Consolidated financial statements of AzerGold CJSC and its subsidiaries for 2023

Positive assurance has been expressed by the external auditor – PricewaterhouseCoopers Audit Azerbaijan LLC about the consolidated financial statements for 2023 of AzerGold CJSC (hereinafter referred to as the Company) and its subsidiaries – AzerBlast LLC and Dashkasan Demir Filiz (Iron Ore) LLC (together referred to as the Group).

There are certain trends in the activities of the Company, representing the mining sector of Azerbaijan, which has a great importance in the country's economy, especially in non-oil and gas sector, and socio-economic development of regions.

The sales revenues of the Group have increased by 9.5 percent.

In 2023, the total sales revenues of the Group increased by USD 11.709 mln (9.5 percent) and reached USD 135.355 mln, while in 2022 it was USD 123.646 million.

The main reason for the increase in revenues was the growing gold production (5 percent) and average sale price (10 percent). In 2023, 66.4 thousand ounces of gold and 119.8 thousand ounces of silver were sold.

EBITDA of the Group has increased, but its net profit declined.

The EBITDA has increased by 24.4 percent and became USD 70.514 mln. However, currently the application of required technology for processing of more complex structured ores and expanded production volume affected the increase of cost price and led to a decreased net profit by USD 2.984 mln compared to 2022. Consequently, the net profit was USD 27.228 mln.

The following factors affected the increase in cost price:

- ✓ **Amortization expenses** – In 2023, the Company's amortization expenses increased by USD 18.249 mln compared to 2022, and reached USD 35.257 mln. The main reason for the increase was the commissioning of Carbon-in-Leach (CIL) Plant in July of 2023 in a trial mode for processing of sulfide ores with a more complex geological structure. The construction of the Plant was provided at the expense of the Company's internal resources without allocating money from the state budget.

- ✓ **Rock blasting and transportation/tailings and ore costs** – In 2023, gold production was increased, which meant increased ore processing, blasting and transportation costs by USD 3.182 mln and reached USD 20.470 mln.

- ✓ **Material/chemical supply costs** – In 2023, the increased gold production and processing of more complex structured and difficult-to-process sulfide ores, resulted in the increase of materials and chemicals supply costs by USD 1.899 mln in total and reached USD 5.824 mln.

An increase has been recorded in operating expenses.

The operating expenses of the Company for 2023 were USD 24.884 mln, and for 2022, were USD 21.334 mln. The operating expenses increased by USD 3.550 mln, i.e. by 17 percent. The main reasons for this increase was salary (5 percent), amortization expenses on fixed assets (2 percent), and other increased administrative expenses (10 percent).

There was an increase in total assets.

The total assets of the Company for 2023 were USD 468.15 mln, and for 2022, were USD 357.85 mln. The assets were increased by USD 110.30 mln. The increased NWC of the Company in 2023 (USD 102.02 mln) by USD 23.22 mln compared to 2022 (USD 78.8 mln) is a good indicator.

The total capital has also increased.

In 2023, the total capital of the Group increased by USD 53.7 mln (or 20.4 percent) and reached USD 317.25 mln, while it was USD 263.55 mln in 2022.

Retained earnings/unpaid loss (USD 27.23 mln), as well as increased authorized capital by USD 26.5 mln (AZN 45 mln) at the expense of state funds led to the increase of the total capital in 2023. Out of this amount AZN 40 mln was allocated for the realization of the activities of Dashkasan Demir Filiz (Iron Ore) LLC –

subsidiary of the Company, and the other part was for geological exploration through the country based on the state order.

Debt-to-capital ratio has partially increased.

As noted above, the construction of the CIL Plant, which was put into operation in a trial mode in 2023, was financed by the Company's revenues and bank loans without using state budget funds. At the same time, since a part of bank loans was repaid in the same year, the debt burden increased by only USD 36 million, and debt-to-capital ratio increased by 0.07 in 2023 compared to 2022 (0.22) and became 0.29. Considering that in world practice the acceptable indicator is at the level of 1.00 for mining companies, the current indicator of the Company can be considered quite acceptable.

Key financial indicators (dollars in thousands)

Indicators		2022	2023	Difference	Percent
Total capital		263,550	317,249	53,7	20.4%
Sales revenue		123,646	135,355	11,709	9.5%
EBITDA		56,671	70,514	13,843	24.4%
Net Profit	**AzerGold CJSC**	32,620	27,684	(4,936)	-15.1%
	AzerBlast LLC	(304)	(535)	(231)	-76%
	Dashkasan Demir Filiz (Iron Ore) LLC	(2,105)	79	2,183	103.7%
	Consolidated	30,212	27,228	(2,984)	-9.9%

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 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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 1,240,000, 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, plant and equipment.

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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 1,240,000
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.

Key audit matter	How our audit addressed the key audit matter
Impairment of exploration and evaluation assets, intangible assets and property, plant and equipment Refer to Note 4 - "Critical Accounting Estimates and Judgements in Applying Accounting Policies", Note 9 – "Property, Plant and Equipment", Note 10 - "Exploration and Evaluation assets" and Note 11 – "Intangible Assets". As disclosed in Note 10, the Company identifies six 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. The recoverable amount of each CGU is determined as the higher of value in use and fair value less costs of disposal calculations. These calculations use cash flow projections based on geological studies produced by international mining consultants covering the life of mine for each mining area and annual financial budgets approved by management. As a result of impairment assessment performed by the Group as at 31 December 2023: additional impairment charge was identified for Peydere (CGU 4) and Tutgun (CGU 6) in the amount of USD 175 thousand; and reversal of previous impairment charge was recognised for Chovdar Integrated (CGU 1) in the amount of USD 10,578 thousand. Considering the significance of exploration and evaluation assets, property, plant and equipment and intangible assets balances 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, plant and equipment to be a key audit matter.	• We evaluated the management's assessment/analysis with respect to the existence of indicators of impairment as at 31 December 2023. 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. • We also 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. • We obtained understanding of management's process for the assessment of the recoverable amount of exploration and evaluation assets, property, plant and equipment and intangible assets. • We obtained the impairment models used by management for each CGU to calculate the recoverable amount of exploration and evaluation assets, property, plant and equipment and intangible assets. • We checked the impairment models and ensured that they are mathematically accurate. Our valuation experts were involved in reviewing the impairment models, assessing the reasonableness and accuracy of the discount rate calculation, performing sensitivity analyses for the key inputs in the models, and comparing long-term metal prices against spot prices. They also compared other macroeconomic assumptions with external sources. • We reviewed the key inputs to the impairment models against geological studies from international mining consultants and other relevant documents. • We also assessed the key assumptions used in the evaluation by cross-referencing them with external sources or internal records where applicable. • Additionally, we compared the actual production results for the year with the forecasted figures. • We also assessed the completeness and adequacy of the presentation and disclosures regarding the impairment testing performed.

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 IFRS Accounting 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, Azerbaijan

7 November 2024

AzerGold CJSC
Consolidated Statement of Financial Position

In thousands of US Dollars	Note	31 December 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	9	225,032	143,857
Right-of-use assets	12	5,623	810
Exploration and evaluation assets	10	19,187	34,767
Intangible assets	11	42,018	40,478
Trade and other receivables	14	3,216	3,093
Non-current prepayments	15	408	556
Deferred tax assets	28	55	80
Total non-current assets		**295,539**	**223,641**
Current assets			
Cash and cash equivalents	19	36,176	6,801
Term deposits	20	33,449	62,062
Prepayments	15	11,257	5,856
Trade and other receivables	14	488	3,554
Inventories	13	68,163	36,564
Other current assets	18	23,064	19,387
Total current assets		**172,597**	**134,224**
TOTAL ASSETS		**468,136**	**357,865**
EQUITY			
Share capital	21	36,471	36,471
Additional paid-in capital	21	133,003	106,532
Retained earnings		147,111	119,621
Equity attributable to the Group's owners		**316,585**	**262,624**
Non-controlling interest	30	**664**	**926**
TOTAL EQUITY		**317,249**	**263,550**
LIABILITIES			
Non-current liabilities			
Borrowings	22	57,135	26,398
Lease liabilities	12	4,724	405
Deferred tax liabilities	28	3,753	416
Provision for rehabilitation	17	14,711	11,661
Total non-current liabilities		**80,323**	**38,880**
Current liabilities			
Trade and other payables	16	18,645	13,333
Borrowings	22	35,925	30,672
Current income tax payable		12,990	9,145
Lease liabilities	12	1,037	484
Other current liabilities	18	1,967	1,801
Total current liabilities		**70,564**	**55,435**
TOTAL LIABILITIES		**150,887**	**94,315**
TOTAL LIABILITIES AND EQUITY		**468,136**	**357,865**

Approved for issue and signed on 04 November 2024.

Zakir Ibrahimov
Chairman of the Executive Board

Turan Hajiyev
Head of Finance Department

In thousands of US Dollars	Note	2023	2022
Revenue from contracts with customers	23	135,355	123,646
Cost of sales	24	(93,153)	(65,336)
Gross profit		**42,202**	**58,310**
General and administrative expenses	25	(24,884)	(21,334)
Impairment of exploration and evaluation assets	10	(175)	(3,582)
Impairment reversals on intangible assets and property, plant and equipment	9,11	11,362	-
Net impairment reversals/(losses) on financial assets	14,20	625	(805)
Other income	26	6,126	7,074
Operating profit		**35,256**	**39,663**
Finance costs	27	(3,331)	(1,072)
Finance income	20	2,513	984
Profit before income tax		**34,438**	**39,575**
Income tax expense	28	(7,210)	(9,363)
PROFIT FOR THE YEAR		**27,228**	**30,212**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**27,228**	**30,212**
Profit/(loss) is attributable to:			
- Owners of the Group		27,490	30,361
- Non-controlling interest	30	(262)	(149)
Profit for the year		**27,228**	**30,212**
Total comprehensive income is attributable to:			
- Owners of the Group		27,490	30,361
- Non-controlling interest	30	(262)	(149)
Total comprehensive income for the year		**27,228**	**30,212**

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 2022		**36,471**	**33,003**	**89,260**	**158,734**	**1,075**	**159,809**
Additons to additional paid-in 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**
Additons to additional paid-in capital	21	-	26,471	-	26,471	-	26,471
Profit/(loss) for the year		-	-	27,490	27,490	(262)	27,228
Total comprehensive income/(loss) for 2023		-	-	27,490	27,490	(262)	27,228
Balance at 31 December 2023		**36,471**	**133,003**	**147,111**	**316,585**	**664**	**317,249**

AzerGold CJSC
Consolidated Statement of Cash Flows

In thousands of US Dollars	Note	2023	2022
Cash flows from operating activities			
Profit before income tax		34,438	39,575
Adjustments for:			
Interest expense	27	4,299	707
Interest income		(2,513)	(984)
Depreciation and depletion of property, plant and equipment	9	31,905	11,710
Depreciation of right-of-use asset	12	883	744
Amortization and depletion of intangible assets	11	3,037	3,924
Impairment of exploration and evaluation assets	10	175	3,582
Impairment reversals of property, plant and equipment	9	(7,137)	-
Impairment reversals of intangible assets	11	(4,225)	-
Net impairment losses/(gains) on financial assets	14,20	(625)	805
Gain on disposals of mining area		-	(1,771)
Unwinding of discount on rehabilitation provision		559	365
Net foreign exchange loss		2	54
Other non-cash operating income		527	(882)
Operating cash flows before working capital changes		**61,325**	**57,829**
Decrease/(increase) in trade and other receivables		3,074	(6,046)
Increase in other current assets	18	(3,677)	(14,469)
Increase in inventories	13	(31,598)	(14,486)
Increase in current prepayments	15	(4,846)	(1,966)
(Decrease)/increase in trade and other payables	16	(4,939)	5,523
Decrease in deferred income		-	(600)
Increase in other current liabilities	18	163	672
Changes in working capital		**(41,823)**	**(31,372)**
Income taxes paid		-	(491)
Net cash from operating activities		**19,502**	**25,966**
Cash flows from investing activities			
Expenditure on property, plant and equipment and mine development	9	(74,697)	(101,651)
Non-current prepayments		(407)	5,565
Investment in exploration and evaluation assets	10	(3,616)	(27,879)
Proceeds from sale of mining area		-	1,180
Investment in other intangible assets	11	(352)	(358)
Investment in term deposit		(70,587)	(61,765)
Withdrawal of term deposits		100,000	-
Interest received on term deposits		2,193	-
Net cash used in investing activities		**(47,466)**	**(184,908)**
Cash flows from financing activities			
Additional paid-in capital	21	26,471	73,529
Proceeds from loans and borrowings	22	135,018	74,912
Repayments of loans and borrowings – principal	22	(98,979)	(38,014)
Repayment of lease liabilities	12	(1,063)	(828)
Interest paid		(4,108)	(800)
Net cash from financing activities		**57,339**	**108,799**
Effect of exchange rate changes on cash and cash equivalents		-	(30)
Cash and cash equivalents at the beginning of the year	19	**6,801**	**56,974**
Cash and cash equivalents at the end of the year	19	**36,176**	**6,801**