settle liabilities	6,929	69	544	5
Issued as part of Kapan consideration	14,638	146	22,991	230
Exercise of warrants	14,547	146	-	-
Exercise of share options	280	3	225	2
As at 31 December	468,811	4,688	395,167	3,951

On 1 May 2019, approximately US\$2.71 million was raised from the issue of 6,927,563 new ordinary shares at 30p per share to leading global institutional investors as well as existing, including members of the Board and senior management, and new investors.

On 23 July 2019, the Company issued 1,496,556 ordinary shares of US\$0.01 each. These comprised:

- 250,000 New Ordinary Shares issued to Labro Investments Limited ("Labro") pursuant to a guarantee fee agreement;
- 34,435 New Ordinary Shares issued to Labro pursuant to a drawdown made by the Company on 29 March 2019 on a committed revolving term loan facility with Labro; and
- 1,212,121 New Ordinary Shares issued to remunerate a former board member for services provided to the Company.

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On 16 August 2019, 14,638,020 ordinary shares were issued to PTML Holdings Limited in exchange of the US\$10 million Convertible Notes that were issued as part of the original consideration for the Kapan acquisition, and a working capital settlement under the share purchase agreement. Refer to Note 31 for further background details of this transaction.

An additional 1,557,303 ordinary shares were issued on 20 September 2019. These comprised:

- 875,314 New Ordinary Shares issued to Labro pursuant to a guarantee fee agreement;
- 401,989 New Ordinary Shares issued to Labro pursuant to drawdowns made by the Company on 23 May 2019, 22 June 2019 and 8 August 2019 on a committed revolving term loan facility with Labro; and
- 280,000 New Ordinary Shares issued to satisfy the Company's obligations under the Company's 2017 incentive plan to a former director on the exercise by that director of previously vested options.

On 4 November 2019, Labro exercised all its 21,367,521 warrants to subscribe for Chaarat shares:

- Of these, 3,205,128 warrants were exercised in accordance with their terms and the value of these (US\$0.6 million) offset against the Company's current indebtedness under the committed revolving term loan facility with Labro; and
- 18,162,393 warrants were exercised in accordance with their terms resulting in the issuance of 14,371,910 shares to Labro and the offsetting of an amount of US\$0.1 million against the Labro loan.

On 14 November 2019, the Company closed a placing of new ordinary shares, raising gross proceeds of approximately US\$4.5 million and a reduction in indebtedness under the Labro loan of US\$1.3 million from the issue of 12,892,855 new ordinary shares at 35p per share. This share issue comprised:

- The subscription for 10,014,284 shares by existing and new investors including two of the leading global institutional investors; and
- The subscription for 2,878,571 shares by Labro.

The Company's indebtedness under a committed working capital facility with Labro was offset against Labro's obligation to deliver cash due in respect of 2,878,571 shares under the placing. The Company's obligations under the working capital facility with Labro decreased as a result of the set-off by US\$1.3 million.

In addition, 175,000 shares were issued to satisfy the Company's obligations under a warrant agreement, the warrants were exercised for cash at an aggregate share price of 15p.

c) Share options and share based payments

Share options

The Group operates two share option plans under which directors, employees, consultants and advisers have been granted options to subscribe for ordinary shares. All options are share settled. The number and weighted average exercise price of share options are as follows:

	2019		2018	
	Number of Options	Weighted average exercise price (US\$)	Number of Options	Weighted average exercise price (US\$)
Outstanding at 1 January	18,922,066	0.224	28,676,088	0.264
Exercised during the year	(280,000)	0.281	(225,000)	0.200
Granted during the year	56,805,258	0.523	-	-
Replaced during the year	(5,742,981)	0.197	-	-
Lapsed during the year	(12,779,085)	0.202	(9,529,022)	0.392
Outstanding at 31 December	56,925,258	0.522	18,922,066	0.224
Exercisable at 31 December	37,738,450	0.522	6,028,731	0.270

The share options outstanding at 31 December 2019 had a weighted average remaining contractual life of 9.7 years (2018: 5.8 years). Maximum term of new options granted was 10 years from the grant date. At the date of exercise of the 280,000 options above the share price was US\$0.403. The share options outstanding at 31 December 2019 had a range of exercise prices between £0.15 and £0.42.

20 Capital and reserves (continued)

c) Share options and share based payments (continued)

Share options (continued)

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise period. The inputs into the Black-Scholes model for options granted in the year were as follows:

	Options issued 18 September 2019
Share price when issued	US\$0.39
Exercise price	US\$0.52
Expected volatility	62.62%
Expected life	3 years
Risk free rate (US Federal Funds Rate)	1.70%
Expected dividends	nil
Average fair value per option	US\$0.134

The expected volatility used in the Valuation Model has been derived from the historical share price of the Company.

The total number of options over ordinary shares outstanding at 31 December 2019 was as follows:

Exercise period	Number	Exercise price
12 February 2017 to 12 February 2025	120,000	£0.15
18 September 2019 to 18 September 2029	56,805,258	£0.42
Total	56,925,258	

New share option plan and old plan modification

On 18 September 2019, the Group adopted a new Management Incentive Plan ("the new Plan") whereby 6,295,481 of options vested or vesting under the old plan were replaced with 1,543,959 of new restricted stock units and a cash settlement of US\$0.4 million. 50% of the replacement restricted stock units vested on 15 October 2019 and 50% on 31 December 2020 subject to a vesting condition of continued employment by the Group.

The original fair value of the options under the old plan at the date of the modification was determined using the Black-Scholes model for unvested options and intrinsic value for vested options. The modified fair value of replacement restricted stock units was calculated by reference to the share price at the date of replacement. As the modified fair value of US\$0.6 million plus cancellation payment of US\$0.4 million did not exceed the original fair value of US\$1.4 million, the share-based payment expense was not adjusted. Therefore, the cancellation of the options under the old plan was accounted for as a modification with the remaining expense recognised in relation to the replaced unvested options over the remaining vesting period.

At the date of the modification, the incremental fair value for vested options was based on the intrinsic value of options, the value of unvested options was calculated using a Black-Scholes model. The incremental fair value was calculated to be negative and therefore no additional expense is being recognised over the vesting period of replacement restricted stock units.

Vesting Conditions

Out of 120,000 options with an exercise period commencing 12 February 2017 outstanding under the old plan, 33,334 will vest on 12 February 2020 subject to a vesting condition of continued employment by the Group.

Prior to introduction of the new Plan, 7,760,000 options lapsed due to a failure to achieve a vesting condition related to the first gold pour at the Tulkubash Project by 31 March 2020. 4,466,585 options lapsed due to the cessation of an option holder's employment by the Group.

The new options granted are subject to a vesting condition of continued employment by the Group and vest in three equal instalments as follows:

- 1/3 on vesting on 15 October 2019;
- 1/3 on vesting on 31 December 2019;
- 1/3 on vesting on 31 December 2020.

Options not yet vested will lapse if an employee or director leaves the Company prior to the vesting date. Unexercised vested options will lapse six months after an employee or director leaves the Company.

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Restricted Stock Unit

On 18 September 2019, 21,494,198 of new restricted stock units were granted to the employees of the Group. The fair value of the awards was measured by reference to the share price at the grant date of US\$0.39. No dividends were expected to be paid on the units during the vesting period.

The units vest in three equal instalments as follows:

- 1/3 on vesting on 15 October 2019 subject to a vesting condition of continued employment by the Group;
- 1/3 on vesting on 31 December 2019 subject to a vesting condition of continued employment by the Group and achievement of specific non-market based key performance indicators (“KPIs”);
- 1/3 on vesting on 31 December 2020 subject to a vesting condition of continued employment by the Group and achievement of specific non-market based KPIs.

Trust

On 7 October 2019, the Group established the Chaarat Gold Holdings Limited Employee Benefit Trust in order to acquire and hold sufficient shares to satisfy the awards under the new Plan. The Company was considered to have control over the Trust and therefore the results of the Trust were consolidated within these financial statements. During the year, expenses of US\$0.04 million were incurred by the Trust.

d) Warrants

Warrants to purchase ordinary shares were outstanding at 31 December 2019 as follows:

Expiry date	2019		2018	
	Number of Warrants	Exercise price (£)	Number of Warrants	Exercise price (£)
17 December 2019	-	-	21,367,521	0.150
23 December 2019	-	-	1,000,000	0.150
Total	-	-	22,367,521	0.150

Warrants were issued in 2014 in conjunction with a share placing. During 2016 the warrant expiry date was amended from December 2017 to December 2019 for all except 50,000 warrants. During 2019 22,367,521 warrants were exercised (2018: nil).

e) Shares to be issued

During 2019 the Company received an additional US\$0.2 million for shares to be issued, reflected as a separate component of equity as at 31 December 2019.

f) Convertible loan note reserve

The convertible loan note reserve represents the equity component of convertible loan notes issued by the Company. Refer to Note 22 for further information.

	2019	2018
	US\$'000	US\$'000
As at 1 January	2,360	867
Equity element of convertible loan note	133	2,646
Conversion of loan notes	-	(1,153)
As at 31 December	2,493	2,360

g) Own shares reserve

The own shares reserve represents the nominal value of equity shares that have been repurchased by the company. The movement in the reserve is as follows:

	2019	2018
	US\$'000	US\$'000
As at 1 January	-	-
Issuance of treasury shares	(216)	-
As at 31 December	(216)	-

21 Provision for rehabilitation

The provision for rehabilitation relates to the Kapan mine in Armenia. According to Armenian legislation and licence agreements, the Company is committed to restoring working areas on the mine, including decommissioning of plant and securing of the tailings dam. Movements in the provision for rehabilitation is as follows:

	2019 US\$'000	2018 US\$'000
Balance at 1 January	-	-
Acquisition of subsidiary	7,111	-
Adjustment for change in discount rate and timing	797	-
Unwinding of discount	621	-
Foreign exchange conversion effect	109	-
Balance at 31 December	8,638	-

Further details relating to the calculation of the balance as at 31 December 2019 are as follows:

	31 December 2019
Discount rates	8.01%
Provision settlement date	31 December 2027
Estimated undiscounted cash flow required to settle the provision	US\$10.4 million

22 Convertible loan notes

2021 convertible loan notes

The group issued US\$17.6 million of loan notes in September 2018, US\$1 million in November 2018, US\$0.6 million in January 2019 and US\$0.5 million in July 2019. There are no covenants attached to the convertible loan notes.

2021 Notes	US\$'000
Cash proceeds	9,775
Transaction costs	(620)
Net proceeds	9,155
Re-invested proceeds from 2018 and 2019 Notes	8,805
Amount classified as equity	(2,360)
Accrued interest	703
At 31 December 2018	16,303
Cash proceeds	1,100
Transaction costs	(28)
Net proceeds	1,072
Amount classified as equity	(133)
Accrued interest	2,752
At 31 December 2019	19,994

The number of shares to be issued on conversion is fixed.

The 2021 notes accrue interest at 10% p.a. until 30 April 2020 and then at a rate of 12% p.a. until 31 October 2021. The notes are secured on the shares of the Group's principal operating subsidiary, Chaarat Zaav CJSC via the intermediate holding company Zaav Holdings Limited. The notes are repayable on 31 October 2021 and can be redeemed by the Company at any time subject to paying a minimum of 5% interest. The notes, including accrued interest, can be converted at any time at the holder's option at a price of £0.36 per ordinary share.

The value of the liability and equity conversion component were determined at the date of issue. The fair value of the liability component at inception was calculated using a market interest rate of 15% for an equivalent instrument without conversion option.

In January 2019, Chaarat received US\$0.6 million from two new investors for the subscription and issue of secured convertible notes for US\$0.35 million and US\$0.25 million. In July 2019, Chaarat received US\$0.5 million from a new investor for the subscription and issue of secured convertible notes.

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Reconciliation of liabilities

	Convertible loans US\$'000	Lease liabilities US\$'000	Other loans US\$'000	Borrowings US\$'000	Total US\$'000
Convertible loan notes and Other liabilities					
As at 1 January 2018	15,430	-	1,000	-	16,430
Cash flows:					
Cash proceeds	13,725	-	9,924	-	23,649
Transaction costs	(170)	-	-	-	(170)
Redemption and transfer to other liabilities	(4,620)				(4,620)
Net proceeds	8,935	-	9,924	-	18,859
Non-cash items:					
Amount classified as equity	(2,646)	-	-	-	(2,646)
Amount converted to equity	(9,088)	-	-	-	(9,088)
Accrued interest	3,122	-	239	-	3,361
Funds received in advance	1,000	-	(1,000)	-	-
Transaction costs	(450)				(450)
As at 31 December 2018	16,303	-	10,163	-	26,466
Cash flows:					
Cash proceeds	1,100	-	13,000	40,000	54,100
Transaction costs paid	(28)	-	-	-	(28)
Payment of interest	-	-	-	(2,727)	(2,727)
Payment of principal amount	-	-	-	(4,000)	(4,000)
Lease payments	-	(120)	-	-	(120)
Net proceeds	1,072	(120)	13,000	33,273	47,225
Non-cash items:					
Amount classified as equity	(133)	-	-	-	(133)
Converted to equity	-	-	-	-	-
Interest	2,752	32	1,979	3,638	8,401
Acquisition of subsidiary	-	346	-	-	346
Additions	-	320	-	-	320
Repayments through shares issued	-	-	(2,529)	-	(2,529)
Transaction costs	-	-	(270)	-	(270)
Effect of currency translation	-	-	-	4	4
	2,619	698	(820)	3,642	6,139
Total liabilities from financing activities as at 31 December	19,994	578	22,343	36,915	79,830

23 Borrowings

Borrowings at 31 December consisted of the following:

	Currency	Date of maturity	Interest rate (%)	2019 US\$'000	2018 US\$'000
Syndicated loan from Armenian banks	US\$	31/12/2022	Libor 3m+8%	36,915	-
At 31 December				36,915	-

The movements of borrowings are presented below:

	2019 US\$'000
At 1 January	-
Borrowing attracted in cash	40,000
Interest expense in profit or loss	3,638
Payment of interest in cash, net of taxes	(2,727)
Payment of principal amount in cash, net of taxes	(4,000)
Effect of currency translation	4
At 31 December	36,915

On 30 January 2019, the documentation was finalised for the Kapan Acquisition Financing totalling US\$40 million, which is syndicated with Ameriabank CJSC (US\$32 million), HSBC Bank Armenia CJSC (US\$5 million) and Ararat Bank OJSC (US\$3 million). The loan is repayable through quarterly payments over a four-year period and incurs interest at Libor plus 8%.

This bank financing has certain covenants attached to it that the Group needs to adhere to, one of which is the Net debt to last twelve months ("LTM") EBITDA of 2.5x as at 31 December 2019. The Company did not meet this covenant as at 31 December 2019 and as such the full bank debt has been disclosed as a current liability. The LTM EBITDA calculation is based on EBITDA from 1 January 2019 to 31 December 2019. Chaarat ownership of Kapan commenced on 30 January 2019 and as such one month of the LTM calculation, is based on Kapan whilst being operated by Polymetal International Plc.

In addition, the loan maintains a 1st line ranking to the Kapan assets. The loan also contains a cash sweep mechanism whereby Chaarat must make a mandatory repayment of the Loan equal to the cash sweep percentage of the free cash flow after existing debt service. The Cash Sweep Percentage means: (i) 60% for the period starting on the utilization date to the relevant date following 12 months after the utilization date; (ii) 50% for the period starting on the second anniversary of the utilization date to the relevant date following 24 months.

24 Trade and other payables

Trade and other payables at 31 December consisted of the following:

	2019 US\$'000	2018 US\$'000
Trade payables	13,444	2,882
Social security and employee taxes	988	308
Accruals	2,327	1,734
As at 31 December	16,759	4,924

Trade and other payables are all unsecured. Trade and other payables at 31 December 2019 and 2018 do not include any amounts owed to Directors or companies controlled by Directors.

25 Leases

Per Note 2, all leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets and leases with a duration of 12 months or less.

The Group leases property and land in the jurisdictions from which it operates, the most notable being the office space that is leased in the United Kingdom and the land that is leased in Armenia. These leases fall within the scope of IFRS 16 and therefore right-of-use assets and lease liabilities are recognised. The Group also leases certain items of property, plant and equipment in the Kyrgyz Republic which contain variable payments over the lease terms, therefore these leases do not fall within the scope of IFRS 16, and right-of-use assets and lease liabilities are not recognised as a result.

The movements in the Group's right-of-use assets and lease liabilities for the period are presented below:

	Land US\$'000	Property US\$'000	Total US\$'000
Right-of-use assets - 2019			
At 1 January	-	-	-
Acquisition of subsidiary	339	-	339
Additions	-	272	272
Depreciation charge	(29)	(75)	(104)
Effect of translation to presentation currency	5	-	5
As at 31 December	315	197	512

	Land US\$'000	Property US\$'000	Total US\$'000
Lease liabilities - 2019			
At 1 January	-	-	-
Acquisition of subsidiary	346	-	346
Additions	-	320	320
Interest expense	28	4	32
Lease payments	(72)	(48)	(120)
As at 31 December	302	276	578

	2019 US\$'000	2018 US\$'000
Current		
Lease liabilities	276	-
Non-current		
Lease liabilities	302	-
Total lease liabilities	578	-

The maturity of the gross contractual undiscounted cash flows due on the Group's lease liabilities is set out below based on the period between 31 December and the contractual maturity date:

	Within 6 months US\$'000	to 1 year US\$'000	6 months 1 to 5 years US\$'000	Over 5 years US\$'000	Total at 31 December 2019 US\$'000
Property leases	103	132	4	17	256
Land leases	32	34	304	124	494
Total	135	166	308	141	750

As at 31 December 2019, the gross contractual discounted cash flows due on the Group's lease liabilities amounts to US\$0.58 million (2018: nil).

The discount rate used in calculating the lease liabilities is the rate implicit in the lease, unless this cannot readily be determined, in which case the Group's incremental rate of borrowing is used instead. In 2019, a discount rate of 4.75% per annum and 12% per annum has been used to calculate the Group's lease liabilities for its property and land leases, respectively.

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26 Other loans

Other current loans at 31 December consisted of the following:

	External loan US\$'000	Labro Facility US\$'000	2018 US\$'000
As at 1 January 2019	10,163	-	10,163
Additional funds received	7,000	6,000	13,000
Interest accrued	1,608	371	1,979
Transaction costs	-	(270)	(270)
Repayments	-	(2,529)	(2,529)
As at 31 December 2019	18,771	3,572	22,343

On 13 November 2018 a new loan of US\$10 million was entered into, made up of a transfer of previous convertible loan funds of US\$4.3 million that were redeemed by the loan holder (not a related party) and initially held in escrow on the loan holder's behalf. This amount accrued interest of US\$76k up to the day the new loan terms were agreed. This existing amount of US\$4.4 million, being the redemption amount including the interest, was rolled into the new loan along with additional funds of US\$5.6 million. This US\$10 million loan is guaranteed by the Company's subsidiary Zaav Holdings Limited. The loan was originally repayable after six months from 13 November 2018 or, at the Company's option, nine months. The annualised interest on the loan is 13%. The loan contains various representations, undertakings and events of default which are common for a loan of this nature. During September 2019, the Company entered into a loan amendment agreement whereby the maturity date was extended to 31 March 2020 and the loan was increased by US\$7 million.

During 2019 the Company drew down US\$6.0 million from the existing working capital facility with Labro Investments Limited, Chaarat's largest shareholder and a Company controlled by the Chairman and therefore a related party entity, of which US\$2.5 million was subsequently repaid through the issue of ordinary shares. The annualised interest on the drawn down amount is 10% from the date of the draw down. Refer to the related party Note 28 for further detail.

27 Other provisions for liabilities and charges

Other provisions for liabilities and charges comprise of a legal claim provision in Armenia, in respect of employment disputes, as well as a bonus tax provision in the Kyrgyz Republic.

The legal claim provision has been recognised as, based on the Group's legal views, it is considered probable that an outflow of resources will be required to settle the employment disputes, however there is uncertainty around the timing of payments to be made. There are no expected reimbursements relating to this provision.

In the first quarter of 2020 the Group's subsidiary operating in the Kyrgyz Republic, Chaarat Zaav, filed an application to the State Cadastre of the deposits of mineral resources of the Kyrgyz Republic to record additional reserves and have therefore provided for the bonus tax that will arise under the Article 301 of the Tax Code of the Kyrgyz Republic.

The movement in provisions in 2019 is as follows:

	Bonus Tax Provision US\$'000	Legal Claims Provision US\$'000	Total US\$'000
Balance as at 1 January	-	-	-
Acquisition of subsidiary	-	121	121
Change in provision	419	196	615
Foreign exchange on conversion	-	2	2
Balance as at 31 December	419	319	738

28 Related party transactions

Group

Remuneration of key management personnel

Remuneration of key management personnel is as follows:

	2019 US\$'000	2018 US\$'000
Short term employee benefits	2,342	2,706
Termination benefits	-	317
Share option charge	8,025	152
As at 31 December	10,367	3,175

Included in the above key management personnel are 8 directors and 2 key managers (2018: 10 and 5).

Certain key management personnel charged for services via related party entities that they control is as follows:

	2019 US\$'000	2018 US\$'000
Powderhouse Gulch LLC (in respect of Robert Benbow's services)	227	375
ACG Eurasia LLC (in respect of other consultant services for the pre-acquisition period, when it was controlled by Artem Volynets)	532	294
Total	759	669

Entities with significant influence over the Group

At 31 December 2019, Labro Investments Limited, Chaarat's largest shareholder, owned 35.14% (2018: 33.71%) of the ordinary US\$0.01 shares in Chaarat ("Ordinary Shares") and US\$1 million of 10% secured convertible loan notes 2021 which, assuming full conversion of principal and interest to maturity on 31 October 2021, are convertible into 2,849,330 Ordinary Shares (comprised of 2,111,484 Ordinary Shares in respect of principal and around 737,846 Ordinary Shares in respect of interest).

Labro Loan Agreement

The Company has issued the following Ordinary Shares in the Company to Labro, payment for which was offset against commitment and drawdown fees incurred during the year and reduction of indebtedness under the US\$15 million revolving term loan facility agreement entered into on 12 December 2018 between Labro as lender and the Company as borrower (the "Labro Loan Agreement"):

Date payment due	Amount to be paid under Labro Loan Agreement	Type of payment under Labro Loan Agreement	Number of shares issued to Labro in satisfaction	Date shares issued to Labro
29 March 2019	US\$225,000	Commitment fee	516,525	20 January 2020
29 March 2019	US\$15,000	Drawdown fee	34,435	23 July 2019
23 May 2019	US\$60,000	Drawdown fee	142,775	20 September 2019
22 June 2019	US\$30,000	Drawdown fee	72,148	20 September 2019
8 August 2019	US\$75,000	Drawdown fee	187,066	20 September 2019
n/a	US\$500,000	Indebtedness reduction	1,276,666	1 May 2019
n/a	US\$728,557	Indebtedness reduction	14,371,910	7 November 2019
n/a	US\$1,300,000	Indebtedness reduction	2,878,571	14 November 2019

Refer to Note 26 above for a reconciliation of the amount due to Labro under the Facility, including interest and fees as at 31 December 2019.

On 1 May 2019 Labro subscribed for 1,914,999 Ordinary Shares at £0.30 per share pursuant to the placing announced by the Company on 1 April 2019 (the "Placing Shares"). Labro's obligation to deliver cash in respect of 1,276,666 of the Placing Shares was offset against the Company's indebtedness under the Labro Loan Agreement with the consequence that the Company's obligations under the Labro Loan Agreement decreased by US\$0.5 million.

On 28 October 2019 Labro exercised all its 21,367,521 warrants to subscribe for Ordinary Shares in the Company (the "Labro Warrants") at an exercise price of £0.15 per share. Labro's obligation to deliver cash in respect of the exercise of the Labro Warrants was offset against the Company's indebtedness under the Labro Loan Agreement with the consequence that the Company's obligations under the Labro Loan Agreement decreased by US\$728,557.

On 14 November 2019 Labro subscribed for 2,878,571 Ordinary Shares at £0.35 per share in the Company pursuant to the placing announced by the Company on 14 November 2019. Labro's obligation to deliver cash in respect of those shares was offset against the Company's indebtedness under the Labro Loan Agreement with the consequence that the Company's obligations under the Labro Loan Agreement decreased by US\$1.3 million.

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Labro Guarantee Fee Agreement

On 31 January 2019 the Company and Labro entered into a Guarantee Fee Agreement pursuant to which Labro agreed to guarantee for one year repayment of US\$5 million of a third party loan made to the Company's affiliate, Kapan Mining and Processing Company CJSC, in consideration of the Company paying to Labro a fee equal to 250,000 Ordinary Shares. The 250,000 Ordinary Shares were issued to Labro on 23 July 2019.

Labro Security Fee Agreement

On 5 September 2019 the Company and Labro entered into a Security Fee Agreement pursuant to which Labro agreed to pledge certain of its assets to a third party as security for that third party agreeing to increase its loan facility to the Company by US\$7 million. In consideration of Labro granting the pledge the Company agreed to pay a fee to Labro equal to two per cent (2%) of the amount of the increase in the loan facility to be satisfied by the issuance of shares in the Company. Pursuant to the Security Fee Agreement, 875,314 Ordinary Shares were issued to Labro on 20 September 2019.

Artem Volynets, Chief Executive Officer and 0.82% shareholder

Acquisition of Chaarat Eurasia Limited

On 3 July 2019 the Company acquired the entire issued share capital of Chaarat Eurasia Limited, a legal entity incorporated under the laws of the Russian Federation, from ACG AMUR Capital Group Limited, a private company controlled by Mr Volynets, an executive director and then a 0.41% shareholder in the Company. The consideration for the acquisition was US\$16,950 which was paid in cash. The entity was purchased in order for the group to have a services entity within this location.

Contingent incentive fee arrangement

Mr Volynets benefits from a contingent incentive fee arrangement in relation to one potential and future M&A transaction, subject to such transaction closing prior to 30 July 2020, after which date such arrangement expires for nil consideration. Should such transaction close by 30 July 2020, Mr Volynets will be awarded 12,564,874 Ordinary Shares, subject to a clawback for 12 months following completion in the event of him ceasing to be employed by the Group within this period. Mr Volynets would not be a participating board member, or carry a vote, on this future and potential M&A transaction.

29 Commitments and contingencies

Capital expenditure commitment

The Company had a commitment of US\$12 million at 31 December 2019 (2018: US\$1.1 million) in respect of capital expenditure contracted for but not provided for in these financial statements.

Lease liability commitments

Details of lease liability commitments are set out in Note 25.

Licence retention fee commitments

The Company has calculated a commitment of US\$0.11 million at 31 December 2019 (2018: US\$0.1 million) in respect of licence retention fees not provided in these financial statements. The amount to be paid will be determined by the Kyrgyz authorities and is not payable until a demand for payment is received by the Company. No demand in respect of extant licences had been received at the date of these financial statements.

Licence agreements

There are minimum expenditure commitments under the exploration and mining license agreements. These minimum levels of investment have always been achieved. The commitment recognised in 2019 is US\$0.4 million (2018: US\$0.24 million).

Stabilisation agreement

CJSC Chaarat Zaav, a subsidiary of the Group operating in the Kyrgyz Republic, concluded a stabilisation agreement with the Government of the Kyrgyz Republic in respect of the Company's Tulkubash projects (the "Agreement"). The Agreement is based on the investment law of the Kyrgyz Republic (the "Law") which stipulates investors to make substantial investments, including ones into the country's mining industry, by providing to them formal assurances on stability of the tax regime. Under the Agreement the parent Company, Chaarat Gold Holdings Limited has a commitment to invest a minimum of US\$20 million in the share capital of its subsidiary located and operating in the Kyrgyz Republic, Chaarat Zaav, within the first five years of signing the stabilization agreement on 26 December 2019. This will be achieved through the planned development of the Chaarat Zaav's Tulkubash project which is currently estimated to cost US\$110 million.

30 Financial instruments and financial risk management

The Group is exposed to a variety of financial risks which result from its operating activities. The Group's risk management is coordinated by the executive Directors, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

Categories of financial instruments

	2019	2018
	US\$'000	US\$'000
Financial assets measured at amortised cost		
Trade and other receivables	6,665	19
Cash and cash equivalents	3,585	1,168
Total financial assets	10,250	1,187
Financial liabilities measured at amortised cost		
Trade and other payables	15,771	4,646
Lease liabilities	578	-
Borrowings	36,915	-
Other loans	22,343	10,163
Convertible loan notes	19,994	16,303
Total financial liabilities	95,601	31,112

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Trade accounts receivable at 31 December 2019 are represented by provisional copper and zinc concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 16 are cash and cash equivalents at 31 December 2019 of US\$3.6 million (2018: US\$1.2 million).

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk). The Group's financial instruments affected by market risk include bank deposits, trade and other receivables and trade payables.

The Group holds short term bank deposits on which short term fluctuations in the interest rate receivable are to be expected but are not deemed to be material.

Foreign currency risk

The Group carries out expenditure transactions substantially in US dollars (USD), with a lesser amount in Armenian Dram (AMD), British Pounds (GBP), Kyrgyz Som (KGS) and Russian Rouble (RUB). Equity fund-raising has taken place mainly in GBP pounds, with debt denominated in US dollars. Any resulting gains or losses are recognised in the income statement.

Foreign currency risk arises principally from the Group's holdings of cash in GBP.

The Group's presentation and subsidiary's functional currency is the US dollar, except for Chaarat Kapan and Chaarat Eurasia Ltd, which have a functional currency of AMD and RUB, respectively.

To mitigate the Group's exposure to foreign currency risk, cash holdings are maintained to closely represent the expected short-term profile of expenditure by currency. Apart from these resultant offsets, no further hedging activity is undertaken.

As at 31 December the Group's net exposure to foreign exchange risk was as follows:

	2019	2018
	US\$'000	US\$'000
Net foreign currency financial assets/(liabilities)		
GBP	113	(1,745)
AMD	(2,901)	-
KGS	5	(135)
Other	-	4
Total net exposure	(2,783)	(1,876)

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The table below sets out the impact of changes in exchange rates on the financial assets of the Group due to monetary assets denominated in GBP, AMD and KGS, with all other variables held constant:

	2019 Move (%)	Income statement Profit/(loss)	Equity	2018 Move (%)	Income statement Profit/(loss)	Equity
Fall in value of GBP vs US\$	5	6	6	5	87	87
Increase in value of GBP vs US\$	5	(5)	(5)	5	(87)	(87)
Fall in value of AMD vs US\$	5	138	138	-	-	-
Increase in value of AMD vs US\$	5	(153)	(153)	-	-	-
Fall in value of KGS vs US\$	10	-	-	10	13	13
Increase in value of KGS vs US\$	10	1	1	10	(13)	(13)

The percentage change for each currency represents management's assessment of the reasonable possible exposure given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for the future.

Fair value of financial instruments

The fair value of the Group's financial instruments at 31 December 2019 and 2018 did not differ materially from their carrying values.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The Group, at its present stage, generates sales revenue from the mining operations in Armenia. The Company still relies on financing its operations through the issue of equity share capital and debt in order to ensure sufficient cash resources are maintained to meet short-term liabilities. The Group aims to mitigate liquidity risk by monitoring availability of funds in relation to forecast expenditures in order to ensure timely fundraising. Funds are raised in discrete tranches to finance activities for limited periods. Funds surplus to immediate requirements are placed in liquid, low risk investments. The Group has prepared financial forecasts for the foreseeable future and these indicate that the Group should be able to operate and continue to grow within the level of its current working capital availability.

The Group's ability to raise finance is partially subject to the price of gold, from which sales revenues are derived. There can be no certainty as to the future gold price.

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Up to 3 months US\$'000	Between 3 and 12 months US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
At 31 December 2019					
Trade and other payables	16,534	-	-	-	-
Lease liabilities	-	301	308	-	141
Borrowings	2,915	8,372	12,663	19,114	-
Other loans	19,358	3,964	-	-	-
Convertible loan notes	-	-	26,357	-	-
Total	38,807	12,637	39,328	19,114	141
At 31 December 2018					
Trade and other payables	4,924	-	-	-	-
Lease liabilities	-	-	-	-	-
Borrowings	-	-	-	-	-
Other loans	-	10,975	-	-	-
Convertible loan notes	-	-	-	25,443	-
Total	4,924	10,975	-	25,443	-

The Group's convertible loan notes are repayable on 31 October 2021.

31 Kapan Acquisition

On 30 January 2019, Chaarat Gold International Limited, the subsidiary of Chaarat Gold Holdings Ltd, acquired 100 per cent of the issued share capital of Kapan Mining and Processing Company CJSC (“Kapan”), a company incorporated in the Republic of Armenia which explores and produces copper and zinc concentrates. The acquisition is expected to accelerate the Group’s strategic aim of building a leading emerging markets gold company.

The originally agreed cost of the acquisition was US\$55 million (which was subject to net debt and working capital adjustments) which comprised a cash consideration of US\$45 million, made up of a US\$5 million deposit paid in November 2018 and US\$40 million of third-party bank funding, and a convertible loan note of US\$10 million under the same terms as 2021 loan notes, as disclosed in Note 18 above.

Under the settlement agreement signed with PMTL on 29 July 2019, the convertible loan notes issued were cancelled and shares at a value of US\$5.3 million were issued to PMTL making the total fair value of the consideration US\$50.26 million. The fair value of these shares was based on the published share price on the date the settlement agreement was signed.

Acquisition-related costs of US\$3.48 million and US\$1.4 million were charged to administrative expenses in the consolidated income statement for the years ended 31 December 2018 and 31 December 2019, respectively.

The fair value of the assets and liabilities of Kapan at 30 January 2019 are set out below:

	Fair value at date of acquisition US\$'000
Intangible fixed assets	345
Mining properties	29,929
Inventories	17,259
Trade receivables	5,149
Other receivables	2,697
Deferred income tax asset	8,109
Prepayments	571
Cash and cash equivalents	1,534
Total assets	65,593
Borrowings	346
Trade payables	5,063
Other payables	2,697
Provision for rehabilitation	7,111
Other provisions	121
Total liabilities	15,338
Net assets	50,255

The fair value of acquired trade receivables was US\$5.1 million. The gross contractual amount for trade receivables due was US\$5.3 million, with a loss allowance of US\$0.2 million recognised on acquisition. The fair value of the Mining properties was US\$29.9 million after a negative fair value adjustment of US\$26.9 million. The Inventory fair value of US\$17.3 million included a positive fair value adjustment of US\$1.1 million. These adjustments resulted in the Deferred tax asset of US\$8.1 million which included a positive fair value adjustment of US\$4.3 million. Deferred tax assets have been recognised as a result of temporary differences where directors believe it is probable that these assets will be recovered.

Consolidated revenue and consolidated loss after tax comprise revenue of US\$68 million and loss after tax of US\$2.2 million contributed by Kapan between the date of its acquisition and 31 December 2019. Consolidated revenue and loss after tax for the year ended 31 December 2019 as though the acquisition date occurred as of the beginning of the year were US\$73 million and US\$2.0 million respectively.

Notes to the Financial Statements

Continued

32 Chaarat Eurasia Limited Acquisition

On 3 July 2019 the Company acquired the entire issued share capital of Chaarat Eurasia Limited, a legal entity incorporated under the laws of the Russian Federation, from ACG AMUR Capital Group Limited, a private company controlled by Mr Volynets, an executive director and then a 0.41% shareholder in the Company. The consideration for the acquisition was US\$16,950 which was paid in cash. The entity was purchased in order for the group to have a services entity within this location.

The fair value of the assets and liabilities of Chaarat Eurasia Limited at 3 July 2019 are set out below:

	Fair value at date of acquisition US\$'000
Tangible fixed assets	-
Other receivables	19
Deferred income tax asset	-
Prepayments	-
Cash and cash equivalents	2
Total assets	21
Deferred tax liabilities	3
Trade payables	1
Total liabilities	4
Net assets	17

The tangible fixed assets had a negative fair value adjustment of US\$173k resulting in a US\$ nil fair value. Other receivables had a negative fair value adjustment of US\$26k resulting in a fair value of US\$19k. Prepayments had a negative fair value adjustment of US\$182k resulting in a US\$ nil fair value. The Deferred income tax had a negative fair value adjustment of US\$182k resulting in a fair value of US\$ nil. Deferred tax liabilities and trade payables had a fair value adjustment of US\$3k and US\$1k respectively both resulting in a US\$ nil fair value.

Consolidated revenue and consolidated loss after tax comprise revenue of US\$ nil and loss after tax of US\$10,918 contributed by Chaarat Eurasia Limited between the date of its acquisition and 31 December 2019. Consolidated revenue and loss after tax for the year ended 31 December 2019 as though the acquisition date occurred as of the beginning of the year were US\$ nil and US\$18,717 respectively.

33 Post balance sheet events

Breach of loan covenant

This bank financing has certain covenants attached to it that the Group needs to adhere to, one of which is the Net debt to last twelve months ("LTM") EBITDA of 2.5x as at 31 December 2019. The Company did not meet this covenant as at 31 December 2019 and as such the full bank debt has been disclosed as a current liability. The LTM EBITDA calculation is based on EBITDA from 1 January 2019 to 31 December 2019. Chaarat ownership of Kapan commenced on 30 January 2019 and as such one month of the LTM calculation, is based on Kapan whilst being operated by Polymetal International Plc. A waiver was received in April 2020, with regards to the relevant covenant not being met on 31 December 2019 and therefore the Group remains in full compliance of the loan.

US\$19.4 million loan

On 9 April 2020, the Group entered into an agreement with the lender to extend the maturity date of the US\$19.4 million loan to 31 December 2020. The terms of the Loan remain significantly unchanged, including the interest charge of 13% per annum and the requirement to repay the loan prior to or in conjunction with any additional debt financing that the Group may raise with limited exceptions. A fee of 150 basis points of the outstanding loan amount will be paid in cash at closing of the extension agreement to the Loan provider.

Labro, who has provided a guarantee and security package to the lender, has agreed to extend and increase the guarantee and security package directly to the lender for the full amount of the Loan. As part of the extension agreement, Chaarat will compensate Labro for providing an increased security package to the Loan provider and is in advanced discussions to agree the respective terms for such compensation.

COVID-19

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

COVID-19 has created a series of unprecedented challenges with regards to future fundraising. We expect the timelines for fundraisings to be impacted by, the uncertainty and market turbulence stemming from the pandemic, liquidity constraints on investors resulting in a reduced appetites to enter into new long-term capital commitments and the challenges for investors to undertake their due diligence (in particular, face-to-face meetings), receive appropriate internal approvals and obtain relevant signatories.

The Company however has determined that COVID-19 is a non-adjusting post-balance sheet event. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect its impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

Shareholder Information

Directors

Martin Andersson	Executive Chairman
Gordon Wylie	Deputy Chairman and Senior Independent Non-Executive Director
Artem Volynets	Executive Director
Robert Benbow	Executive Director
Robert Edwards	Non-Executive Director
Hussein Barma	Non-Executive Director
Warren Gilman	Non-Executive Director

Company Secretary

Frances Robinson

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