Consolidated financial statements of AzerGold CJSC and its subsidiaries (The Group) as of 2022

AzerGold CJSC (refer to as “the Company”) and its subsidiaries (refer to as “the Group”) obtained a favourable audit opinion on consolidated financial statements for the year of 2022 from “PricewaterhouseCoopers Audit Azerbaijan”. The Consalidated Financial Statements of the Company included the financial performance of “AzerBlast” LLC and “Dashkasan Iron Ore” LLC in the year of 2022.
The Company’s activity which is of great importance for the socio-economic development of our country, especially the regions has observed increasing trends in various financial aspects.

Sales revenues increased for 10%

While the total sales amount of the Group was $112.073 mln in 2021, this figure shows $11.572 mln (or 10%) increase and became $123.646 mln in 2022.
The main reason for this growth was the increase in the sales volume of gold and silver. In 2022, the sales figures were 63.5 thousand ounces and 207.8 thousand ounces of gold and silver, respectively. Thus, sales results of gold and silver in 2022 was respectively 3,646 ounces (6.1%) and 74,892 ounces (56.3%) more as compared to 2021.

Net profit increased

Despite a 26.4% rise in cost of sales in 2022, the group's net profit has increased by 2.75% due to the growth in sales volume, while the EBITDA (earnings before interest, taxes, depreciation, and amortization) decreased by 3.25%. Taking into account losses amounting to US$2.408 mln., the consolidated net profit of the Group was US$30,212 mln.
Compared with 2021, the prime cost in 2022 has increased to US$13,636 mln. (average prime cost per ounce taken as US$164).
The factors promoting the growth are:

- Explosion and transportation/waste and ore rock, and heap leaching costs
  Growth in production and sales of gold in 2022, increase in transportation costs due to the rise in the volume of ore transported from mines located in the vicinity of "Chovdar" gold deposit, as well as ore type change (from oxide to transit), ore grade decline and the recovery rate of gold concentrate led to an increase in the cost of sales. As a result, the costs of explosion, transportation (waste and ore rocks) and heap-leaching have respectively increased by US$6,663 mln. and US$3.051 mln. amounting to US$27.312 mln.

- Payroll expenses – Due to involvement of 136 new employees in 2022, totally US$2,812 mln. growth was observed in payroll and bonus expenses

Increase in total assets

The Company’s total assets were US$357.87 mln. in 2022, while US$200.92 million in 2021. Thus, US$156.95 mln. growth have been observed in the total value of assets. It is mainly associated with US$100.28 mln. upward dynamics (positive) in fixed assets investments, i.e increase by AZN170.48

million (230%). The company's net working capital (NWC) in 2022 in the amount of US$78.8 million shows US$3.3 million growth as compared to 2021 (US$ 75.5 million). This also might be noted as a positive indicator.

Growth in Cash resources

The group's cash resources and their equivalents have become US$68.86 mln. which shows increase by US$11.88 mln. if compared to US$ 56.97 mln in 2021.

Total capital increase

The Group’s total capital amounted to US$263.55 mln in 2022, showing US$103.74 mln. (or 65%) increase as compared to US$159.81 mln. in 2021.
The growth in the total capital by US$73.53 (AZN 125 mln.) has resulted from an increase in the net profit (US$30.21 mln.), as well as in the charter capital on the account of state funds in 2022. The growth amount (AZN 125 million) is aimed for organizing the activities, conducting research and acquiring assets for "Dashkasan iron Ore" LLC, which was established as a subsidiary company.

Debt to Credit ratio increased relatively

The ratio has increased to 0.22 in 2022 in comparison with 0.13 in 2021. It is worth noting that, in 2022, despite the revenue growth, increase in the charter capital by US$73.53 mln, redemption of principal by US$38.01 mln, the growth in borrowings by US$74.91 mln (due to investments in fixed assets) led to the increase in total debt to credit ratio. Taking into account the fact that, this indicator is globally accepted as 1.00 for mining companies, the Group might use loan funds in the total capital in future to finance investment projects. This, in turn, will lead to the saving of budget funds.

Key financial indicators (in thousand US$)

Indicators		2021	2022	Difference	%
Total capital		159,808	263,550	103,742	64.9%
Revenue from sales		112,074	123,646	11,572	10.3%
EBITDA		58,575	56,671	(1,903)	-3.25%
Net profit	“AzerGold” CJSC	33,047	32,620	(427)	-1.3%
	“AzerBlast” LLC	(160)	(304)	(144)	-89.6%
	“Dashkasan Iron Ore” LLC	(3,485)	(2,105)	1,380	39.6%
	Consolidated	29,402	30,212	810	2.75%

Independent Auditor's Report

To the Shareholder and those charged with governance of AzerGold CJSC

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AzerGold CJSC (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

- Overall Group materiality: USD 1,979,000, which represents 5% of profit before tax.

- We conducted audit work at the Company in respect of its subsidiaries, we performed audit procedures over significant financial statement line items and analytical procedures.
- The Group engagement team visited the companies within the Group located in Baku and Dashkasan.
- Our audit scope addressed 100% of the Group's revenues and 99% of the Group's absolute value of underlying profit before tax.

Key audit matter

- Impairment of exploration and evaluation assets, intangible assets and property and equipment.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	• USD 1,979,000
How we determined it	• 5% of profit before tax
Rationale for the materiality benchmark applied	• We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Impairment of exploration and evaluation assets, intangible assets and property and equipment Refer to Note 4 - "Critical Accounting Estimates and Judgements in Applying Accounting Policies", Note 9 – "Property and Equipment", Note 10 - "Exploration and Evaluation assets" and Note 11 – "Intangible Assets". As disclosed in Notes 4 and 10, the Company identifies eleven cash generating units (CGU). Management applies significant judgment in assessing whether indicators of impairment exist for a CGU which would necessitate impairment testing. Internal and external factors considered by management include commodity prices, foreign exchange rates, capital and production cost forecasts, reserve and resource quantities and discount rates. When impairment indicators exist, management estimates the recoverable amount of the CGU and compares it against the CGU's carrying amount. To prove the absence of impairment indicators the management prepared analysis of internal and external factors, such as the change in discount rate, commodity prices, the capital and production cost forecasts together with the analysis of reserves and resources for Chovdar Integrated (CGU 1), Filizchay (CGU 2) and Dashkesan Damir (CGU 5). In 2022, the management observed an increase in the discount rate. To determine whether this change indicates an impairment, additional analyses were conducted. For Chovdar Integrated (CGU 1), management compared the carrying amount of the CGU to its estimated enterprise value using the EBITDA multiples approach. For Filizchay (CGU 2) and Dashkesan Damir (CGU 5), management conducted a sensitivity analysis on previous year's impairment models, taking into account updated production volumes, operating expenses, capital expenditure, discount rate, and commodity prices. Based on these analyses, management concluded that the change in the discount rate does not indicate impairment. •	Our approach to addressing the matter included the following procedures: • Obtained understanding of management's process for the assessment of the recoverable amount of exploration and evaluation assets, intangible assets and property and equipment of each CGU. • Evaluated the management's assessment/analysis with respect to the existence of indicators of impairment as at 31 December 2022. This included comparing commodity prices and discount rates with external market and industry data and assessing that capital and production cost forecasts are supported by current and past performance of the CGUs and whether these assumptions are aligned with evidence obtained in other areas of the audit, as applicable. • Evaluated management's analysis of the reserves and resources quantities by considering the most recent reserves and resources estimates prepared by management's experts. As a basis for using this work, the management's expert's competence, capability and objectivity were evaluated, their work performed was understood and the appropriateness of the expert's work as audit evidence was evaluated by considering the relevance and reasonableness of the assumptions and methods and findings. • For Chovdar Integrated (CGU 1) we obtained and evaluated the management's analysis of the CGU's enterprise value used as a basis for impairment assessment. In addition, we performed a sensitivity analysis on the prior period impairment model to the changes in the discount rate, commodity prices and reserves. • For Filizchay (CGU 2) and Dashkesan Damir (CGU 5) we obtained the management's sensitivity analysis on prior period impairment models and checked its mathematical accuracy. We compared the key inputs of the analysis with the geological studies produced by international mining consultants and no discrepancies were identified. Our own internal experts were involved in review of the sensitivity workings, assessment of reasonableness of discount rate calculation, verification of metal price and other macroeconomic assumptions with external sources. We discussed with management the key assumptions used in the assessment, including tracing this information to external or Group's internal sources, where appropriate.

Key audit matter	How our audit addressed the key audit matter
For the impairment assessment of exploration and evaluation assets, management considered factors such as the estimated reserves and the maturity of licenses. Based on this assessment, assets related to Mazimchay (CGU 3), Nerimanlar (CGU 6), Peydere (CGU 7), Chaykend (CGU 8), Dagkesemen (CGU 10) and Tutgun (CGU 11) were deemed to be fully impaired. This resulted in an additional impairment loss of USD 3,582 thousand being recorded in 2022. The primary reason for impairment in these mines was the uncertainty surrounding reserves. For Ortakend (CGU 9), management engaged an external expert for valuation purposes. Based on this external assessment, no impairment was detected for this CGU. Management has concluded that there is no impairment for other CGUs. Considering the level of audit risk, significance of exploration and evaluation assets, intangible assets and property and equipment to the financial statements, complexity and high degree of judgement applied in the impairment assessment, as well as estimation uncertainty of the future exploration results, sensitivity of assumptions, including discount rate and growth rate, we considered impairment of exploration and evaluation assets, intangible assets and property and equipment to be a key audit matter.	• For Ortakend (CGU 9) we engaged our own valuation experts to review the methodology used in the Ortakend impairment review report performed by the management's expert. We have reviewed the inputs used in the impairment review and the accuracy of the historical information. • Tested the exploration and evaluation assets related to Mazimchay (CGU 3), Nerimanlar (CGU 6), Peydere (CGU 7), Chaykend (CGU 8), Dagkesemen (CGU 10), Tutgun (CGU 11) and analysed the reserves and license terms information to assess the accuracy of the impairment loss recorded; • Assessed the completeness and adequacy of the presentation and disclosures regarding the impairment testing performed against the requirements of IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We identified the Company as a significant component of the Group and its subsidiaries as insignificant components. We conducted an audit of the significant component's financial information and performed audit procedures on individual significant financial statement line items and analytical procedures for insignificant components.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Fahri Mustafayev.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

22 November 2023

In thousands of US Dollars	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property and equipment	9	143,857	43,577
Right-of-use assets	12	810	1,396
Exploration and evaluation assets	10	34,767	18,987
Intangible assets	11	40,478	44,044
Trade and other receivables	14	3,093	-
Non-current prepayments	15	556	6,121
Deferred tax assets	28	80	197
Total non-current assets		**223,641**	**114,322**
Current assets			
Cash and cash equivalents	19	6,801	56,974
Term deposits	20	62,062	-
Prepayments	15	5,856	3,890
Trade and other receivables	14	3,554	135
Inventories	13	36,564	20,683
Other current assets	18	19,387	4,918
Total current assets		**134,224**	**86,600**
TOTAL ASSETS		**357,865**	**200,922**
EQUITY			
Share capital	21	36,471	36,471
Additional paid-in capital	21	106,532	33,003
Retained earnings		119,621	89,260
Equity attributable to the Group's owners		**262,624**	**158,734**
Non-controlling interest	30	**926**	**1,075**
TOTAL EQUITY		**263,550**	**159,809**
LIABILITIES			
Non-current liabilities			
Borrowings	22	26,398	20,291
Lease liabilities	12	405	737
Deferred tax liabilities	28	416	-
Provision for rehabilitation	17	11,661	8,958
Total non-current liabilities		**38,880**	**29,986**
Current liabilities			
Trade and other payables	16	13,333	7,810
Borrowings	22	30,672	-
Current income tax payable		9,145	807
Lease liabilities	12	484	781
Deferred income		-	600
Other current liabilities	18	1,801	1,129
Total current liabilities		**55,435**	**11,127**
TOTAL LIABILITIES		**94,315**	**41,113**
TOTAL LIABILITIES AND EQUITY		**357,865**	**200,922**

Approved for issue and signed on 22 November 2023:

Zakir Ibrahimov
Chairman of the Executive Board

Turan Hajiyev
Head of Finance department

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

In thousands of US Dollars	Note	2022	2021
Revenue from contracts with customers	23	123,646	112,074
Cost of sales	24	(65,336)	(51,700)
Gross profit		**58,310**	**60,374**
General and administrative expenses	25	(21,334)	(13,361)
Impairment of exploration and evaluation assets	10	(3,582)	(7,071)
Impairment loss on intangible assets and property and equipment	9,11	-	(3,058)
Net impairment losses on financial assets	14,20	(805)	-
Other income	26	7,074	2,976
Operating profit		**39,663**	**39,860**
Finance costs	27	(1,072)	(1,000)
Finance income		984	
Profit before income tax		**39,575**	**38,860**
Income tax expense	28	(9,363)	(9,458)
PROFIT FOR THE YEAR		**30,212**	**29,402**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**30,212**	**29,402**
Profit/(loss) is attributable to:			
- Owners of the Group		30,361	29,481
- Non-controlling interest	30	(149)	(79)
Profit for the year		**30,212**	**29,402**
Total comprehensive income is attributable to:			
- Owners of the Group		30,361	29,481
- Non-controlling interest	30	(149)	(79)
Total comprehensive income for the year		**30,212**	**29,402**

«AZERGOLD» Qapalı Səhmdar Cəmiyyəti
Azərbaycan Respublikası
«AZERGOLD» Closed Joint-Stock Company
Azerbaijan Republic

Zakir Ibrahimov
Chairman of the Executive Board

Turan Hajiyev
Head of Finance department

In thousands of US Dollars	Note	Attributable to owners of the Group Share capital	Additional paid-in capital	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 1 January 2021		**21,765**	**7,767**	**68,603**	**98,135**	**-**	**98,135**
Profit/(loss) for the year		-	-	29,481	29,481	(79)	29,402
Total comprehensive income/(loss) for 2021		-	-	29,481	29,481	(79)	29,402
Contribution to share capital	21	14,706	(5,882)	(8,824)	-	1,154	1,154
Increase in additional paid-in capital	21	-	31,118	-	31,118	-	31,118
Balance at 31 December 2021		**36,471**	**33,003**	**89,260**	**158,734**	**1,075**	**159,809**
Contribution to share capital	21	-	73,529	-	73,529	-	73,529
Profit/(loss) for the year		-	-	30,361	30,361	(149)	30,212
Total comprehensive income/(loss) for 2022		-	-	30,361	30,361	(149)	30,212
Balance at 31 December 2022		**36,471**	**106,532**	**119,621**	**262,624**	**926**	**263,550**

Zakir İbrahimov
Chairman of the Executive Board

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Head of finance department

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

In thousands of US Dollars	Note	2022	2021
Cash flows from operating activities			
Profit before income tax		39,575	38,860
Adjustments for:			
Interest expense	27	707	735
Interest income		(984)	-
Depreciation and depletion of property and equipment	9	11,710	11,923
Depreciation of right-of-use asset	12	744	694
Amortization and depletion of intangible assets	11	3,924	6,246
Impairment of exploration and evaluation assets	10	3,582	7,071
Impairment of property and equipment	9	-	8,249
Impairment of intangible assets	11	-	5,926
Net impairment losses on financial assets	14,20	805	-
Reversal of previously impaired exploration rights	11	-	(11,117)
Gain on disposals of mining area		(1,771)	-
Other non-cash operating income		(882)	-
Unwinding of discount on rehabilitation provision	27	365	265
Net foreign exchange loss		54	38
Operating cash flows before working capital changes		**57,829**	**68,890**
Increase in trade and other receivables		(6,046)	(135)
Increase in other current assets	18	(14,469)	(3,308)
Increase in inventories	13	(14,486)	(14,453)
(Increase)/decrease in current prepayments	15	(1,966)	2,343
Increase/(decrease) in trade and other payables	16	5,523	(79)
(Decrease)/increase in deferred income		(600)	600
Increase in other current liabilities	18	672	701
Changes in working capital		**(31,372)**	**(14,331)**
Income taxes paid		(491)	(10,353)
Net cash from operating activities		**25,966**	**44,206**
Cash flows from investing activities			
Expenditure on property and equipment and mine development	9	(101,651)	(28,749)
Non-current prepayments		5,565	(3,234)
Investment in exploration and evaluation assets	10	(27,879)	(17,588)
Proceeds from sale of mining area		1,180	-
Investment in other intangible assets	11	(358)	(243)
Investment in term deposit		(61,765)	-
Net cash used in investing activities		**(184,908)**	**(49,814)**
Cash flows from financing activities			
Contributions to share capital	21	-	1,154
Additional paid-in capital	21	73,529	31,118
Proceeds from loans and borrowings	22	74,912	-
Repayment of lease liabilities	12	(828)	(765)
Repayments of loans and borrowings	22	(38,014)	-
Interest paid		(800)	(1,000)
Net cash from financing activities		**108,799**	**30,507**
Effect of exchange rate changes on cash and cash equivalents		(30)	(24)
Cash and cash equivalents at the beginning of the year	19	**56,974**	**32,099**
Cash and cash equivalents at the end of the year	19	**6,801**	**56,974**

Zakir İbrahimov
Chairman of the Executive Board

Turan Hajiyev
Head of Finance department

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.