CHAARAT

THE NEXT LEADING EMERGING MARKETS GOLD COMPANY

Chaarat Gold Holdings Limited
Annual Report & Financial Statements 2021

Contents

Our Highlights

Kapan Production

63koz AuEq

2021 production at Kapan (including 14koz AuEq from 3rd Party ore) exceeding guidance by 11% and 2020 by 7.5%

Kapan Resource

579koz AuEq

Kapan constrained resource at 9.03g/t

Group EBITDA

US$13.5m

Up 45% from US$9.3m in 2020

Read more:
Financial Review on p.30 and 31.

Group Net Debt

US$39.6m

Down 49% from US$77.2m in 2020

Tulkubash Resource

789koz

Constrained resource at 0.86g/t

Group Loss After Tax

US$3.6m

Improvement of 84% from a loss after tax of US$22.4m in 2020

Kapan EBITDA

US$22.7m

An 17% increase over 2020

Kyzyltash Resource

4,600koz

Unconstrained M&I Kyzyltash resource

ESG – Integral part of day-to-day operations

Tailings Storage Facility (TSF) Improvements progressing as part of a multiyear program. Energy saving initiatives via infrastructure replacement of lighting and electrical controls systems is progressing well.

Organic and external growth pipeline

Anticipated organic growth in the Kyrgyz Republic to increase Au production 7x by 2027, with additional potential from external growth through partnerships or M&A.

Strong shareholder support

Existing and new shareholders continued to support the Company through the US$52.2m equity raise and debt conversion despite political challenges in 2021.

Operational Overview

Armenia
Kapan

Overview
Chaarat Kapan is a producing underground polymetallic mine with a production of 63koz AuEq p.a. including copper, zinc, and silver by-products.

Read more: COO's Review on p.16 to 19.

Kyrgyz Republic
Tulkubash

Overview
The Tulkubash oxide heap leach project represents the first phase of development for Chaarat in the Kyrgyz Republic.

Read more: COO's Review on p.20 to 23.

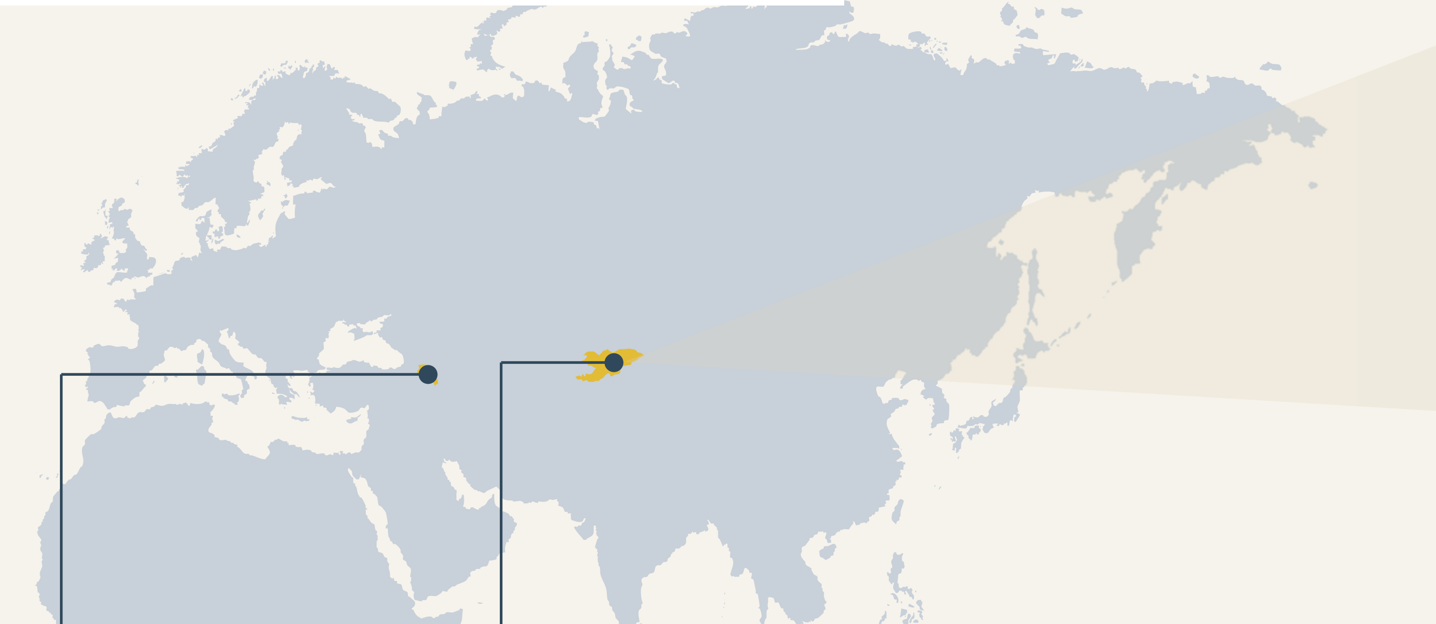
Kyrgyz Republic
Kyzyltash

Overview
The large, higher grade Kyzyltash sulphide ore body is the second phase for Chaarat.

Read more: COO's Review on p.24 and 25.

Asset Overview

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



Armenia
Kapan

Overview
The Kapan operation produces Copper and Zinc concentrate in a conventional flotation process with Gold contributing approximately 65% of revenues.

Read more: COO's Review on p.16 to 19.

Kyrgyz Republic
Tulkubash & Kyzyltash

Overview
Our Kyrgyz projects for the Tulkubash open pit oxide deposit and Kyzyltash refractory sulphide deposit have a significant combined resource.

The oxide open pit is targeted to start production in Q4 2024.

Read more: COO's Review on p.20 to 25.

Kapan

63koz AuEq

Kapan 2021 Production

Kapan Constrained Resource as at 1 June 2021

Reduce to tonnes – AuEq grade – AuEq koz	Tonnes (Mt)	AuEq (g/t)	Metal (koz)
Measured	0.3	12.2	93
Indicated	1.8	8.6	486
Measured and Indicated	**2.0**	**9.0**	**579**
Inferred	3.5	6.9	775

Tulkubash

789koz

Tulkubash constrained M&I

Tulkubash Constrained Resource as at 7 November 2020

Tulkubash open pit heap leach cut-off grade ("COG") 0.21g/t Au	Tonnes (mt)	Au (g/t)	Metal (koz)
Measured	0.0	0.0	0
Indicated	28.5	0.9	789
Measured and Indicated	**28.5**	**0.9**	**789**
Inferred	21.4	0.6	388

Kyzyltash

5,377koz

Kyzyltash unconstrained resource (M&I and Inferred)

Kyzyltash Unconstrained Resource as at 19 October 2014

Resource statement JORC 2014 (cut-off grade 2g/t)	Tonnes (Mt)	Au (g/t)	Metal (koz)
Measured	6.7	3.3	700
Indicated	32.8	3.8	3,900
Measured and Indicated	**39.5**	**3.7**	**4,600**
Inferred	6.6	4.1	777

BUILDING A LEADING EMERGING MARKETS GOLD COMPANY

We place significant importance on sustainable development and social investment programmes in the countries in which we operate. We genuinely believe that respectful and open dialogue and partnership with local stakeholders is essential for the long-term success of our operations.

Dear shareholder
I am pleased to present the annual report of Chaarat Gold Holdings Limited for the financial year ended 31 December 2021.

Two years have now passed since the beginning of the pandemic. Like the rest of the world, Chaarat has had to adapt to doing business differently. This year we have continued to demonstrate that we are a resilient business that can withstand external factors as we continue on our path towards becoming a mid-tier producer.

Safety and health
The safety and health of our employees and host communities remains one of our key values. Learnings from the tragic loss of life of an employee of our mining contracting company in March 2021 that we reported last year have been used to further develop and improve the already high standards we have and further emphasise the safety culture and performance throughout Chaarat.

Our lost time injury frequency rate at Kapan for the year was 0.74 per one million hours worked (2020: 0.37). 392,000 hours were worked at Tulkubash in 2021 with no lost time injuries. Further details of how we create and maintain a safe workplace can be found in our ESG report on page 14.

Sustainability
We place significant importance on sustainable development and social investment programmes in the countries in which we operate. We genuinely believe that respectful and open dialogue and partnership with local stakeholders is essential for the long-term success of our operations. In keeping with our ESG guidance principles, our main areas of focus in our host communities continue to be health, education, and sustainable development opportunities. Further details can be found in our ESG report on page 14.

2021 progress
I am pleased to be able to announce that the team at our Kapan mine has again exceeded production guidance, this year by 11 %, achieving 63koz AuEq production guidance (including 14koz from third-party ore).

During the year we continued our efforts to progress a potential funding solution for our Tulkubash development project. Despite having no direct impact on our own operations, ongoing market cautiousness pending a resolution of the ongoing issues at the Kumtor gold mine in Kyrgyz Republic have led to a further delay in securing the project funding required and a consequential delay to the date for first gold pour. Subject to a resolution of the Kumtor issues, I am hopeful that we will secure project finance during 2022. Nevertheless, we have made progress with camp construction, main construction preparation, and exploration.

We have also progressed our Kyzyltash development project with completion of a drilling programme to obtain representative core of the deposit ready for metallurgical testing. This testing will provide us with the information necessary to progress to the stage of determining the optimum processing route during 2023.

Further details can be found in our Chief Operating Officer's review on pages 16 to 25.

2021 results
Our 2021 Financial Results reflect the increase in commodity prices, with an increase in Group EBITDA of 45% compared to 2020. EBITDA in the last months of 2021 were impacted by increasing inflationary pressure as a result of the strong commodity price environment. The team is renewing its efforts with regards to finding mitigations to these new cost pressures.

While the majority of funds raised were utilised for ongoing exploration and construction preparation for our Tulkubash project, the metallurgical test work on our Kyzyltash project and overhead expenses, the year-end cash balance increased from US$6.9 million in 2020 to US$11.1 million in 2021.

Together with our existing shareholder and debtholder base and a number of new investors to Chaarat, we managed to significantly improve our balance sheet in 2021. Our net debt decreased by almost 50% from US$77.2 million to US$39.6 million as a result of continued debt repayments, debt conversion and equity commitments.

Board and senior management changes
I would like to welcome Mike Fraser who joined our Board as Chief Executive Officer in January 2022. Mike brings over 20 years of extensive experience in the global mining and metals industry and I am delighted that he has joined Chaarat. His impressive track record for driving operational performance and culture will mean that he is well-equipped to drive our performance going forward.

It is also my pleasure to welcome Sandy Stash, who joined the Board in May 2021 as an independent non-executive director. Sandy brings decades of experience in the energy and hard rock mining industries, particularly in ESG matters.

Our former Chief Executive Officer, Artem Volynets, resigned from that role and as a member of the Board in August 2021. Chris Eger also resigned as Chief Financial Officer in November 2021. I would like to thank them both for their service throughout their respective three-year tenures. I am grateful to our Group Financial Controller, David Mackenzie, for agreeing to act as Interim Chief Financial Officer.

Our people
On behalf of the Board, I would like to extend my sincere thanks to all our employees for their commitment, dedication, and loyalty. I would especially like to thank our senior management team for their unfaltering support and flexibility during the period whilst I served as interim Chief Executive Officer. I would also like to extend a special thanks to all employees at our Kapan mine who, despite the operational challenges posed by the ongoing pandemic, enabled us again to exceed our production guidance.

Corporate governance
As Chair, I am responsible for leading and ensuring an effective Board. The role of the Board remains that of setting strategy, ensuring the right resources are in place to deliver it, promoting long-term success, generating value, and contributing to wider society. I believe that the Board has the right balance of skills and expertise to continue to support and challenge management as Chaarat enters a new chapter of its history under Mike Fraser's leadership. I report separately on the Group's approach to governance in my corporate governance statement which can be found on page 34.

Investors
I was delighted that, in February 2021, we were able to raise US$30.0 million of new cash for our Tulkubash project and reduce our indebtedness by US$22.2 million.

In October 2021 we extended the maturity of our convertible loan notes by one year to 31 October 2022 and I am very grateful to our noteholders for their patience and understanding.

2022 and beyond
In the coming year, our development priorities will be to secure project finance for Tulkubash, to progress Kyzyltash by determining the optimal processing route, and preparing an initial mineral resource estimate for the East Flank of our Kapan mine. Our financing priority is to address the upcoming convertible bond, due in October 2022, in a timely manner.

On 4th April, Centerra and the Kyrgyz Government announced an agreement on the Kumtor mine had been reached. We were pleased to see this situation being resolved and are reengaging with potential lenders on our Tulkubash financing efforts. We will update the market as soon as further progress has been made.

The conflict in Ukraine and the associated sanctions against Russia have not impacted our operations, and given our focus on local sourcing, any impact would be minimal. We are continuously monitoring the situation and will take the necessary steps to ensure any impact on our operations is minimised. Finally, I would like to take this opportunity again to thank our loyal investors for their patience and steadfast and continuing support.

Martin Andersson
Chair

6 April 2022

STRATEGIC REPORT

WE CONTINUE TO MAKE PROGRESS

I was drawn to Chaarat by the potential of where it could go in the future. Whilst there are a number of challenges to be faced there are also significant opportunities.

Dear shareholder

I am pleased to introduce Chaarat's annual report for the financial year ended 31 December 2021, my first since joining the Company as Chief Executive Officer in January 2022.

I was drawn to Chaarat by the potential of where it could go in the future. Whilst there are a number of challenges to be faced there are also significant opportunities, and a very capable Board and management team well placed to embrace these opportunities. Many assets in the gold sector are mispriced and we believe that the sector is overdue for further consolidation.

I have been with Chaarat almost three months now and I am impressed by the dedication and commitment of its employees. As with any company, Chaarat needs to embrace change and evolve. What has been encouraging so far is that there is a real appetite for reflection on how we do things and organise ourselves. A willingness and desire to reflect on areas for improvement is a great base from which to start.

Setting the right strategic focus for the Group is paramount. I am keen to ensure that everyone in the business knows where we are heading, what is important to us, and what we are trying to achieve. During the coming year, the immediate priorities will be to continue to drive reliable and safe operating performance at Kapan, secure project financing for Chaarat's Tulkubash development project, and progress the studies of our Kyzyltash project. We will be uncompromising on safety, and this will be a key area of focus for me, particularly following the tragic fatal incident last year to which Martin refers to in his letter.

Chaarat's vision is to build a leading emerging markets gold company which delivers value to all our stakeholders by adhering to the highest environmental, social, and governance standards. Creating a shared purpose and unifying around aligned objectives, values and behaviours will be vital to the successful delivery of that vision. To this end I will also be focusing on our organisational capabilities and priorities to ensure strategic alignment. Further details of our strategic priorities for the coming year are set out on pages 10 to 13.

Finally, I would like to thank Chaarat's employees for their support to me in my early months with the Company.

Michael Fraser
Chief Executive Officer

6 April 2022

Our Strategy

ESG

We will work responsibly to:

- provide a safe work environment built on the highest standards of safety management
- operate to the highest standards of environmental stewardship
- enhance the infrastructure, education, and healthcare in our host communities and to improve the living standards and opportunities for those communities

Organic growth

We will maximise our production via:

- operational improvements, mine life extension, and brownfield development at our Kapan mine in Armenia
- staged development of the assets at our Kyrgyz Republic operations (Tulkubash and Kyzyltash)

Inorganic growth

We will selectively identify value-accretive opportunities in our target regions if we see the potential for those to deliver value to shareholders by utilising Chaarat's experience and skillsets in both the short term and through longer-term exploration and development potential

People

We will attract, retain, and develop a skilled and diverse workforce across all levels of our organisation with a focus on developing local talent in our host communities and creating an environment in which those employees can thrive and learn

Finance

We will identify opportunities to secure funding and reduce the cost of capital with the main objective of maximising value for shareholders with appropriate consideration to levels of shareholder dilution

Strategy Progress and Priorities for 2022

ESG	2021 progress	2022 priorities	Measures	Risks
Safety Read more: p.25	Further development of a fully integrated health and safety system inclusive of all contract companies Improved hazard identification, risk assessment and procedural controls across the operation	Increased focus on the management of health-related risks such as hearing loss and particulate exposure through the use of baseline assessments, personal monitoring, and area surveys	Total recordable injury frequency rate (TRIFR)	Operations expose employees to a variety of health and safety risks
Environmental Read more: p.27	Ongoing Buttressing of the tailings storage facility (TSF) as part of a multiyear improvement programme Completion of revised Environmental & Social Impact Assessment (ESIA) for the Tulkubash project Ongoing energy reduction upgrades via switch gear renewal and Installation of low energy lightbulbs throughout Kapan Ongoing reviews assessing best available technologies for the project regarding environment control and energy savings	Completion of internal assessment of performance against global industry standard on tailings management Ongoing dialogue with the regulatory bodies regarding approvals of new proven technologies	Number of incidents	Pollution from operations Climate change
Community Read more: p.24	Strengthened community relations in the countries and regions we operate in further through personal and financial support in various activities and for various stakeholders. Initiatives are coordinated and approved with the stakeholders in the beginning of the year and then acted upon to create alignment and commitment Key activities can be reviewed on https://www.chaarat.com/esg-sustainability/ There was no opposition to our operations in 2021	The 2022 activities will be in line with 2021 and targeted towards the community needs. The strong relations with our communities allow an open and honest dialogue on required initiatives	Number of issues raised	Opposition from local communities

Strategy Progress and Priorities for 2022
continued

Organic growth	2021 progress	2022 priorities	Measures	Risks
Kapan Read more: p.14	Increased treatment of third-party ore East Flank infill drilling commenced	Optimise mill throughput via increasing own production and sourcing additional third-party ore supply Start of multiyear drill programme to develop a JORC compliant resource, reserve, and mine plan for East Flank (subject to funding)	Grade Production Recoveries Costs Third party EBITDA contribution AISC Revenue Fleet availability	Production risk: Inability to achieve planned volumes, grades, or recoveries Geological risk: complex geology affecting economic recovery
Tulkubash Read more: p.18	Advancement of construction equipment selection and design engineering Completion of 2021 exploration programme targeting those areas referred to as mid and East zones to convert additional tonnage to M&I Initial exploration of Karator and Ishakuldy areas to confirm their attractiveness for further exploration Completion of BFS update incorporating the 2020 drilling results, revising cost estimates, and demonstrating the sound economics of the project Completion of contract discussions with Çiftay	Maximise execution preparedness ready for funding availability and updating capital estimates	Project schedule and bid package preparation	Project execution risk: Schedule delays due to weather, logistics. Cost escalation due to period of high commodity prices and inflation
Kyzyltash Read more: p.22	Completion of metallurgical drill program	Metallurgical test work programme to be carried out to assess performance of flotation and various oxidation processes on representative samples of Kyzyltash ore. Key step in optimizing project economics	Process recovery assessment	Process Risk: Metallurgical recoveries for the various potential process steps

Inorganic growth	2021 progress	2022 priorities	Measures	Risks
M&A	Identified, evaluated, and progressed various opportunities through due diligence via a systematic staged gate approach. Some opportunity reviews and the underlying assessment and engagement processes are ongoing.	Continue current discussions and identify and evaluate value enhancing acquisition opportunities and, if appropriate, execute one or more Continue to identify further opportunities to maintain a healthy M&A pipeline	Thorough and comprehensive risk / reward assessment of each opportunity	Target selection risk Transaction execution risk Post-acquisition performance risk
People Read more: p.25	On a group level restructured the executive team to account for the required skillset for the next stages of the company with strong construction and operational skills being required during the construction of Tulkubash and development of Kyzyltash as well as the potential integration of M&A targets. Enhanced measures to ensure a safe and attractive work environment for all employees, with additional measures performed at Kapan level after the fatality accident. Ongoing COVID-19 precaution measures throughout the year.	Continued focus on local empowerment of employees to take decisions where appropriate Continued efforts to secure the required skillsets, deliver top training programmes, and act proactively in relation to improving the work environment	% of locals employed № of training hours delivered	Failure to retain key employees or recruit new employees
Finance Read more: p.34	Funding package of US$52.2 million closed in February 2021 which included issuing US$30.0 million in equity to new investors and conversion of debt into equity of US$22.2 million Extended the maturity of the convertible loan notes by one year to 31 October 2022 Reduced principal interest-bearing debt from US$70.5 million as at 31 December 2020 to US$38.7 million at 31 December 2021, primarily as a result of converting the Labro Term Loan into equity in February 2021 and reducing the Kapan acquisition loan by US$9.0 million from Kapan cash flows	Secure project finance for Tulkubash Repay or refinance convertible loan notes Ensure existing debt financing is efficiently structured	Cost of finance Interest cover Leverage ratio Return on equity Shareholder dilution Capital expenditure	Commodity price risk Liquidity risk Political, legal, and regulatory risk Inability to raise project finance

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.

Safety and Health
On 4 March 2021, a tragic fatal incident occurred at Chaarat's Kapan operation. The event occurred during activities to clear a blocked ore pass. A management review of the incident identified that despite recognizing the hazards of the activity and effectively communicating the required control measures, the supervisor overseeing the work took actions that sadly led to the loss of his life. Independent investigations by the Armenian labour authority and police came to the same conclusion.

Despite ongoing activities to improve risk identification and risk management on site, this event highlighted that there were still elements of the safety culture that had an inappropriate level of risk tolerance. Companywide safety meetings were held with all employees and contractors immediately after the incident to discuss the issue of unacceptable risk tolerance and the need for improvement in the business. The incident has acted as a catalyst for change within the company and has enabled us to make good progress on improving the underlying safety culture at Kapan.

There was one lost time injury in March at Kapan related to an employee who suffered a medical condition while accessing a work platform. The employee suffered serious injuries when he fell and landed in an awkward position.

Since March, the safety record at Kapan has been good with no serious incidents occurring for the last 11 months. Lost time Injury Frequency for 2021 was 0.70 compared to 0.37 for 2020 due to two incidents in 2021 compared to one in 2020.

As a result of the fatality, our ongoing cultural change at Kapan refocused slightly to build on responsibility for each other, as well as focusing on a sense of local ownership, entrepreneurship, and decentralized assessment and decision making. Since our acquisition of the mine, we have been working to create a unified approach to health and safety where no difference exists regarding values, standards, and practices whether direct or contract employee. The tragic incident refocused everyone on this essential transformation. It allowed us to challenge the cultural barriers that existed in Kapan and to rethink how everyone that goes to work at our sites has the same rights regarding being able to go to home to their families safe and healthy at the end of their workday.

Safety at our Kyrgyz operations remains strong with no lost time injuries or high potential incidents for the year.

As a group, we worked approximately 3.25M hours in 2021 with an overall lost time injury frequency rate of 0.61 per million hours. Lessons learnt from the Kapan fatality were shared with in our Kyrgyz operations to ensure the key lessons could be proactively incorporated.

Environment and Cultural Resource Protection

Work on the Tailings Storage Facility (TSF) buttressing has been ongoing throughout 2021. The known areas of highest risk have been reinforced and the work of adding compacted fill to the slope of the north dam wall has progressed well. The risk of any failure of the TSF due to seismic activity has been reduced as a result of these actions.

Our focus has been on using appropriate fill from our mining operations rather than mining new material from somewhere else in Armenia. Suitable waste material is hauled direct from the mine to the TSF. In this way we avoid the need to quarry new materials, minimize transportation distances, reduce fuel consumption and greenhouse gas emissions. Onsite waste dumps of appropriate material have been emptied and the rock moved to the TSF as well. Our approach requires longer to complete, but is significantly more environmentally responsible, while at the same time managing the risks associated with the historical legacy issues of the TSF. Approximately 366 thousand tonnes of rock have been piled and compacted to design specifications as part of the buttress construction to date.

The third-party assessment against the Global Industry Standards on Tailings Management was not completed in 2021 as travel restrictions related to COVID-19 made such work difficult. As a first step, Chaarat will undertake a more detailed internal assessment in 2022 and determine what additional activities need to be undertaken on a priority basis.

In Kapan we continue to operate our annual reforestation program in conjunction with the local community. Each year staff and volunteers from the community spend time planting seedling in suitable areas and to address past environmental damage from a long history of mining in the area. To date, approximately 1,300 trees have been planted as part of this initiative.

In the Kyrgyz Republic we work with the regional and national government to offset the impact of our project development. A licence needs to be obtained and a fee paid based on the type and age of the trees and bushes that need to be removed during the development of the mine and processing areas. This fee is then used by the Government for reforestation projects across the country on a prioritized basis.

During the original Environmental and Social Impact Assessment ("ESIA") process it was determined that there was one species of plant that needed to be relocated due to our activities. Government representatives visited the site and in conjunction with our environmental team relocated the Kaufman's tulip bulbs identified to suitable locations outside of the area affected by our activities.

Work was also undertaken to stabilize and protect an area of archaeological interest that was close to our proposed heap leach area. Members of the archaeological team from the government came to site to supervise stabilization and fencing works. This work is not only intended to protect the area from our operations but also visitors to the area during the year. Herders move through the valley to suitable vegetation in other areas, and many people from the local community come at various times of the year to pick herbs and medicinal roots and leaves. The work carried out helps protect the area from inadvertent contact or disturbance of any kind.

Climate change

Work has been ongoing throughout the year to replace the old energy-intensive lights in use both underground and in the processing plant with modern low-intensity lights. We have also been replacing some of the old switchgear and wiring on site with new equipment. This new equipment includes the latest technology regarding energy saving technologies. They also offer improved safety for our electrical teams regarding arc flash risk.

As part of every capital project, we assess what improvements are possible with regard to the reduction in energy use and of GHG emissions.

Further work will be undertaken in 2022 to better understand and define the physical and transition risks to the company from climate change.

Community Relations

Operations throughout 2021 continued to be impacted by the various waves of COVID-19 infection travelling around the globe.

The various control and mitigation measures we implemented at the start of the pandemic remained in place throughout the year. In general, our controls proved to be effective, especially when supported by general societal controls such as mask wearing and social distances. As societal controls reduced, the challenges faced by the operations became more challenging. At our Tulkubash site, pre travel testing continued to prove effective, but for our town and city-based activities they proved less so. With almost no controls in place outside of the workplace, employee infection rates increased significantly. Infection rates peaked in the Kyrgyz republic in the summer and in Armenia in late 2021. Vaccination levels amongst our staff are significantly above the national averages for both countries. We encouraged vaccination through educational programs and worked with the local health authority in Kapan to provide access to vaccinations via the onsite health clinic. Thankfully, severity levels were low in workforce and in our local communities.

Throughout the year we maintained our social programs in conjunction with the local authorities and community groups.

As a border town, Kapan's focus was assisting local Armenian families affected by the war in 2020. We have provided funds that have been used to purchase family dwellings and livestock for displaced families. Our focus on education continued with support provided to various school and educational groups in the greater Kapan area.

Normal face to face activities resumed in late Q3 in Chatkal when Chaarat was able to resume their sponsorship of the Chaarat Cup games. After last year's absence the regional communities were very happy to resume the event.

The revised ESIA for the Tulkubash project was published in May 2021 and is available on our website.

Government Relations

For the second year in a row, Chaarat, the Government of the Kyrgyz Republic and the European Bank for Reconstruction and Development were unable to hold the Kyrgyz British Investment Forum. COVID-19 travel restrictions prevented travel and in person events in London.

Relations with the governments in both countries remains positive. The government of the Kyrgyz Republic continues to support the development of the Tulkubash project, and our Chair has had several constructive in-country discussions at Ministerial and Presidential level during the year.

In Armenia, relations with the government at the local, regional, and national level continue to be strong. Our support of the local community, assistance in encouraging COVID-19 vaccination in the region and other ongoing activities were recognized and rewarded at the highest levels. Our Country Director received several commendations and rewards from both the regional and national governments.

KAPAN

CONSOLIDATING OUR POSITION AS AN EFFICIENT OPERATOR

2021 is the third year of operation for Chaarat of the Kapan mine.

The Kapan ore body is made up of a network of narrow variable steeply dipping polymetallic veins. The ore body is currently worked using a combination of mechanized and handheld mining techniques to optimize the geology of the mine.

The Mill produces 2 flotation concentrates. One high in gold, copper, and silver, the second is a zinc concentrate with some contained gold and silver. The mine has a capacity of approximately 600-700kt pa depending on mining method used. The milling and flotation circuits have a capacity of approximately 800kt pa expandable to 1Mt per year with minor capital investment.

Kapan Operational Highlights

- Tonnes mined for 2021 were 600,246t compared to 684,156t in 2020. The 12% reduction in tonnage was the result of a change in mining method. Many areas of the mine currently being worked do not lend themselves to fully mechanized mining methods due to the size and nature of the veins. Trial work on different methods including shrinkage method, started at the end of 2020 and is now in use in many parts of the mine.
- Mine head grade increased to 3.3g/t as a result of the changes, from 3.0g/t in 2019 and 2020. Mill grade for own ore was in line with mine production.
- Mill throughput was relatively constant at 729,473t compared to 744,705t in 2020. Own ore treated was lower due to the reduction in mine output, but third-party ore increased. 144,632t of third-party ore were treated in the year compared to only 67,838t in 2020.
- Supply of third-party ore is expected to remain at the current levels in 2022. The mill still has additional capacity, and this can be filled by additional third-party ore while internal growth projects work on ways to fill the mill with higher value own ores.
- Recoveries from own ore declined slightly in 2021 to 79.1% compared to 79.9% in 2020. The reduction was due to a combination of higher oxidation and finer grain size in some of the areas mined during the year. As Kapan is a polymetallic mine, increased oxidation of the sphalerite and chalcopyrite alter the potential of the minerals to float in the mill circuit. In some areas of the mine, the grain size of the minerals has reduced from the historical norm. Despite the mill circuits improvements made in 2020, it was not possible to achieve the grind size necessary to fully liberate sphalerite from the chalcopyrite and zinc levels in the gold/copper concentrate increased.
- In Q3 the government of Armenia introduced a new sales tax on copper concentrates to allow the country to benefit from the highest prices seen since 2011. Due to the nature of the polymetallic mineralogy at the Kapan mine, the concentrate produced is not a classic copper or gold concentrate but a mixed gold/copper concentrate. After lengthy discussions with the government, they issued an exemption to Kapan and one other mine related to the new tax. Sales of gold/copper concentrate were put on hold by the company during Q3 pending final resolution of the tax issue. All concentrates accumulated during the period were shipped before year end, but the delay did impact cash flow to the business during that period. Kapan management did an excellent job of working with its suppliers and lenders to minimize impacts across the supply chain.
- Kapan experienced issues during the year related to logistics and supply chain challenges that affected global trade. Delivery costs for incoming goods increased as did the costs of shipping our concentrated. Although commodity price increases helped revenue, they did adversely affect operating costs. The costs of consumables and reagents based on steel, copper, and zinc all increased. This had a negative effect of all in sustaining costs. Initiatives are ongoing to minimise the impact of these inflationary pressures on the business.

2021 full-year production consists of:

Kapan	2021	2020
Production (oz AuEq)	**63,039**	58,661[1]
Own ore (oz AuEq)	**48,601**	54,215
Third-Party ore (oz AuEq)	**14,438**	4,446
All-in sustaining cost (US$/oz)	**1,205**	1,034
Sales (AuEq oz)	**57,212**	48,387
Gold production (oz)	**35,405**	29,770
Silver production (oz)	**610,322**	587,718
Copper production (t)	**2,284**	2,154
Zinc production (t)	**5,836**	7,641
Realised gold price (US$/oz)	**1,784**	1,773
Realised silver price (US$/oz)	**25**	20
Realised copper price (US$/t)	**9,157**	6,117
Realised zinc price (US$/t)	**3,001**	2,222

1 Not adjusted for changes in price desk, as per reported in 2020

Kapan – Exploration Potential

Work is continuing on the East Flank target area adjacent to the current Kapan mine. An underground development drive has been mined to provide access to the East Flank from the current mine workings. Diamond drilling will start in 2022 from several drilling chambers installed off the development drive. A total of 13,400 metres of drilling are planned over the next 2 years with almost 15,000 core and channel samples to be tested. The East Flank area is currently developed to a P2 resource level, and the new drill program is designed to bring the most prospective area of the East Flank to an inferred level of certainty under JORC classifications.

Work is also ongoing to assess additional exploration and development opportunities in the region around the Kapan mine. Our first priority is to look if additional tonnage suitable for treatment in the Kapan mine can be identified and developed. Second priority is to identify new growth opportunities in Armenia suitable for future development.

Ore Resources and Reserves

Resource drilling increased significantly in 2021 to help improve resource modelling. Drilling increased from 37,400 metres in 2020 to 69,300 metres in 2021.

The work has improved the accuracy of the resource model, and mine reconciliation is now much closer to mill production. This helps improve accuracy of budgeting and forecasting of grade and tonnes compared to the old model, which is always a challenging activity in a narrow vein, variable underground mine.

The mineralised areas at Kapan are well understood from many years of drilling. Exploration drilling has defined extensive mineralisation, but in certain areas this cannot be converted into a resource estimate at this time as drill hole density is not sufficient to classify mineralisation as inferred. To be effective, all resource drilling needs to be carried out underground preferentially perpendicular to the vein orientation.

Resource development drives and drilling occurs in advance of mining to ensure sufficient areas are converted to Measured and Indicated and sufficient new Inferred tonnage is added for future infill drilling. This is the case with all such narrow vein mining operations. This type of resource development effectively limits the size of the reserve that can be sensibly developed to a much shorter horizon than is the case with large more homogeneous ore bodies, either open pit or underground.

The 2019 resource was the first developed inhouse by the Chaarat team soon after acquiring the mine. The experiences of the last 3 years have demonstrated that the resource model developed at that time was based on various inputs that have proven to be overly optimistic. The new resource model addresses these issues and provides a much more robust model for day-to-day operational planning.

As well as changing some of the parameters used for the resource model, the 2021 Resource has also had economic viability factors applied to it by using mine shape optimizer software (MSO). This is the first time a constrained resource has been developed for Kapan, and conservative factors were applied using the MSO optimisation. These factors will be reviewed during the year to assess whether they were too conservative, adversely affecting the total resource.

The application of the economic factors significantly reduces the resource from historical unconstrained levels, but more accurately meets the requirements for a JORC compliant resource.

Although the new reserve is lower than the 2019 reserve, it is fully in line with historical Reserve estimates at around 4 years of Proven and Probable Reserve. There remains a significant amount of Inferred resource, and annual drilling continues to convert a portion of this to M&I and P&P, as well as adding new Inferred areas to the resource.

Outlook for 2022

Kapan Mine production guidance for 2022 is 50-53 koz of own-ore production with an additional 6-9 koz of third-party ore production. This is based on 100,000t of third-party ore treated during 2022.

East Flank resource definition drilling is planned, as part of preparing an initial mineral resource estimate and results are expected in 2023.

Ore Resources

The following table summarises the 2021 Mineral Resource Estimate:

			Grade					Metal				
Classification	**Tonnes (Mt)**	**Density**	**Au (g/t)**	**Ag (g/t)**	**Cu (%)**	**Zn (%)**	**AuEq (g/t)**	**Au (Koz)**	**Ag (Koz)**	**Cu (Kt)**	**Zn (Kt)**	**AuEq (Koz)**
Measured	0.238	2.72	6.55	107.9	1.24	5.10	12.17	50	826	2,948	12,146	93
Indicated	1.757	2.76	4.43	88.31	0.92	3.51	8.60	250	4,989	16,212	61,598	486
M&I	**1.995**	**2.76**	**4.69**	**90.65**	**0.96**	**3.70**	**9.03**	**301**	**5,815**	**19,160**	**73,145**	**579**
Inferred	3.497	2.80	3.37	76.46	0.79	2.71	6.89	379	8,596	27,626	94,769	775

Notes:
- The effective date of the resource is 1st June, 2021. The Mineral Resources that are not Mineral reserve do not demonstrate economic viability. Numbers may not sum due to rounding.
- The gold equivalency formula is: Au Eq = Au + (Ag g/t * ($25 / $1,700) + (Cu % * ($8,000 * 31.1035 / $1,700) / 100) + (Zn % * ($2,500 * 31.1035 / $1,700) / 100
- Wireframes defined by a mineralized cut-off with a parent block size of 4 m x 4 m x 4 m, Grades interpolation is by Ordinary Kriging method.
- MSO applied assuming: minimum width 2.2m; COG 2.0g/t Au Eq
- Mineral Resources are with applied depletion and inclusive of Ore Reserves.
- The resource estimate and classification is according the JORC Code (2012) reporting code.

Ore Reserves

The following table summarises the 2021 Ore Reserves:

		Grade					Metal				
Classification	**Tonnes (Mt)**	**Au (g/t)**	**Ag (g/t)**	**Cu (%)**	**Zn (%)**	**AuEq (g/t)**	**Au (Koz)**	**Ag (Koz)**	**Cu (Kt)**	**Zn (Kt)**	**AuEq (Koz)**
Proven	0.15	2.21	37.55	0.45	1.60	4.07	10.4	184.1	0.7	2.4	19.9
Probable	2.39	1.63	32.90	0.33	1.23	3.17	125.6	2,531.7	8.0	29.5	243.8
Total Proven and Probable	**2.55**	**1.66**	**33.17**	**0.34**	**1.25**	**3.22**	**136.0**	**2,715.9**	**8.7**	**31.9**	**263.7**

Notes:
- Mineral Resource report and application of reasonable prospects for eventual economic extraction to Mineral Resource statement.
- Ore Reserves are based on long-term metal prices of US$1,700/oz Au, US$25/oz Ag, US$8,000/t Cu, and US$2,500 Zn.
- Ore Reserves are based on a gold equivalent cut-off of 2.0g/t Au.
- Mineral Resources which are not Ore Reserves do not have demonstrated economic viability.
- Table is subject to rounding errors.
- The average density of Measured and Indicated Resources is 2.67 t/m3. A density of 2.64 t/m3 was used for unmodelled diluting waste material.
- Tonnes reported are in situ, dry tonnes.

Chief Operating Officer’s Review
Kyrgyz Republic

TULKUBASH

OXIDE GOLD DEPOSIT READY FOR CONSTRUCTION

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

Introduction

Tulkubash is an oxide gold deposit suitable for open pit mining, and extraction using standard heap leach gold extraction technology. It has a well drilled JORC compliant proven and probable reserve which has been reviewed by external parties as part of the funding initiatives carried out to date. The 2021 reserve showed an estimated life of mine of five years. Additional drilling in 2021 was carried out to add additional ounces to this reserve. Further potential exists to the northeast along strike. Initial exploration was carried out in 2021 to start defining the potential of these extension areas.

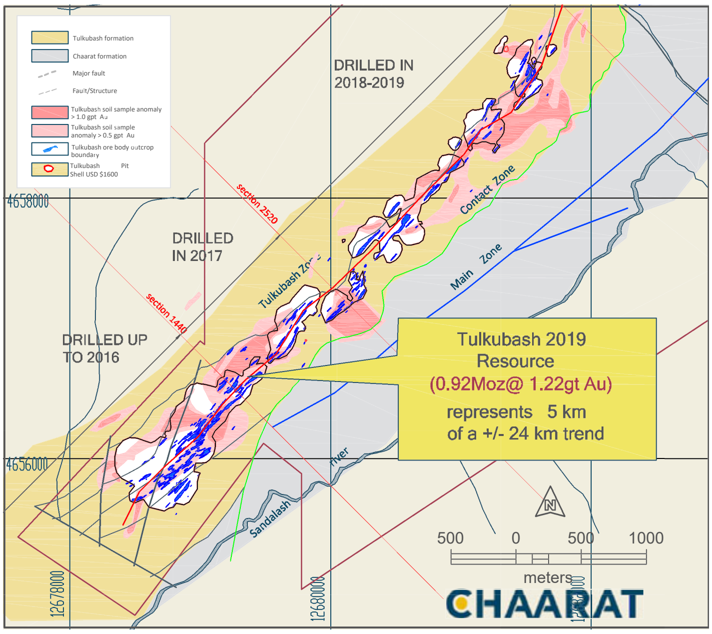
2021 Tulkubash Project Highlights

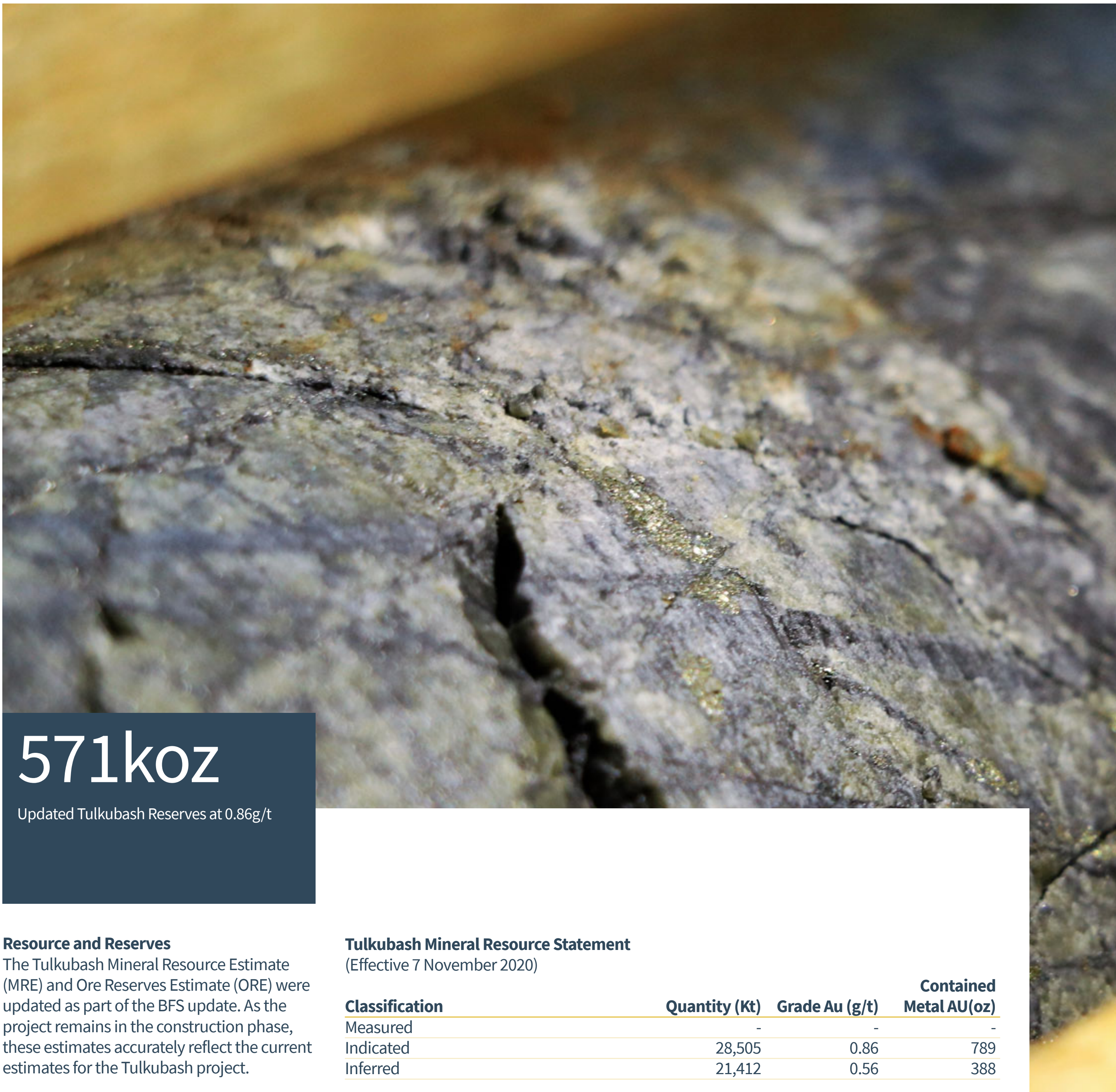
There were no lost time injuries or major safety incidents during the year. The project has worked 1.38M hours since 2018 without a lost time injury.

Logiproc, an engineering consultancy from South Africa, completed the revision of the project bankable feasibility study ("BFS") in May. An update of the Environmental and Social Impact Assessment (ESIA) was completed in June. Both reports are available on the Chaarat website.

Construction activities in 2021 were slowed due to the delay in project funding. Activities focused on furthering detailed engineering of the process plant (Absorption / Desorption / Recovery plant, Reagent Storages, Crushing and Conveying Circuit) and infrastructure including in-country legalization of detailed design documentation. Construction focused on the installation of camp modules, haul road and process platforms construction. The full project team remains in place ready for a quick ramp up of activities once project financing is secured.

Studies were carried this year on the geotechnical and hydrogeological elements of the proposed pits. The reports are being finalized but results were as anticipated from prior assessment of the area.





571koz

Updated Tulkubash Reserves at 0.86g/t

Resource and Reserves
The Tulkubash Mineral Resource Estimate (MRE) and Ore Reserves Estimate (ORE) were updated as part of the BFS update. As the project remains in the construction phase, these estimates accurately reflect the current estimates for the Tulkubash project.

A revised MRE and ORE including the results of the 2021 programme is being developed and will be released in Q2 2022.

Tulkubash Mineral Resource Statement
(Effective 7 November 2020)

Classification	Quantity (Kt)	Grade Au (g/t)	Contained Metal AU(oz)
Measured	-	-	-
Indicated	28,505	0.86	789
Inferred	21,412	0.56	388

Tulkubash Ore Reserves
(at Year end 2020)

Category	Quantity (Mt)	Grade (g/t)	Content (kg)	Content (koz)
Proven	-	-	-	-
Probable	20.9	0.85	17,760	571
Total	**20.9**	**0.85**	**17,760**	**571**

789koz

Tulkubash constrained Resource at 0.86g/t within 5.5km of a strike zone

Exploration Highlights

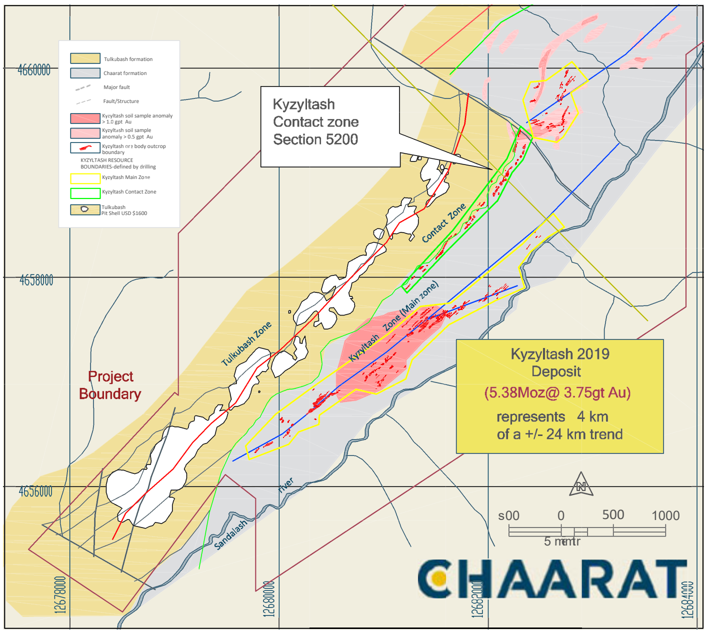
The 2021 exploration programme was completed on schedule. 4,835 metres of infill drilling was carried out in the Mid and East areas aimed at reclassifying Inferred and unclassified areas to Indicated. The drill holes intersected consistent oxide gold intercepts as expected.

Additional drilling and trenching were carried out in areas to the northeast of the current reserve in the Karator and Ishakuldy areas. The work is early-stage exploration to assess the potential of the continuation of the Tulkubash mineralization on strike. The early work returned some positive intercepts and encouraging results. Further exploration will be carried out in these areas in the future. The full 2021 exploration results are available on the Chaarat web page.

The wide area potential work planned for 2021 could not be completed as planned. This work is now being arranged for the 2022 season. The work will consist of an aerial drone based magnetic survey of the entire exploration licence area. The survey will target delineation of prospective anomalies related to Tulkubash and Kyzyltash style mineralisation along approximately 8km of strike, as well as potential porphyry/scarn systems further northeast. Further reconnaissance trenching and scout drill testing of structurally most prospective Kyzyltash style targets are also planned.

KYZYLTASH

THE FUTURE OF CHAARAT GOLD PROCESSING IN THE KYRGYZ REPUBLIC



Overview

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

4.6Moz

Kyzyltash unconstrained Resource. 46Mt @ 3.75g/t. Additional potential along remaining 11km of 15km trend

The Kyzyltash sulphide ore body has an unconstrained Measured and Indicated resource of 4.6M ounces of gold. As the next step in progressing towards the development of this high potential project, over 3,500 metres of large diameter diamond drilling comprising 16 holes was carried out to obtain core from across the deposit. This core will be used to develop representative composite samples on which to undertake suitable metallurgical testing to develop a detailed process understanding of how best to treat and recover the gold contained in the Kyzyltash deposit.

The core is being sent to SGS Lakefield in Canada for a full suite of metallurgical tests. SGS Lakefield was selected due to their expertise in metallurgical testing and the fact they were able to undertake testing on pressure oxidation (POX), biological oxidation (BIOX) and Albion oxidation of refractory sulphide gold ores in the same facility. Results from this comprehensive test programme are expected around mid 2022. The results will enable assessment of which technologies are suitable to take to the next stage of project assessment for an initial determination of operating and capital costs.

Kyzyltash Unconstrained Resources as at 19 October 2014

Resource statement JORC 2014 (cut-off grade 2g/t)	Tonnes (mt)	Au (g/t)	Metal (koz)
Measured	6.72	3.26	700
Indicated	32.79	3.79	3,900
Measured and Indicated	**39.52**	**3.70**	**4,600**
Inferred	6.61	4.05	777

Risk Management

Leadership and oversight
Identifying and managing risk will be key to us being able to deliver long-term shareholder value and protect our business, assets, people, and reputation. The Board has overall responsibility for risk management at Chaarat. The following is an overview of the risk management governance structure we are in the process of implementing:

Board of Directors – Risk Leadership

- Overall responsibility for risk management
- Sets and communicates risk appetite
- Identifies and communicates those risks to which it has zero tolerance
- Approves code of conduct and other policies to underpin desired culture
- Satisfies itself that there is in place an appropriate risk management framework
- Provides oversight of risk exposures and risk taking
- Monitors effectiveness of governance practices

Leadership Team

- Assesses effectiveness of and provides assurance to the Board that risk management and internal control systems are operating effectively
- Ensures all appropriate controls are identified, and responsibility assigned
- Provides recommendations to the Board on risk policy, frameworks, and risk practices
- Makes sure the business operates within the limits of the Board's risk appetite
- Identifies risks, establishes root causes, assesses impacts and likelihood of occurrence
- Prioritises key risks, identifies risk controls and mitigation actions
- Allocates to each key risk a senior management team "owner"
- Manages internal assurance processes around key risks
- Monitors progress of actions to mitigate key risks
- Manages reporting on risk matters

Operations

- Owns and manages risk
- Identifies emerging risks
- Identifies and manages controls
- Reports variation and non-compliances and measures effectiveness of critical controls
- Improves overall risk exposure through improvement actions and enhanced control

Oversight by Audit, Technical, and ESG Committees

- Oversee risk management framework and processes
- Review action plans to manage significant risks

Independent Assurance

- External audits and/or reviews of control environment (where appropriate)

Risk governance framework
Chaarat continues its work on implementing its risk management framework. The framework has been designed to ensure that Chaarat has control over its principal business risks and emerging risks to help achieve strategic objectives and create sustainable value for shareholders. Under the leadership of the newly appointed Chief Executive Officer, a review of the Company's risk management framework will be undertaken to ensure that it remains appropriate. The page numbers noted below indicate where further information can be found in this report.

Board independence Read more: page 41	The majority of our board is independent and consists of directors bringing a suitable mix of skills and experience, and diversity to board oversight and decision making.
Board committees Read more: page 46	The board has established Audit, Remuneration, Nomination, Technical, and ESG committees, each with its own terms of reference, to assist with the discharge of its responsibilities.
Organisational structure Read more: page 40	There is an established organisational structure and reporting lines with appropriate authorities and responsibilities. These include guidelines and limits for approval of contracts and capital expenditure. There is a list of matters reserved for Board approval.
Code of conduct and Whistleblowing policy Read more: pages 45 and 50	There is a Code of Conduct aimed at ensuring that anyone who is employed by Chaarat acts in an ethical manner. There is also a whistleblowing policy.
Risk review and assurance Read more: pages 28 and 50	Management continues to implement its risk review process that identifies, assesses, and prioritises risks, identifies risk mitigation actions and assigns responsibilities and assurance on risk profile.
Compliance programme Read more: pages 45 and 50	Implementation of Chaarat's organisational compliance programme was completed during the year with periodic ongoing monitoring of compliance and incident reporting.

Risk appetite and tolerance
During the year, the Board had further discussions regarding its risk appetite and tolerance

Risk identification
The Leadership Team is in the process of undertaking an in-depth review of the Company's risk registers to ensure that they properly identify all the risks faced by the Group together with their associated controls and mitigating actions.

Principal Risks and Uncertainties

Risk	Existing mitigating actions	Pillar
Liquidity		
The Group requires significant additional financing in the future to develop projects and to meet ongoing financial needs. The Group's US$25.6m convertible loan notes fall due on 31 October 2022. There can be no assurance that additional financing will be available, or if available, that it will be on acceptable or favourable terms. The failure to obtain additional financing as needed on reasonable terms, or at all, may require the Group to reduce the scope of its operations or anticipated expansion, dispose of or forfeit its interest in some or all of its properties and licences, incur financial penalties or reduce or terminate its operations. Further detail on this material uncertainty is set out in note 2. **Read more: pages 30 and 31**	Maintain discussions with existing lenders and potential finance providers. Address potential gating items to securing project finance. Looking for new funding options.	
Jurisdiction		
The existence of Armenia and the Kyrgyz Republic as independent states resulted from the break-up of the FSU. As such, they have relatively short histories as independent nations and there remains potential for social, political, economic, legal, and fiscal instability. The laws and regulations in Chaarat's areas of operation are still developing in some areas and some provide regulators and officials with substantial discretion in their application, interpretation, and enforcement. In 2011, a Kyrgyz Government decree transformed land categorised as "highly protected territory" into "industrial territory" but mistakenly omitted a small part of Chaarat's licence area from the transformed "industrial territory". The Kyrgyz Government continues to progress activities to rectify this administrative error. The final decree is with Government Ministers for approval and UNESCO is aware of the that the decree is reaching the final stages of approval. Chaarat's mining licence agreement remains compliant with Kyrgyz law and Chaarat has all permits and licences necessary for the construction and operation of the Tulkubash project within its entire licensed area, including the land that is in the process of being correctly reclassified. **Read more: page 15**	Process in place to monitor prospective legislative changes, discuss them with competent state bodies and make suggestions. Participation in working groups with other mining companies. Stabilisation agreement in place in respect of the Kyrgyz Republic. Regular dialogue with ministerial departments. Operation of an ethics and compliance programme with annual refresher training. Ensuring that all permits and licences necessary for the construction and operation of the Tulkubash project are complied with. Ensuring that all laws and regulations of the Kyrgyz Republic are complied with.	
Commodity price volatility		
Adverse movements in precious metals prices could materially impact the Group in various ways beyond a reduction in the financial results of operations. These include the feasibility of projects and the economics of mineral resources. **Read more: pages 30 and 31**	Hedging strategies are periodically considered. Conservative long-term prices are used to evaluate projects. AISC at Kapan remains below gold prices.	

Risk	Existing mitigating actions	Pillar
Environmental		
Effective environmental management is critical to maintain regulatory approvals and social license to operate. Key risk area at Kapan is related to the historical upstream construction tailings storage facility. Active mitigation measures are in place. Risks for Tulkubash currently relate to construction activities. Management plans are developed related to operations as per project ESIA. Read more: page 15	Implementation of proper geohazard mitigation measures and maintenance of a proper hazard management programme, including engineering hazard mitigation measures. Monitoring of tailings storage facility (TSF), pipelines, emergency pools, and treatment facilities, and analysis of monitoring data. Annual identification of environmental hazards and planned internal reviews of hazard management. Kapan is ISO 14000 certified with successful recertification carried out in 2021 Employee training on environmental issues, in particular on waste control methods.	
Safety and health (“S&H”)		
Chaarat’s operations have inherent S&H risks to our employees and contractors. Failure to manage these risks may result in occupational illness, injuries and loss of life. Chaarat’s business is exposed to pandemics and national and/or regional epidemics which can impact its organic and inorganic growth strategy. Read more: pages 14 and 15	Embedding of policies, standards, and procedures in place across Chaarat for systematic control of significant S&H risks. Purchase of high quality personal protective equipment (PPE). Conduct of planned preventative maintenance of equipment and upgrade equipment in a timely manner. Targeted recruitment of experienced specialists and regular training of employees and contractors Continuous monitoring of highest risk workplace areas. Employee training. Implementation of extensive mitigation measures during the ongoing COVID-19 pandemic to ensure that our operations could continue whilst at the same time ensuring the safety of our employees and contractors. In 2022, Chaarat will continue to monitor World Health Organisation and local government advice regarding precautionary measures and ensure that we implement all measures necessary to ensure the safety of our people.	
Construction and development		
Depending on the timing of completion of project financing, there is a possibility of delays to the start of production and cost overruns relating to Chaarat’s development of its Tulkubash project. Read more: pages 20 to 23	Operation of a proper contractor, supplier, expert and other adviser selection and management process to ensure that they are reliable and meet required performance standards.	

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

Income statement

Revenue during 2021 amounted to US$92.4 million (2020: US$76.0 million), comprising US$72.8 million of own ore revenue and US$19.6 million third-party revenue (2020: US$69.9 million own ore and US$6.1 million third-party revenue). During the year, Kapan sold 57,212 ounces of AuEq (2020: 48,387 ounces), including third-party sales, with a realised gold price per ounce of US$1,784 (2020: US$1,773), a realised silver price per ounce of US$25 (2020: US$20), a realised copper price per tonne of US$9,157 (2020: US$6,117) and a realised zinc price per tonne of US$3,001 (2020: US$2,222).

The Group operating profit for the year was US$7.8 million (2020: US$1.9 million) and the Group EBITDA was US$13.5 million (2020: US$9.3 million). The increase in EBITDA was mainly due to a more favourable commodity price environment.

	2021			2020		
	Armenia US$'000	**Kyrgyz Republic & Corporate US$'000**	**Total US$'000**	Armenia US$'000	Kyrgyz Republic & Corporate US$'000	Total US$'000
EBITDA	**22,653**	**(9,167)**	**13,486**	19,429	(10,126)	9,303
Depreciation and amortisation	**(6,621)**	**(494)**	**(7,115)**	(5,232)	(727)	(5,959)
Net finance costs	**(3,026)**	**(4,847)**	**(7,873)**	(3,130)	(17,628)	(20,758)
Unrealised foreign exchange gain/(loss)	**2,090**	**-**	**2,090**	(2,649)	-	(2,649)
Fair value gain on warrant	**-**	**434**	**434**	-	595	595
Change in provisions	**(673)**	**-**	**(673)**	545	-	545
Profit/(loss) before tax	**14,443**	**(14,074)**	**349**	8,963	(27,886)	(18,923)
Income tax charge	**(3,937)**	**-**	**(3937)**	(3,520)	-	(3,520)
Profit/(loss) after tax	**10,486**	**(14,074)**	**(3,588)**	5,443	(27,886)	(22,443)

The adjusted Group EBITDA, excluding the share-based payment expense, which is a non-cash item, was as follows:

	2020 US$'000	2019 US$'000
Kapan EBITDA	**22,653**	19,429
Kyrgyz Republic & Corporate EBITDA	**(9,167)**	(10,126)
Group EBITDA	**13,486**	9,303
Corporate share-based payment expense	**1,251**	3,612
Unwinding of discount – provision for environmental obligations	**-**	655
Adjusted Group EBITDA	**14,737**	13,570

Finance costs in 2021 were US$7.9 million (of which US$5.6 million was non-cash) compared to US$21.4 million in 2020 (of which US$18.7 million was non-cash). The decrease in costs was mainly due to the refinancing of the Investor Loan at the end of 2020, which resulted in increased financing costs that year, and settlement of the Labro working capital facility and Labro Term Loan in early 2021 resulting in less accrued interest in 2021.

Income taxes in 2021 were US$3.9 million compared to US$3.5 million in 2020. Consequently, the Group made a loss after tax of US$3.6 million compared to a loss after tax of US$22.4 million in the 2020 financial year.

Balance sheet

The borrowings at the balance sheet date comprised US$25.6 million of convertible loan notes due in October 2022 (2020: US$23.3 million), US$21.3 million of other loans (US$53.3 million), US$2.4 million of contract liabilities (2020: US$5.3 million), US$1.0 million of lease liabilities (2020: US$1.4 million) and US$0.4 million of warrant financial liabilities (2020: US$0.8 million).

The Group's net debt decreased from US$77.2 million at 31 December 2020 to US$39.6 million at 31 December 2021 (refer to Note 22 (a)), primarily as a result of converting the Labro Term Loan into equity in February 2021 and reducing the Kapan acquisition loan from Kapan cash flows. The Kapan acquisition loan has certain covenants attached to it. All covenants were met as at 31 December 2021 and as such the Group remains in full compliance.

Non-current assets increased from US$109.3 million at 31 December 2020 to US$119.7 million at 31 December 2021. The increase was mainly due to the purchase of property, plant, and equipment at Kapan. Additionally, exploration and evaluation costs of US$5.7 million were capitalised relating to the asset in the Kyrgyz Republic.

Current assets were US$51.8 million at 31 December 2021 compared to US$25.8 million at 31 December 2020. The increase mainly related to trade receivables from Kapan's customers due to the timing of sales close to year-end. Current assets at 31 December 2021 included cash and cash equivalents of US$11.1 million (2020: US$6.9 million).

Total liabilities at 31 December 2021 were US$94.7 million compared to US$110.7 million at 31 December 2020. This reduction was mainly due to repayments of bank debt and the Labro Facility in the amount of US$12.1 million (including interest) and settlement of the Labro Term Loan in the amount of US$22.1 million through shares issued, offset by accrued interest on loans during the year. Further, on 21 October 2021, the maturity date of the convertible loan notes was extended from 31 October 2021 to 31 October 2022 and the conversion price reduced from £0.37 to £0.30 per share. The movement in liabilities is set out in more detail in Notes 24 to 29, including the split between long-term and short-term components. In addition, liabilities at 31 December 2021 included a provision for environmental obligations at Kapan of US$10.5 million (2020: US$7.5 million). This increase was as a result of a reassessment of the Company's obligations under international legislation requirements that took place in 2021 by an independent third party.

Total equity was US$76.9 million at 31 December 2021 compared to US$24.5 million at 31 December 2020. This mainly reflects the increase in share capital and premium of US$52.6 million as a result of the equity raise in February 2021 and other share issues as disclosed in Note 22.

Cash flow

Cash and cash equivalents increased from US$6.9 million at 1 January 2021 to US$11.1 million at 31 December 2021. The movement comprised of:

- net operating cash flows of US$3.3 million (2020: US$15.9 million), mainly due to improved operating performance offset by working capital movements at Kapan (e.g. increase in trade receivables due to the timing of sales close to year-end) and expenditure on corporate overheads
- net cash used in investing activities of US$15.5 million (2020: US$11.9 million) relating to the purchase of property, plant, and equipment at Kapan and in the Kyrgyz Republic together with capitalised exploration and development spend in the Kyrgyz Republic
- cash inflows from financing activities of US$16.7 million (2020: cash used of US$0.9 million) mainly relating to the funds received from the equity raise of US$29.6 million offset by external debt repayments, including interest, of US$12.1 million

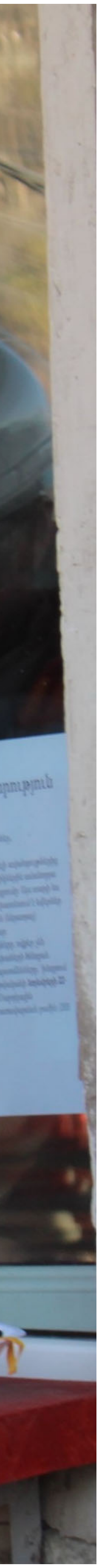
Going concern

In order to achieve the planned future capital developments of assets and to repay the convertible loan notes due on 31 October 2022, management will need to raise future financing. 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 such that the ability to refinance the US$25.6 million of convertible loan notes prior to 31 October 2022 represents a material uncertainty. However, management is committed to raising additional funds and has an established track record of successfully achieving this in the past as demonstrated by the fundraising activities in early 2021. Accordingly, the Directors have adopted the going concern basis of accounting in preparing the consolidated financial statements. 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.

GOVERNANCE

BUILDING A LEADING EMERGING MARKETS GOLD COMPANY

Good corporate governance is fundamental to the success of our business.



Dear shareholder,

Introduction

I am pleased to present this year's corporate governance report for the year ended 31 December 2021. This report describes Chaarat's corporate governance structures and procedures and summarises the work of the Board and its committees to illustrate how we have discharged our responsibilities during the year under review.

The Board and its committees play a key role in our governance framework by providing external and independent support and challenge, understanding the views of shareholders and wider stakeholder communities, and ensuring that a culture of good governance is promoted across the business.

As Chair, I am responsible for the running of the Board and for the Group's overall corporate governance, with the support of the company secretary. My role is to ensure that the Board operates effectively in delivering the long-term success of the Company. In fulfilling this role, I seek to ensure that Board proceedings are conducted in such a way as to allow all directors to have the opportunity to express their views openly and that the non-executive directors are able to provide constructive support and challenge to the senior management team.

COVID-19 continued to impact the way the Board and its committees functioned throughout 2021. All our meetings were again held remotely this year. We have a geographically diverse Board with directors based across multiple time zones. I would like to thank them for their flexibility and support throughout the year, particularly those who, due to their location, attended some meetings at very unsociable hours.

Board changes

Succession planning was a focus during 2021. An external search firm was engaged to assist in the process of identifying suitable candidates for the role of chief executive officer for the next phase of Chaarat's development. This culminated in the appointment of Mike Fraser who joined our Board as Chief Executive Officer in January 2022. Mike brings over 20 years of extensive experience in the global mining and metals industry and I am delighted that he too has joined Chaarat.

The Board effectiveness evaluation that was undertaken in respect of the 2020 financial year identified that our Board might benefit from a deeper knowledge of ESG issues. Following a recruitment process led by a sub-committee of the Nominations Committee, we appointed Sandy Stash to the Board on 1 May 2021. Sandy brings decades of experience in the energy and hard rock mining industries, particularly in ESG matters and we are delighted that she has joined our Board and agreed to chair the Board's ESG committee.

QCA Code compliance

The Board is accountable to shareholders for the governance of the Group's affairs and is committed to maintaining high standards of corporate governance for the long-term success of the Company. The Company reviews its standards of governance against the principles and recommendations of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). The QCA Code is designed for growing companies and which we believe is the most appropriate for Chaarat at this stage of its development. There are no significant areas where our governance structures and practices differ from the QCA Code's expectations.

Board effectiveness

As Chair, I am responsible for ensuring we continue to have an effective and functioning Board. This year, supported by the company secretary, I led the annual evaluation of the effectiveness of the Board, its committees, and individual directors during the year under review. The internally-led Board evaluation gave us the opportunity to reflect on our own performance and consider areas of focus which will drive positive change over the coming years. Similar to last year, the evaluation was undertaken internally by way of a series of questionnaires and individual meetings with directors, a method I believe to be appropriate and proportional to the Company, and which yielded useful results. Risk management oversight and strategy were areas identified as requiring greater focus. Further details of the Board evaluation can be found on page 45.

2022 and beyond

The Board has continued to make progress in enhancing its governance arrangements and I am committed to continuing to seek out ways to further enhance them in line with developing best practice. Key areas of focus in 2022 will be corporate culture and succession planning for senior management roles immediately below Board level.

Martin Andersson
Chair

6 April 2022

Board of Directors

Executive Directors

Martin Andersson
Executive Chair, age 55

Appointed: October 2016

N

A graduate of the Stockholm School of Economics and HEC Paris, Martin worked in mergers and acquisitions at Booz Allen Hamilton, and advised the Russian Government on its privatization programme. In 1993 he co-founded Brunswick Brokerage – a Moscow based investment bank that was later sold to UBS – initially holding the position of CEO and from 1999 as Chair of the joint venture, Brunswick UBS Warburg. Between 2006 and 2013 he was a shareholder serving on the board of Siberian Coal Energy Company (SUEK), one of the largest thermal coal producers in Russia.

Martin first invested in Chaarat in 2011 and he intends (via Labro) to be a long term and supportive shareholder.

Martin manages an active investment portfolio with an interest in real estate, financial services, and information technology.

Michael Fraser
Chief Executive Officer and Executive Director, age 56

Appointed: January 2022

Mike brings over 20 years of extensive experience in the global mining and metals industry. In April 2018 he was appointed Chief Operating Officer of ASX-listed South32 Limited and prior to that he was President and Chief Operating Officer of its Africa region. During his time at South32 he has been directly responsible for the operations of underground mines, smelters, and project development. Throughout his career he has held a number of senior roles, including President Human Resources of dual LSE- and ASX-listed BHP Limited and Asset President of Mozal Aluminium in Mozambique.

Non-Executive Directors

Gordon Wylie
Senior Independent Director, age 69

Appointed: November 2017

A N E T

Skills, experience, and contribution
Gordon has 45 years' experience in the mining industry and directly relevant experience of growing companies from exploration to production. During his eight years as a member of AngloGold Ashanti's senior management team, Gordon was responsible for their global exploration programme, part of which included moving into new prospective, higher risk, geographical regions. Gordon has been a non-executive director of numerous junior exploration companies operating globally since leaving AngloGold Ashanti. He was previously the chair of Lydian International which was constructing a mine at the Amulsar open pit, heap leach, gold project in Armenia.

Current external appointments
Gordon is a director of Silverton Metals Corp., the TSX-listed silver exploration and development company.

Hussein Barma
Independent Non-executive Director, age 56

Appointed: December 2018

A R N

Skills, experience, and contribution
A qualified lawyer and chartered accountant by background with over 20 years' experience in senior positions in the mining sector, Hussein brings to Chaarat a wealth of experience in accounting, internal control, governance, risk management, and compliance. Hussein has significant FTSE-50 senior executive experience, gained over 15 years as UK based CFO at Antofagasta plc, where he led its UK presence through a period of change and growth as the UK-based chief financial officer. He has also had earlier careers in professional services and academia.

External commitments
Hussein is an independent non-executive director and the audit chair of Atalaya Mining plc. He is also a principal at Barma Advisory where he has worked on various assignments within the natural resources and other sectors. He is a governor of the University of the Arts London.

Robert Benbow
Non-executive Director, age 68

Appointed: July 2018

N E **T**

Skills, experience, and contribution
A civil engineer with over 49 years' experience in mining and 39 years in gold mining, Bob brings invaluable technical knowledge to Chaarat. During his 49-year career, Bob has taken three greenfield gold developments into production, including Alacer Gold Corp.'s Çöpler Gold Mine in Turkey, which has produced over 2 million ounces as one of the lowest cost producers in the world.

External commitments
Bob is a Director/Owner of Powderhouse Gulch LLC (Colorado).

Key to Committee Membership

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

Robert Edwards
Independent Non-executive Director, age 55

Appointed: September 2018

N R E T

Skills, experience, and contribution
A mining engineer with a degree from the Camborne School of Mines, Robert is the former chair of Global Mining at Renaissance Capital and has also worked for HSBC and the Royal Bank of Canada. He has worked in the natural resources industry for 28 years primarily in frontier and emerging markets, advising the managements of numerous companies on a range of industrial issues. Robert brings to Chaarat his deep sector knowledge of the FSU mining sector. Robert has played a central role in multiple IPOs, capital raisings and M&A transactions and is a well-known figure across the global mining investor base.

External commitments
Robert is currently an Independent Non-Executive Director and a member of the Corporate Governance, Remuneration and Audit committees of PJSC MMC Norilsk Nickel and an adviser to several private natural resource companies. Robert also holds a number of other directorships.

Warren Gilman
Independent Non-executive Director, age 62

Appointed: March 2019

A R N

Skills, experience, and contribution
Warren was Chair and CEO of CEF Holdings Ltd, a mining focused investment company jointly owned by CK Hutchison Holdings Ltd and the Canadian Imperial Bank of Commerce from 2011 to 2019. He is a mining engineer and co-founded CIBC's Global Mining Group in 1988. During his 25 years 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 for 10 years, and latterly as vice chair for CIBC World Markets. He has acted as advisor to the largest mining companies in the world including BHP, Rio Tinto, Anglo American, Noranda, Falconbridge, Meridian Gold, China Minmetals, Jinchuan and Zijin and was responsible for some of the largest equity capital markets financings in Canadian mining history.

External commitments
Robert is currently an adviser to several private natural resource companies. Robert also holds a number of other directorships.

Sandy Stash
Independent Non-executive Director, age 62

Appointed: May 2021

N E T

Skills, experience, and contribution
Sandy has over 35 years of international executive and non-executive board experience. Her professional career spans top leadership positions in general management, ESG, major projects, commercial negotiations, engineering and operations, supply chain management, HSE, and external affairs in both the energy and hard rock mining industries. A petroleum engineer by training, Sandy was one of the first women to work as a drilling engineer at locations across North America.

External commitments
Sandy is a non-executive director of Diversified Energy Company plc; Trans Mountain Company, a Canadian Crown Corporation, and of Lucid Energy, a PE-backed, diversified energy company. Sandy is also a member of the board of governors of the Colorado School of Mines and serves in an advisory capacity and as a director for several not-for profits and privately-held, community firms.

Senior Management

Frances Robinson
Company Secretary, age 57

Appointed: January 2020

Frances has over 20 years' experience as a company secretary at UK listed companies. Prior to moving into industry, she was a partner in a London law firm specialising in corporate law. She is a solicitor admitted to practise in England & Wales.

Darin Cooper
Chief Operating Officer, age 55

Appointed: June 2019

Darin has over 30 years' experience in the metals and mining industry. Prior to Chaarat he was Head of Mining at Fusion Capital, a Swiss investment firm. Previously he worked for Nyrstar as Vice President of Zinc Smelting managing their global zinc assets, and COO of Talvivaara Nickel in Finland.

David Mackenzie
Interim Chief Financial Officer, age 39

Appointed: February 2022

David has over 15 years' experience in the natural resource sector. He joined the Group in January 2021 as Group Financial Controller. Prior to joining Chaarat he was the General Manager Finance at Alufer Mining Ltd. David is a Certified Practising Accountant (Australia).

Compliance with the QCA code

The Company has adopted the Quoted Companies Alliance ("QCA") Corporate Governance Code (the "QCA Code"). In this report we have set out a summary of what we have done to comply with the 10 principles of the QCA Code and what we will continue to do. Further information on the application of the QCA Code is contained in our corporate governance statement which can be found on our website.

QCA Code compliance summary
Page numbers used in the table below indicate where more detailed information can be found in this annual report.

Deliver growth	
Principle	**What we did in 2021**
1. Establish a strategy and business model which promote long-term value for shareholders	We have continued to pursue our stated strategy. Information regarding our business model and strategy including key challenges and how they are addressed are contained in our strategic report. **Read more: pages 10 to 29**
2. Seek to understand and meet shareholder needs and expectations	Due to the COVID-19 pandemic shareholders were again requested not to attend our AGM in person and were instead invited to submit questions by email. The executive team kept a constant dialogue throughout the year with various shareholders and potential new investors. Key was, to actively pursue such conversations and enable continuous feedback. In addition to roadshows organised by brokers with institutional investors on a regular basis, extended coverage through partners on various social media and retail focused platforms had been established in 2021 with positive responses. Our Chaarat newsletter has seen exponential growth in subscribers. Major operational or financial updates were broadcasted through online webcasts with a dedicated Q&A session. The attendance of global conferences as in previous years was restricted due to the ongoing COVID-19 pandemic. The intention is to resume these direct contacts in 2022, subject to the environment allowing this. **Read more: page 45**
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	We take our social responsibilities seriously and constantly strive to enhance our environmental and social credentials. **Read more: pages 14 to 15**
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	The board has reviewed the Company's risk management process and management has undertaken an exercise to identify and document the Group's key risks, assess their likelihood, and impact, and identify mitigating actions and associated responsibilities. **Read more: page 45** With the support of the Board's audit committee, management continued to progress its compliance improvement programme, reviewing existing policies and developing and implementing a compliance training programme across the Group. **Read more: page 50**

Maintain a dynamic management framework

Principle	What we did in 2021
5. Maintain the board as a well-functioning, balanced team led by the chair	The board undertook a review of board committee composition. Read more: pages 45 and 48
6. Ensure that between them the directors have the necessary up-to-date experience, skills, and capabilities	The board undertook a review of its skills and capabilities to identify any gaps. Read more: pages 45 and 48 The board and other members of senior management undertook refresher training in directors' responsibilities Read more: page 42
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The Chair led a detailed evaluation exercise of the Board, its committees, and individual directors. Read more: page 45
8. Promote a corporate culture that is based on ethical values and behaviours	Following the appointment of a new CEO in January 2022, corporate culture will be a focus for the coming year.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	There are clearly defined roles and responsibilities for the board and each of its sub-committees with appropriate delegated authority structures in place. The Company applied the QCA Code and will keep its governance processes under review to ensure that they remain fit for purpose. Read more: pages 40 to 43

Build trust

Principle	What we did in 2021
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Chaarat communicates its governance activities as part of its ESG principles through a number of channels and interactions. Channels including • Corporate Homepage with dedicated ESG section and governance principles • Armenian and Kyrgyz language websites • Regularly updated corporate investor presentation available for download or upon request • Social Media channels • Regular interviews, press releases and presentations at global leading conferences • Innovative online marketing platforms where existing and new shareholders can approach the Company • Share chat platforms where communications are followed and, if required, commented on • Direct email and telephone conversations

Governance, Board Composition, and Operation

Governance framework

There is a clear division between the Board's responsibilities and those which it has delegated to management.

Board of Directors

Role of the Board

The Board is responsible for ensuring that the affairs of the Group are organised and controlled in a manner that promotes the long-term success of the Company, generates value for shareholders and which is consistent with the Company's articles of association, law, and regulation, and good corporate governance practice. The Board's responsibilities include:

- Strategy
- CEO and management team oversight
- Monitoring performance
- Governance, risk management, and compliance
- Stakeholders
- Decision
- Culture

The Board is supported by its five committees. The committees' terms of reference are available on the Company's website www.chaarat.com.

The Board has delegated responsibility for management of the Group to the Chief Executive Officer and the management team.

Matters reserved for the Board

The Board has a formal schedule of matters specifically reserved for its decision, covering the following themes:

- Strategic oversight
- Governance and management
- Risk management, systems, and controls
- Financial reporting
- Communication
- Corporate structure and capital
- Expenditure, transactions, borrowings, and security
- Senior executive remuneration

Supported by

Audit Committee

Purpose:
To assist the Board in discharging its responsibilities relating to financial reporting and internal control and risk management.

Read more: p.53

ESG Committee

Purpose:
To assist the Board in discharging its responsibilities relating to health, safety, environmental, and community matters.

Read more: p.50

Nomination Committee

Purpose:
To assist the Board in keeping under review the structure, size, and composition of the Board, formulating plans for succession, and managing the appointment process for new board directors.

Read more: p.52

Remuneration Committee

Purpose:
To assist the Board in discharging its responsibilities relating to remuneration policy and practices.

Read more: p.58

Technical Committee

Purpose:
To assist the Board in discharging its responsibilities relating to technical matters including resource and reserve disclosures.

Read more: p.51

Roles and responsibilities of the directors of the Company

Executive Chair ("EC")	**Our EC is responsible for:** • **Board leadership** – ensuring its effectiveness in all aspects of its role, setting its agenda, oversight of the Company's corporate governance model, and ensuring good and timely information flows between executive and non-executive directors. • **ESG** – fostering ethical and responsible decision making by the Board. • **Strategic development** – working with the Board and the CEO to develop the strategy for the Company's future growth and working with the CEO to identify opportunities for value-enhancing strategic initiatives including acquisitions, joint ventures, and strategically important relationships. • **Communications** – ensuring effective communication with shareholders and working with the CEO on critical issues related to government relations. • **Operational oversight** – acting as a sounding board, adviser, and confidant to the CEO.
Chief Executive Officer ("CEO")	**Our CEO's responsibilities include:** • **Culture and values** – defining and upholding the Company's culture and values • **Leadership** – developing and leading the executive team • **Operational excellence** – running the Group's business • **Stakeholders** – ensuring effective communications with communities and governments in all jurisdictions in which Chaarat operates as well as with shareholders, investors and employees • **ESG** – ensuring that the Company maintains high environmental, social responsibility and governance standards in all jurisdictions in which it operates • **Strategy** – developing and communicating the strategy of the Group and the detailed underlying operational plans to deliver it
Senior Independent Director ("SID")	Our SID provides a sounding board for the EC and serves as an intermediary for other directors and shareholders when required. The SID is also responsible or conducting the annual performance evaluation of the executive chair, in conjunction with other independent NEDs. The SID also acts as the clearance officer under the Company's share dealing code.
Non-Executive Directors ("NEDs")	Our NEDs are members of the Board who are not employees of the Company such that they bring to the Board qualities of independence and impartiality. They have been appointed due to their wide executive and industry experience, special knowledge and personal attributes that add value to the effectiveness of the Board. NEDs support the EC and provide objective and constructive challenge to management. Six of the eight directors of the Board are non-executive, all but one of whom the Board has determined to be independent. Further information regarding our Board's independence can be found on page 41.

Board composition

Balance	The Board is currently comprised of eight directors, six of whom are non-executives.
Independence	The Chair 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. During the year, the Board conducted a thorough assessment of the independence of its directors. Five non-executive directors, namely Hussein Barma, Robert Edwards, Warren Gilman, Sandy Stash, 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, an 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.
Skills and experience	In June 2021, the Board's Nominations Committee undertook a review of the Board's skills and experience. The current balance of skills of the Board as a whole reflects a range of commercial and professional skills across mining, accounting, banking, and finance. The Board's review concluded that its breadth and depth of skills and experience enabled it to discharge its duties properly.

Governance, Board Composition, and Operation
continued

Board composition (continued)	
Diversity	The Board consists of individuals with different backgrounds and expertise including mining engineering, geology, and finance which of itself brings diversity of thought to Board discussions. The Board is mindful of the benefits that more diversity would bring to the Board.
Retirement and re-election of directors	The Articles require one-third of the directors (excluding the CEO) to retire annually by rotation with those retiring being eligible for re-election. Hussein Barma and Warren Gilman, being the directors who have been longest in office since their last election, will retire and will stand for re-election at the forthcoming AGM.

Operation of the Board	
Commitment	Each director is expected to commit such time as is necessary to perform his duties as an officer of the Company. All NEDs are required to disclose other significant commitments both before appointment and following subsequent changes so that the Board can satisfy itself that each of the directors has sufficient time to allocate to the Company to discharge their responsibilities effectively.
Meetings and site visits	There are four scheduled Board meetings a year with additional ad hoc meetings convened as and when required. In normal circumstances, the four scheduled meetings would be "in person" meetings, at least two of which would be site visits. However, due to the COVID-19 pandemic, no "in person" Board meetings or Board site visits took place in 2021, with all meetings taking place by video conference. In circumstances where a director is unable to attend a meeting, he is afforded the opportunity to provide his views on the subjects being discussed in advance so that those views can be taken account of at the meeting. Details of Board meeting attendance in 2021 can be found on page 44 and Board committee meeting attendance details can be found in the individual committee reports on pages 46 to 53. Minutes of all Board meetings are formally approved by all directors attending the meeting. Minutes of all Board committee meetings, once approved by the relevant committee chair, and subsequently other committee members, are provided to the Board and papers for all Board committee meetings are available to all directors on the Board's portal.
Information	Assisted by the company secretary, the chair is responsible for ensuring that directors receive accurate and timely information on all relevant matters. The directors receive a monthly report of current and forecast trading results and treasury positions.
Advice	All directors have access to the company secretary for advice. Additionally, directors may, at the expense of the Company, seek independent advice in conducting their duties.
Training	The Board is kept informed on an ongoing basis by the company secretary about their duties and corporate governance requirements. In 2021 the secretary's briefings included narrative reporting, executive remuneration, proposed audit and corporate governance reform, and climate-related reporting and disclosures. Training is provided to the Board each year and in 2021 refresher training included directors' duties, ongoing obligations under the AIM Rules and the Market Abuse Regulation. Directors are invited to identify to the company secretary any desired skills and knowledge enhancements that they require so that appropriate training can be arranged.
Induction	During the period under review, one non-executive director was appointed to the Board. She was given a comprehensive induction, which included briefings from each member of the senior management team on the key ESG, business, people, financial, strategic, and risk issues. Due to the ongoing COVID-19 pandemic it was not possible to arrange site visits. However, subsequent to year end, she was able to visit the Company's operational site in Kapan. A significant portion of the induction of the chief executive officer who joined Chaarat on 17 January 2022 was undertaken in November 2021. He, too, received a comprehensive induction with site visits taking place in early 2022.

Operation of the Board (continued)	
Insurance and indemnity	The Company has arranged insurance cover and indemnifies directors in respect of legal action against them to the extent permitted by law. Neither applies in situations where a director has acted fraudulently or dishonestly.
Conflict of interest	The directors have a duty to avoid conflicts of interest. In accordance with the Articles, each director is required to disclose his interests in all matters relating to the Company. A director having an actual or potential conflict of interest absents himself from any decision making regarding that subject matter. Directors are required to disclose any other new appointments before agreeing to take them on, so that any conflicts of interest can be identified and addressed. The Board would also assess conflicts of interest before making any new appointments.
Relationship Agreement with Labro Investments Limited	Chaarat's Chair, 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"). As at 6 April 2022, Mr Andersson and Labro together hold 45.52% of the Company's issued share capital. In 2016 a relationship agreement was 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. For all the transactions with Labro, the independent directors of the Company considered, at the time of the relevant transaction, having consulted with the Company's nominated adviser at the time, that the terms of the transactions were fair and reasonable insofar as the Company's shareholders were concerned.
Takeover provisions in the Articles	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 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. The Board has previously exercised its discretion to waive the requirement for a mandatory offer when Labro has acquired shares in excess of a 20% holding. During 2021 the Board exercised its discretion on three occasions in order to facilitate Labro's participation in an equity fundraise undertaken by the Company and to enable it to make market purchases of shares. On 17 January 2022, the Board agreed to grant a further waiver to enable Labro to make market purchases of up to nine million shares. That waiver expires on 15 April 2022.
Relationship with shareholders / stakeholder management	The Board recognises the importance of maintaining a dialogue with all its shareholders and carefully considering the feedback and taking appropriate action. The impact of the COVID-19 pandemic has meant that a physical AGM and in-person meetings with shareholders have not been possible. However, the Chair, the former CEO, and former CFO all engaged with the Company's shareholders during the year, discussing the Company's strategy, performance and ESG matters. The Board also reviewed shareholder votes cast in respect of the business before the Company's 2021 AGM. For further information, please see the description of how we comply with QCA Code principle 2 on page 38.

Board Activity in 2021

Meeting attendance

During the year there were 20 meetings of the Board (including ad hoc committees of the Board):

	Four scheduled Board meetings / eligibility	10 ad hoc Board meetings called on short notice / eligibility	Six meetings of ad hoc committees of the Board / eligibility
M Andersson [1]	4/4	8/8	0/0
H Barma [2]	4/4	9/10	5/5
R Benbow [2]	4/4	8/10	3/3
R Edwards	4/4	10/10	4/4
W Gilman [2]	4/4	7/10	1/1
S Stash [2,3]	3/3	3/4	1/1
A Volynets [1,2,4]	2/2	6/7	0/0
G Wylie	4/4	10/10	6/6

Reasons for non-attendance

1 Not invited because interested in most of the business before the meeting or not a member of the ad hoc board committee to which the business of the meeting had been delegated or not a NED
2 Meeting called on short notice and/or unsociable hour due to time zone in location and/or unavoidable circumstances
3 Sandy Stash joined the board on 1 May 2021
4 Artem Volynets resigned from the board on 4 August 2021

Board activity in 2021

Operations

- Received quarterly presentations from the COO regarding the Kapan operations
- Oversight of Kapan performance and monitoring of improvement action plans
- Reviewed and approved the 2021 budget for Kapan
- Reviewed and approved exploration plans for Tulkubash and Kyzyltash
- Oversight of discussions with the Company's construction partner, Çiftay, and approval of the revised arrangements
- Monitoring of the resolution of the UNESCO boundary issues in the Besh Aral National Park
- Reviewed and approved the purchase of engineering, camp, and long-lead items for the Tulkubash development project
- Reviewed an exploration plan for the Kapan East Flank
- Received regular updates from the chair of the Board's technical committee
- Reviewed and approved the quarterly production and operational market updates

Safety, health, and environment

- Reviewed management's report into the fatal incident at Kapan and monitored management's follow-up actions
- Monitoring of the ongoing works to the Kapan mine's tailings storage facility
- Oversight of management's review work in relation to the Company's asset retirement obligation in relation to the Kapan mine
- Discussed climate change and the need to identify areas to focus immediate attention
- Continued to keep under review the Group's response to the COVID-19 pandemic
- Received regular updates from the chair of the Board's ESG committee

Finance and internal control

- Reviewed and approved the equity capital raising of US$52 million and the associated related party aspects
- Kept under review the various funding initiatives to raise finance for the Tulkubash development project and reviewed in-depth a proposal
- Oversight of options to refinance the convertible loan notes and the independent members of the Board approved the extension of their maturity to 31 October 2022
- Reviewed and approved amendments to Chaarat Kapan CJSC's syndicated loan facility agreement
- Following a tender process, on the recommendation of the audit committee, approved the appointment of Deloitte LLP as auditors to the Group
- Reviewed and approved the Company's 2020 annual report and financial statements and the 2021 interim results to 30 June 2021
- Received a presentation from the then CFO regarding the Company's capital structure
- Received quarterly reports and presentations from the former CFO regarding the Group's financial performance and refinancing plans
- Received regular reports from the audit committee chair
- Discussed the Board's risk appetite

Board activity in 2021 (continued)

Governance, risk, and compliance ("GRC")	• Succession planning for the role of chief executive officer • Identification and recruitment of an additional non-executive director with in-depth ESG experience • Considered the outcome of the 2020 Board effectiveness review and agreed the process for the conduct of the 2021 evaluation of the Board and its committees • Reviewed and approved changes to the terms of reference of the audit committee and the ESG committee on the recommendation of the respective committees • Considered the remuneration committee's recommendations regarding achievement of management's 2020 performance measures • On the recommendation of the audit committee, reviewed and, in some cases approved changes to, the Group's key GRC policies, including its anti-corruption and anti-bribery policy, its related party disclosure policy, schedule of matters reserved for the Board, and authority matrix • Reviewed the Board's skills and experience • Reviewed and approved Board committee composition and conducted a thorough review of the Board's independence • Agreed the process for the conduct of the 2021 evaluation of the Board and its committees • The independent members of the Board considered whether it was appropriate to grant waivers of the mandatory takeover provisions in the Articles so as to enable Labro to participate in the equity fundraise and to enable it to make market purchases of Chaarat shares. • Reviewed compliance with BVI economic substance requirements • Reviewed and approved an amendment to the management share incentive scheme rules to facilitate charitable giving by participants in the scheme • Discussed the Board's risk appetite
Investor relations	• Reviewed shareholder votes cast in respect of the business before the Company's 2021 AGM • Received a presentation from the VP for Investor Relations on social media activity and traffic to the corporate website • Considered the appointment of a new joint broker to the Company
M&A opportunities	• Considered various potential M&A opportunities
Strategy	• Received and reviewed management's quarterly strategic updates
Relationship with shareholders / stakeholder management	The Board recognises the importance of maintaining a dialogue with all its shareholders and carefully considering the feedback and taking appropriate action. The impact of the COVID-19 pandemic has meant that a physical AGM and in-person meetings with shareholders have not been possible. However, the Chair, the former CEO, and former CFO all engaged with the Company's shareholders during the year, discussing the Company's strategy, performance and ESG matters. The Board also reviewed shareholder votes cast in respect of the business before the Company's 2021 AGM. For further information, please see the description of how we comply with QCA Code principle 2 on page 38.

Board evaluation

As part of its commitment to good practice corporate governance and as required by the Quoted Companies Alliance Corporate Governance Code, a formal and rigorous board effectiveness review was undertaken encompassing an evaluation of the Board as a whole, its committees and individual directors. The review was led by the Chair and facilitated by the company secretary.

The evaluation comprised a combination of questionnaires, individual conversations, and discussions by the Board and each of its committees. This methodology had been agreed by the Board and each of its committees in December 2021.

In January 2022, one-on-one discussions between the Chair and each director took place to discuss their individual performance during the year under review. The Chair's performance was appraised by the Senior Independent Director who had taken feedback from each of the other non-executive directors.

The evaluation questionnaires considered whether the Board as a whole and its committees were adequately discharging their respective key functions, processes, composition, balance of skills, experience, and knowledge, behavioural dynamics, and other factors relevant to their effectiveness.

Responses to all Board and committee questionnaires were collated and anonymised by the company secretary and included in reports which were considered by the Chair and, for the committees, the relevant committee chair and subsequently the relevant committee.

The findings were presented to the Board, including individual recommendations made by directors. The Board discussed the outcomes and agreed that it, its committees, and individual directors were operating effectively, whilst also noting areas for development which included risk management oversight and strategy.

Environmental, Social, and Governance Committee

Sandy Stash
Chair of the ESG Committee

2021 membership and attendance

Name	Committee member since	Attendance/ Eligibility
Robert Benbow	14 December 2018	4(4)
Robert Edwards	14 December 2018	4(4)
Sandy Stash#	1 May 2021	3(3)
Gordon Wylie	14 December 2018	4(4)

Sandy Stash assumed the chair of the committee on 1 July 2021

Key responsibilities
The committee assists the Board in discharging governance responsibilities in respect of the Company's safety, health, environmental and community functions. It provides oversight and ensures that appropriate arrangements are in place in the following areas:
- Safeguarding the health of the Group's employees, contractors, and the public
- Maintaining good community relations
- Ensuring that the standards and procedures adopted for the Group's operations meet the requirements of both the laws of the relevant local jurisdictions and international standards of best practice

The committee's terms of reference describe the committee's responsibilities in detail, and they are available on the Company's website.

Key activities in 2021
The ESG committee (previously known as the HSEC Committee) met four times in 2021. Due to the ongoing pandemic all meetings were held remotely. This meant that the committee was not able to undertake its intended on-site review of ESG plans and procedures. The chief operating officer and, since he joined in May 2021, the SVP for exploration attended all meetings of the committee in 2021 in order to brief the committee. The table below summarises the committee's key oversight, review, and monitoring activities during the year:

Safety and health:
- Review of incident report into the fatal incident at Kapan and implementation of post incident actions
- Safety measures at the Tulkubash camp construction
- COVID-19 precautions on site in Bishkek and at Kapan and Tulkubash
- Safety performance at Kapan and Tulkubash

Environmental:
- Closure plans for the Kapan tailings storage facility and mine
- Consideration of the Company's approach to climate change
- Received briefing on climate change reporting

Community:
- Community programmes undertaken by the Group at Kapan and Tulkubash during the year
- Community support given during the COVID-19 pandemic

Other:
- UNESCO boundary issues in the Besh Aral National Park
- Updated ESIA
- Reviewed ESG aspects of M&A opportunities
- Considered gender pay gap data across the Group
- Reviewed the ESG section of the 2020 annual report together with the disclosure relating to the work of the committee during 2020
- Considered the outcome of the 2020 committee effectiveness review and agreed the process for the conduct of the 2021 evaluation of the committee

Committee evaluation
The committee undertakes an annual evaluation of its performance and effectiveness. For 2021 an internal questionnaire was used to evaluate the work of the committee. The review concluded that the committee functioned effectively notwithstanding that COVID-19 travel restrictions had prevented the committee from visiting Kapan. Undertaking a site visit to Kapan and spending time with the safety team there will be a priority for 2022. Other areas of focus for the committee in 2022 will be local governmental issues in Kyrgyz Republic and Armenia and environmental issues.

Technical Committee

Robert Benbow
Chair of the Technical Committee

2021 membership and attendance

Name	Committee member since	Attendance/ Eligibility
Robert Benbow	14 December 2018	7(7)
Robert Edwards	14 December 2018	7(7)
Sandy Stash	1 July 2021	2(2)
Gordon Wylie	14 December 2018	7(7)

Key responsibilities
The committee assists the Board in discharging governance responsibilities in respect of technical matters including: operational performance and reporting of operational results, resource and reserve disclosures, technical aspects of mergers and acquisitions and high value and/or technically complex projects.

The committee's terms of reference describe the committee's responsibilities in detail, and they are available on the Company's website.

Key activities in 2021
The committee met seven times in 2021 in addition to reviewing technical matters between meetings. The chief operating officer attended all meetings of the committee in 2021 and the SVP for exploration attended all but one of the meetings in order to brief the committee. Country general managers attended committee meetings periodically on request. The table below summarises the committee's key oversight and review activities during the year:

Kapan:
- Operational performance
- Grade control
- Provision for environmental obligations

Tulkubash:
- Resources and reserves
- Equipment selection
- Construction and engineering activities
- 2021 drilling activities

Kyzyltash:
- Metallurgical test work
- 2021 drilling activities

Other:
- Technical aspects of M&A opportunities
- 2020 FY operational review, Q1, H1 and Q3 2021 operational and production updates
- Considered the outcome of the 2020 committee effectiveness review and agreed the process for the conduct of the 2021 evaluation of the committee

Committee evaluation
The committee undertakes an annual evaluation of its performance and effectiveness. For 2021 an internal questionnaire was used to evaluate the work of the committee. The review concluded that the committee functions effectively. Areas of particular focus for the committee in 2022 will be Kapan operational performance, Kapan East Flank exploration, Tulkubash engineering and construction, and Kyzyltash development.

Nomination Committee

Martin Andersson
Chair of the Nominations Committee

2021 membership and attendance

Name	Committee member since	Attendance/ Eligibility
Martin Andersson	14 December 2018	6(6)
Hussein Barma	14 December 2018	6(6)
Robert Benbow	14 December 2018	6(6)
Robert Edwards	14 December 2018	6(6)
Warren Gilman	16 May 2019	6(6)
Sandy Stash	1 July 2021	4(4)
Gordon Wylie	14 December 2018	6(6)

Key responsibilities
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.

The committee's terms of reference describe the committee's responsibilities in detail, and they are available on the Company's website.

Key activities in 2021
The committee met seven times in 2021. The key focus of its work during 2021 related to succession planning for the role of chief executive officer and the review of the interim arrangements prior to a successor being in post. In addition, the committee conducted reviews of board skills, board committee composition, and the committee's terms of reference. It also considered the specification for the role of chief financial officer and agreed the process for the conduct of the 2021 evaluation of the committee.

Committee evaluation
The committee undertook an annual evaluation of its performance and effectiveness during 2021 using the same methodology as that used by the Board's other committees. The review concluded that the committee functions effectively. The review concluded that the committee functioned effectively during the year. In 2022 the committee will continue to focus on reviewing and monitoring the skills and experience that the Company requires.

Report of the Audit Committee

Hussein Barma
Chair of the Audit Committee

2021 membership and attendance

Name	Committee member since	Attendance/ Eligibility
Hussein Barma	14 December 2018	6(6)
Warren Gilman	16 May 2019	5(6)[1]
Gordon Wylie	14 December 2018	6(6)

1 Mr Gilman was unable to attend one meeting due to the hour in his location at the time of the meeting

Key responsibilities
The committee's terms of reference describe the committee's responsibilities in detail, and they are available on the Company's website.

The committee assists the Board in meeting its responsibilities relating to financial reporting and internal control and risk management. It provides oversight and ensures that appropriate arrangements are in place in the following areas:

- Financial reporting, including responsibility for reviewing the year-end and half-year financial reports
- Oversight of the external audit process and management of the relationship with the Group's external auditor
- Risk management and related controls and compliance
- Review of arrangements for whistleblowing and prevention of fraud, bribery, and corruption

Dear Shareholder
I am pleased to present the report of the audit committee for the financial year ended 31 December 2021.

The audit committee provides oversight of the financial reporting process to ensure that the information provided to shareholders in fair, balanced and understandable and allows accurate assessment of the Company's position, performance, business model and strategy. During the year, the committee continued to oversee the Company's risk management and internal control systems and is satisfied that the controls over the accuracy and consistency of information are robust.

Committee composition and governance
The committee comprises three independent non-executive directors and acts independently of management. As independent non-executive directors, my colleagues and I work co-operatively with management and the external auditors and will constructively challenge their decisions and opinions wherever we feel this is necessary. For the purposes of the assessment conducted by the Board during the year, each committee member confirmed that he considered that he remained independent throughout the year. In particular, each member confirmed that that the quantum of share incentives in the Company held by him was not material to himself, and would not create a conflict of interest, impact his decision-making, or compromise his independence in any way.

The nominations committee reviewed the composition of the audit committee during the year and concluded that the committee membership did not need to be refreshed at this time. Amongst its members. The committee has extensive business experience, knowledge of financial markets, an understanding of risk and other management practices and knowledge of the mining sector and understanding of the operational aspects of the Group in order to discharge its duties in accordance with its terms of reference. The committee has recent and relevant financial experience through myself, as chair of the committee.

The committee has four scheduled meetings a year and additional meetings as required. In circumstances where a committee member is unable to attend a meeting, that member's views on the matters that are to be the subject of discussion at the meeting are obtained in advance of the meeting. Other regular attendees of committee meetings during 2021 were the chief financial officer, the chief operating officer, the group financial controller, the head of legal, the company secretary, and representatives from the external auditor. From 2022, it is expected that the chief executive officer will also regularly attend. All non-executive directors have an open invitation to meetings of the committee and have access to the papers for each meeting. Minutes of committee meetings are provided to all directors and, as committee chair, I provide a verbal update at each subsequent board meeting. The committee met privately with the former external auditor on two occasions during the year and the committee members met privately amongst themselves on two occasions.

Key activities in 2021

The committee met six times in 2021 and the table below summarises its key activities during the year:

Financial reporting	• Reviewed the full-year results including and annual report and accounts, the preliminary announcement of the full-year results • Assisted the board in ensuring that the annual report, when taken as a whole, is fair, balanced, and understandable • Reviewed the interim results statement and, as the external auditor had not been engaged to perform a review of the same, challenged management's underlying assumptions in detail to ensure that all key risk areas had been identified and appropriately addressed • Reviewed the basis for the going concern statement for the purposes of the interim and full-year results statements including consideration of the potential impacts of COVID-19 particularly on the Company's ability to raise additional finance • Considered the appropriateness of accounting policies, and matters of key accounting significance and judgement
External audit	• Led the tender process for the external audit and recommended to the Board the appointment of Deloitte LLP • Reviewed and approved the audit engagement letter, audit plan and strategy including fees • Assessed the effectiveness of the external audit process and the effectiveness and independence of the external auditor • Reviewed management's responses to auditor's prior year management letter points
Risk and internal control	• Reviewed the internal control environment • Reviewed the need for an internal audit function, concluding that this was not required at present, and agreed that it was an area to be kept under review • Assisted the board in its review of the effectiveness of risk management and internal control processes • Monitored developments in the Group's risk management processes
Compliance	• Reviewed compliance with and the effectiveness of arrangements under the various ethics and business integrity policies operated by the Company • Reviewed the Group's authority matrix to gain assurance that it was complied with and that it remained appropriate • Reviewed the Group's authority matrix to gain assurance that it was complied with and that it remained appropriate • Reviewed management's periodic compliance assurance reports to the committee • Reviewed the term of and compliance with the Company's related party disclosure policy
Other	• Considered the outcome of the 2020 committee effectiveness review and agreed the process for the conduct of the 2021 evaluation of the committee • Considered the interim arrangements following the departure of the former chief financial officer to ensure that these were appropriate • Reviewed and recommended changes to the committee's terms of reference • Considered briefings on proposed audit and governance reform

Review of matters of accounting significance and judgement
The committee received reports from management and the external auditor setting out the significant accounting and financial reporting matters and judgements in respect of the financial statements. The table below summarises the main areas of judgement considered by the committee. For each area, the committee was satisfied with the accounting and disclosures in the financial statements.

Going concern	• The committee reviewed management's forecasts for 2022 and 2023 and considered risks to the projections and underlying assumptions, as well as potential mitigating actions. The committee reviewed the adequacy of the disclosures in Note 2 to the financial statements relating to going concern and the related material uncertainty. It concluded it was satisfied that it remained appropriate to prepare the financial statements on a going concern basis.
Provision for environmental obligations	• The committee requested the technical committee to assist with this by reviewing the Kapan mine closure plan and the associated validation work undertaken by an external firm to ensure that, from a technical and substantive perspective, it was appropriate in order to support the provision contained in the Group's financial statements. Based on this review, the committee considered the accounting treatment in the financial statements and concluded this remained appropriate.
Carrying value of exploration and	• The committee considered the carrying value of the Group's mining assets in the Kyrgyz Republic and Armenia and challenged management's impairment indicator review. The committee concluded that there were no indicators of impairment and therefore no impairment review was required for either asset.
Tax	• The committee reviewed the accounting treatment and classification of royalties in Armenia and concluded that it was satisfied that the choice of accounting treatment and classification in the financial statements remained appropriate.
Accounting for changes in agreement	• The committee reviewed the judgements applied by management when accounting for the amendment to the Çiftay agreement and concluded that the accounting treatment in the financial statements was appropriate.
Legal claims	• The committee reviewed management's paper on open legal matters in the Kyrgyz Republic and concluded that it was satisfied that these were appropriately provided for and disclosed.
Revenue recognition	• The committee reviewed management's paper on the accounting treatment of the purchase and processing of third-party ore and concluded that it was satisfied with the approach adopted in view of the underlying contracts and that associated revenues were appropriately accounted for and disclosed on a gross basis.

External auditor
The committee monitors the relationship with the external auditor annually reviews the Group's audit requirements together with the effectiveness of the incumbent external auditor prior to any decision to re-appoint. The committee is responsible for ensuring that the independence and objectivity of the external auditor is not compromised or put at risk of compromise.

Appointment and tendering	• BDO had been external auditor to the Group since April 2013 when PKF (UK) LLP merged with BDO (the former having been appointed external auditor to the Group in 2009). Subsequent to the 2021 AGM, the committee determined that, given BDO's tenure and the then BDO audit partner's imminent rotation off the Group's audit, it was an appropriate time to conduct a tender and the Board unanimously agreed. A tender process was approved in July 2021 and several firms were invited to take part, including BDO. Following presentations by two-short-listed firms, on the recommendation of the audit committee, the Board appointed Deloitte LLP ("Deloitte") to conduct the audit of the Company's consolidated financial statements for the financial year ended 31 December 2021 at a remuneration to be agreed by the committee. The appointment of Deloitte as external auditor for the financial year ended 31 December 2022 is subject to approval by shareholders at the next annual general meeting of the Company to be held on 17 May 2022.

Report of the Audit Committee
continued

External auditor (continued)

Audit process	• The external auditor prepares an audit plan for the review of the full-year financial statements. The audit plan sets out the scope, objectives, and components of the audit together with audit risks and audit timetable. The plan is reviewed and agreed in advance by the committee. Following completion of the audit, the external auditor presents its findings to the committee for discussion and has a private discussion with the committee without management present. Following completion of year-end formalities, the committee reviews management's responses to the external auditor's management letter points and discusses with management the process for the year-end audit with a view to identifying any improvements for the following year.
Independence	• The committee considers the independence of the external auditor annually. That consideration involves a review of the details of rotation arrangements for key members of the audit team and others involved in the audit engagement and a review of non-audit service fees. In order to formalise the Company's own safeguards of external auditor independence and objectivity, during the year, on the recommendation of the committee, the board adopted a formal policy for the provision of non-audit services by the external auditor together with a policy on the employment of former employees of the external auditor. The committee monitors and nature and extent of non-audit services provided by the external auditor. There were no non-audit service fees in 2021 (2020: US$Nil) and no former employees of the external auditor were employed by the Group during the year. Deloitte LLP has confirmed to the committee that it complies with the Financial Reporting Council's Ethical Standard for Auditors and, in its professional judgement, is independent and objective within the meaning of those standards.
Effectiveness	• In order to facilitate continued improvement to the external audit process, the committee conducts an annual review of the effectiveness of the audit. This review incorporates the views of management and others involved in the audit process. The assessment, which encompasses both the effectiveness of the external auditor and the audit itself, considers a number of factors including: - Quality of advice on key accounting and audit judgements, technical issues, and best practice - Identification of useful areas for improvements in company procedures - Team member competence and technical expertise - Completion of work to schedule and with minimal disruption Following completion of this year's review, the committee concluded that it was satisfied with the effectiveness of the external audit and the effectiveness of Deloitte.

Committee evaluation
The committee undertakes an annual evaluation of its performance and effectiveness. For 2021 an internal questionnaire was used to evaluate the work of the committee containing both quantitative and qualitative questions. The responses were considered and discussed by the committee. The committee concluded that it had continued to perform effectively. It was agreed that in 2022 the committee's oversight of the development of risk management and internal control will continue to be an area of significant focus.

Key areas of committee focus in 2022

Risk and internal control	• Ongoing assessment of need for an internal audit function • Monitoring of the Group's internal control activities • Monitoring of implementation of risk mitigation action plans

The committee's oversight of financial reporting and the control and risk environments have continued to be areas of significant focus during the year and will remain so for the 2022 financial year.

I would like to extend my thanks to committee colleagues for their work and support during the year.

Hussein Barma
Chair of the Audit Committee

6 April 2022

Remuneration Committee

Robert Edwards
Chair of the Remuneration Committee

2021 membership and attendance

Name	Committee member since	Attendance/ Eligibility
Hussein Barma	14 December 2018	4(4)
Robert Edwards	1 October 2020	4(4)
Warren Gilman	16 May 2019	4(4)

Key responsibilities
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 2019 (the "2019 MIP").

The committee's terms of reference describe the committee's responsibilities in detail, and they are available on the Company's website.

Dear Shareholder
I am pleased to present the Company's remuneration report for the financial year ended 31 December 2021.

Remuneration policy
The policy of the Company is to ensure the members of the Board and senior management are fairly remunerated with regard to the responsibilities undertaken and with regard to comparable pay levels in the mining industry. Non-cash bonuses and the award of share options are used to attract, retain, and motivate directors and senior management where appropriate.

Committee composition and governance
The committee comprises three independent non-executive directors and acts independently of management. For the purposes of the independence assessment conducted by the board during the year, each committee member confirmed that he considered that he remained independent throughout the year. In particular, each member confirmed that that the quantum of share incentives in the Company held by him was not material to himself, and would not create a conflict of interest, impact his decision-making, or compromise his independence in any way.

The committee has four scheduled meetings a year and additional meetings as required. In circumstances where a committee member is unable to attend a meeting, that member's views on the matters that are to be the subject of discussion at the meeting are obtained in advance of the meeting. Other regular attendees of committee meetings are the Company chair and the company secretary, although neither is present when their own remuneration is discussed. All non-executive directors have an open invitation to meetings of the committee and have access to the papers for each meeting. Minutes of committee meetings are provided to all directors and the committee chair provides a verbal update at each subsequent board meeting.

Remuneration Committee
continued

Key activities in 2021
The committee met four times in 2021 and the table below summarises its key oversight and review activities during the year:

Existing management incentive plan	• Review and approval of a proposed share incentive award to senior executives • Review of performance against criteria for the vesting of the third tranche of restricted stock units ("RSUs") • Reviewed the lapsing of share options during the year
Long-term incentive plan for beyond 2021	• Considered and discussed potential structures for long-term incentives for beyond 2021
Short-term incentive plan for 2021	• Reviewed and agreed the performance metrics for the 2021 short-term incentive for senior management
Remuneration	• Annual review of base salaries for senior executives: base salaries were restored to pre-voluntary reduction levels, but no increases above those levels were made. • Considered and agreed the remuneration package for the new chief executive officer
Other	• Considered a briefing paper from the company secretary on the published views of the Company's largest institutional investor, other institutional shareholders, and proxy advisory agencies on executive remuneration • Reviewed and approved the 2020 remuneration report • Considered the outcome of the 2020 committee effectiveness review and agreed the process for the conduct of the 2021 evaluation of the committee

2021 short-term incentive plan
On management's recommendation, the remuneration committee determined that there would be no pay-outs for senior executives under the 2021 short-term incentive plan. Whilst Kapan had performed reasonably well during 2021 and the Company had undertaken a successful equity raise during the year, insufficient progress against the Company's strategic objectives had been made to justify any bonus payments under the 2021 short-term incentive plan.

2022 short-term incentive plan
For the purposes of the 2022 short-term incentive, the remuneration committee has agreed performance metrics for the Group as a whole which will form the basis of the CEO's performance measures and those of the rest of the senior management team. Additionally, senior management will be allocated some individual performance metrics. Individual bonus outcomes will be determined by reference to achievement of the Group performance metrics multiplied by personal performance achievement. To the extent that the committee determines that performance criteria have been achieved, any bonuses will be paid either in cash or in Chaarat shares (or a combination of the two) at the discretion of the Company and will be payable as soon as practicable following completion of the 2022 year-end audit. Payment of any bonuses will be subject to individuals still being employed by Chaarat at the time of payment and not having served or been served notice to terminate employment prior to payment.

2022 long-term incentive plan
The committee is close to finalising the mechanics of the 2022 long-term incentive plan. It is anticipated that the plan will comprise two separate elements:
- Firstly, participants will receive contingent share awards (i.e., "free" shares with performance conditions) which will have the ability to vest after a three-year period based on the achievement of specified performance targets.
- Secondly, it is proposed that participants will also receive annual option awards which will vest after three years and be exercisable until the fifth anniversary of grant. It is not proposed that any performance conditions be attached to the share options other than a target strike price which is expected to be set at a significant premium to the current share price.

All participants in the plan will be subject to the same performance metrics which it is anticipated will be split equally between relative performance and absolute performance metrics. The relative performance metric is expected to be total shareholder return percentile performance against a comparator group and the absolute performance metrics will consist of metrics related to return on invested capital, the Tulkubash project, the Kyzyltash project and environmental performance. The performance period for the 2022 awards will be 1 January 2022 to 31 December 2024 with vesting taking place following completion of the audit of the 2024 financial statements. The committee will have absolute discretion to adjust vesting outcomes downwards if in its view Company performance over the performance period does not justify the level of vesting implied by strict measurement of the performance metrics.

Committee evaluation
The committee undertakes an annual evaluation of its performance and effectiveness. For 2021 an internal questionnaire was used to evaluate the work of the committee. The review concluded that, overall, the committee functioned effectively.

Key areas for committee focus in 2022
During 2022 the committee will continue work on developing and articulating an executive remuneration policy that is fair, supports strategy and has regard to stakeholders.

I would like to extend my thanks to my committee colleagues for their work and support during the year.

Robert Edwards
Chair of the Remuneration Committee

6 April 2022

Remuneration Report

Total remuneration of directors serving during the year:

Year ended 31 December 2021	**Salary US$'000**	**Fees US$'000**	**Termination payments US$'000**	**Share based payments US$'000**	**Total US$'000**
Executive Directors					
Martin Andersson	-	275	-	109	384
Artem Volynets#	304	-	575	126	1,005
Non-Executive Directors					
Hussein Barma	-	50	-	6	56
Robert Benbow	-	50	-	19	69
Robert Edwards	-	50	-	6	56
Warren Gilman	-	45	-	6	51
Sandy Stash##	-	33	-	-	33
Gordon Wylie	-	73	-	13	86
Total	**304**	**576**	**575**	**285**	**1,740**

\# resigned his office as a director on 4 August 2021 and continued in employment on garden leave. In lieu of the Company's obligation to pay his basic salary and pension throughout his 12-month period of garden leave, the Company agreed to pay US$287,500 in advance with the balance of US$287,500 being paid by 12 equal monthly instalments throughout the garden leave period.
appointed 1 May 2021

Year ended 31 December 2020	Salary US$'000	Fees US$'000	Termination payments US$'000	Share based payments US$'000	Total US$'000
Executive Directors					
Martin Andersson	-	317	-	967	1,284
Artem Volynets	444	-	-	988	1,431
Non-Executive Directors					
Hussein Barma	-	55	-	34	90
Robert Benbow	-	56	-	131	187
Robert Edwards	-	46	-	34	80
Warren Gilman	-	45	-	34	79
Gordon Wylie	-	134	-	69	203
Total	444	653	-	2,258	3,355

Directors' Interests

Share Interests

Directors' interests in Ordinary Shares
The interests of the directors who held office as at 31 December 2021 (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:

	Ordinary Shares of US$0.01 each		
Director*	at 6 April 2022	at 31 December 2021	at 31 December 2020
Executive Director			
M A C Andersson	*313,931,723	**311,485,635	224,922,569
Non-Executive Directors			
H Barma	276,748	276,748	210,886
R D Benbow	1,379,844	1,379,844	1,004,976
R W J Edwards	231,849	231,849	165,987
W P Gilman	581,849	581,849	515,987
SM Stash	-	-	n/a
G F Wylie	576,262	576,262	444,539

* This figure comprises 306,962,131 Ordinary Shares held by Labro and 6,969,592 Ordinary Shares in which Mr Andersson is personally interested following the vesting of awards under the MIP.
** This figure comprises 304,516,043 Ordinary Shares held by Labro and 6,969,592 Ordinary Shares in which Mr Andersson is personally interested.

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 2021 and the date of this report the EBT held 1,070,194 Ordinary Shares.

Directors' interests in convertible loans
As at each of the date of this report, 31 December 2021 and 31 December 2020, Martin Andersson was indirectly interested in the following convertible loan notes loan notes (assuming full conversion of principal and interest to maturity).

	as at 6 April 2022			as at 31 December 2021			as at 31 December 2020		
Loan Note	US$1,000,000			US$1,000,000			US$1,000,000		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
№ of Shares	2,445,160	1,133,929	3,579,089	2,445,160	1,133,929	3,579,089	2,111,484	737,846	2,849,330

Note:
On 21 October 2021, the maturity of the secured convertible loan notes was extended from 31 October 2021 to 31 October 2022 (the "Extension"). The original conversion price was, for each US$250,000 of Loan Notes, 527,871 Ordinary Shares (and pro rata for any amounts less than US$250,000). This equated to £0.37 per share at the then prevailing exchange rate of US$1.28 / £1. The amended conversion price agreed for the purposes of the Extension was, for each US$250,000 of Loan Notes, 611,290 Ordinary Shares (and pro rata for any amounts less than US$250,000). This equates to £0.30 per share at an exchange rate of US$1.36 / £1.

Save as disclosed above, no directors of the Company who held office as at 31 December 2021 (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 Gold Holdings Limited Management Incentive Plan
Tranche 3 of RSUs granted on 18 September 2019
In early 2020, the remuneration committee set key performance objectives for the executive directors related 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. At the time of publication of the 2020 annual report, the committee was still in the process of reviewing the performance of the executive directors and had not yet made a final determination regarding the vesting of tranche 3 of their respective RSUs.

Following the publication of the 2020 annual report, the committee completed its review of the performance of the executive directors during 2020 and determined that the KPIs applicable to tranche 3 of their respective RSUs should vest as follows:

Martin Andersson	Executive Chair	63%
Artem Volynets	Chief Executive Officer (until 4 August 2021)	52%

The non-executive directors had no performance criteria attached to tranche 3 of their RSU awards which vested in full at the same time as the vesting of tranche 3 of the executive directors' RSU awards.

Director	Number at 1 January 2021	Number awarded during 2021	Number (vested) during 2021	Number (lapsed) during 2021	Number at 31 December 2021
Executive Directors					
MAC Andersson	1,811,182	-	(1,139,596)	(671,586)	-
AO Volynets#	1,811,182	-	(946,343)	(864,839)	-
AO Volynets#*	371,213	-	(371,213)	-	-
Non-Executive Directors					
H Barma	65,862	-	(65,862)	-	-
RD Benbow	197,583	-	(197,583)	-	-
RD Benbow*	360,284	-	(360,284)	-	-
RWJ Edwards	65,862	-	(65,862)	-	-
WP Gilman	65,862	-	(65,862)	-	-
SM Stash**	-	-	-	-	-
GF Wylie	131,723	-	(131,723)	-	-

Mr Volynets resigned as a director on 4 August 2021
* These awards were not subject to performance conditions
** Ms Stash was appointed a director effective 1 May 2021

Directors' interests in restricted share awards
At 31 December 2021, no directors held any restricted share awards in the Company.

Directors' interests in share options
At 31 December 2021, the directors held options to subscribe for Ordinary Shares as follows:

Director	Date of grant	Exercise price	Number of Ordinary Shares under option as at 01 January 2021	Number granted during 2021	Number (lapsed/ surrendered) during 2021	Number of Ordinary Shares under option as at 31 December 2021	Exercise end date
Executive Directors							
M A C Andersson	18 September 2019	£0.42	16,300,639	-	-	16,300,639	18 September 2024
A O Volynets[#]	18 September 2019	£0.42	16,300,639	-	-	16,300,639	18 September 2024
Non-Executive Directors							
H Barma	18 September 2019	£0.42	592,751	-	-	592,751	18 September 2024
R D Benbow	18 September 2019	£0.42	1,778,252	-	-	1,778,252	18 September 2024
R W J Edwards	18 September 2019	£0.42	592,751	-	-	592,751	18 September 2024
W P Gilman	18 September 2019	£0.42	592,751	-	-	592,751	18 September 2024
SM Stash	-	-	-	-	-	-	-
G F Wylie	18 September 2019	£0.42	1,185,501	-	-	1,185,501	18 September 2024

Mr Volynets resigned his office as a director on 4 August 2021 but remains an employee of the Company on garden leave until 4 August 2022. One half of his options lapsed on 1 February 2022 and, if not exercised, the remaining half of his options will lapse on 1 February 2023.

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 2021 (the "Directors' Report").

The strategic report on pages 8 to 31, which incorporates the chief executive officer's report, the environmental, social, and governance report, the chief operating officer's report, risk management, principal risks and uncertainties, and the financial review (the "Strategic Report"), is incorporated by reference in the Directors' Report. The governance report on pages 34 to 57 also forms part of and is incorporated by reference in the Directors' Report.

Incorporation
Chaarat Gold Holdings Limited is incorporated in the British Virgin Islands under company registration number 1420336.

Registered office
The Company's registered office is: Palm Grove House, PO Box 438, Road Town, Tortola, VG 1110, British Virgin Islands.

Principal place of business
The Company's principal place of business is at 10th floor, Business Centre "Victory", 103 Ibraimov str., Bishkek 720011, Kyrgyz Republic.

Trading of shares
The ordinary shares of the Company are admitted to trading on AIM, a sub-market of the London Stock Exchange (AIM:CGH).

Principal activity
Chaarat is a gold mining company which owns and operates the Kapan mine in Armenia as well as the Tulkubash and Kyzyltash gold projects in the Kyrgyz Republic. Further information is included in the Strategic Report.

Results and dividends
The Group made a consolidated loss after taxation for the year of US$3.6 million (2020: US$22.4 million). The Directors do not recommend the payment of a dividend (2020: Nil).

Review of the period
The Strategic Report provides a review of the Group's business together with a description of the principal risks and uncertainties that it faces is set out on pages 8 to 31 of the Annual 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 this 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.

Directors
The Directors who held office during the year and up to the date of approval of the financial statements were:

Executive Directors	
Martin A C Andersson	Executive chair and Interim chief executive officer (4 August 2021 to 17 January 2022)
Michael J Fraser	Chief executive officer (appointed 17 January 2022)
Artem O Volynets	Chief executive officer (resigned 4 August 2021)
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
Sandra (Sandy) M Stash	Independent non-executive director (appointed 1 May 2021)
Gordon F Wylie	Independent non-executive director

Directors' interests
The Directors' interests in the shares of the Company are disclosed on the Remuneration Report on pages 55 and 56.

Share capital
The Company's issued share capital as at the date of this report is comprised of 689,668,088 ordinary shares of US$0.01 each nominal value ("Ordinary Shares"). Each Ordinary Share carries the right to one vote at general meetings of the Company.

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 22 to the financial statements.

Issuing of new Ordinary Shares
At the annual general meeting of the Company held on 18 May 2021, the directors were authorised by shareholders to allot and grant rights of the unissued share capital and to allot and grant rights over Ordinary Shares up to a maximum of 708,554,862 shares without first making a pro rata offer to all existing ordinary shareholders. That authority is due to expire on 18 May 2023.

Substantial shareholdings
On 6 April 2022, 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*	306,962,131	44.51%
China Nonferrous Metals Int'l Mining Co. Ltd	22,469,289	3.26%

* Martin Andersson, the Company's executive chair, is the ultimate controlling party of Labro Investments Limited ("Labro"). He is also personally beneficially interested in 6,969,592 Ordinary Shares, representing 1.01% of the Company's issued share capital. Mr Andersson's interests combined with Labro's total 45.52%.

Shares not in public hands
So far as the Company is aware, the percentage of the Company's issued share capital that is not in public hands for the purposes of the AIM Rules is 47.34%.

Distribution of shares

Range	Total number of registered holders	Percentage of registered holders	Total number of shares	Percentage of issued share capital
1 to 1,000	20	7.30%	13,579	0.00%
1,001 to 10,000	73	26.64%	353,219	0.05%
10,001 to 100,000	73	26.64%	2,779,246	0.40%
100,001 to 1,000,000	57	20.80%	21,524,675	3.12%
1,000,001 to 10,000,000	37	13.50%	100,388,458	14.56%
10,000,001 to 50,000,000	13	4.75%	230,777,960	33.46%
50,000,001 to 500,000,000	1	0.37%	333,830,951	48.41%
Totals	**274**	**100%**	**689,668,088**	**100%**

Financial risk management objectives and policies
The Group's exposure to financial risks and its policies in relation to the use of financial instruments are explained in note 34 to the financial statements.

Going concern
Details of the Group's status as a going concern are set out in note 2 to the financial statements.

Articles of association
The Company's articles of association can be found on our website at www.chaarat.com. They may only be amended by a special resolution at a general meeting of shareholders.

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.

Appointment of auditor
On 22 October 2021, the Board appointed Deloitte LLP to conduct the audit of the Company's consolidated financial statements for the financial year to 31 December 2021. Deloitte has expressed its willingness to continue in office as the Group's auditor and, accordingly resolutions to reappoint it and to authorise the audit committee, for an on behalf of the directors, to determine its remuneration will be proposed at the forthcoming annual general meeting.

Annual general meeting
The Company's annual general meeting ("AGM") will be held at 10:00am BST on Tuesday, 17 May 2022 at the offices of Watson Farley & Williams LLP, 15 Appold Street, London EC2A 2HB, United Kingdom. The notice of AGM (the "Notice") is available on the Company's website. The Notice specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes will be counted and the numbers for, against of withheld in relation to each resolution will be announced at the AGM and published on the Company's website.

By Order of the Board

Frances Robinson
Company Secretary

6 April 2022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FINANCIAL STATEMENTS

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 United Kingdom 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.

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

Report on the audit of the financial statements

1. OPINION

In our opinion the financial statements of Chaarat Gold Holdings Limited (the "Parent Company") and its subsidiaries (the "Group"):
- give a true and fair view of the state of the Group's affairs as at 31 December 2021 and of its loss for the year then ended; and
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

We have audited the financial statements 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;
- the statement of accounting policies; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

2. 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 Financial Reporting Council's (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.

3. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 in the financial statements, which indicates that the Group's ability to continue as a going concern is dependent on it refinancing its forecast US$28.8 million of convertible loan notes, to the extent they are not converted to equity, before they fall due on 31 October 2022 and securing additional funding to proceed with the development of assets in Kyrgyz Republic. 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.

As stated in note 2, these events or conditions, along with the other matters as set forth 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.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:
- Obtaining an understanding of management's processes and key controls for evaluating the appropriateness of the use of the going concern basis of accounting;
- Obtaining management's cash flows forecasts for a period of at least 12 months from the date of expected approval of the financial statements and comparing these forecasts to the Board approved budget and life of mine plan;
- Obtaining an understanding of management's proposed financing strategies and historical track record of fund raising;
- Testing the mechanical accuracy of the cash forecast model, including forecast covenant compliance;
- Challenging the key assumptions used in management's base case model, in particular the forecast production and cost through comparison to historical actuals, budgets and the life of mine plan, and the commodity price assumptions to third party forecasts and publicly available forward curves;
- Challenging the adequacy of management's downside scenarios in the context of the Group's risks, including COVID-19 and any potential impacts of the war in Ukraine and related sanctions;
- Assessing the combined sensitivity which considered the aggregate impact of a depressed commodity prices, reduced production, and certain accelerated financing outflows and delayed receipts; and
- Considering whether the disclosures relating to going concern are appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Report on the audit of the financial statements

4. SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: • Going concern; • Accounting for provisions for environmental obligations; and • Carrying value of production assets
Materiality	The materiality that we used for the Group financial statements was $1,000,000 which was determined on the basis of 0.60% of total assets.
Scoping	We structured our approach to the audit to reflect how the Group is organised. The Group is primarily comprised of the production of copper and zinc concentrate (containing gold and silver) from a deposit located in Armenia (through the entity Chaarat Kapan CJSC) and exploration of gold deposits located in the Kyrgyz Republic (through the entity Chaarat Zaav CJSC). We identified three components subject to full-scope audit procedures, being Chaarat Kapan CJSC, Chaarat Zaav CJSC and the Parent Company which contribute 100% of revenue and 98% of net assets. The remaining components were subject to analytical review procedures.
Significant changes in our approach	This is the first year we have been appointed as auditors to the Group. Following our transitional procedures we determined key audit matters that differ from the predecessor's with the addition of Provisions for environmental obligations given the increase in the period, whilst Accounting for modifications of other borrowings is no longer considered a key audit matter in the current year as there were fewer modifications. The predecessor's key audit matter for the Carrying value of mining assets has been focused on the Carrying value of the Kapan production assets as management did not identify any impairment indicators on the exploration assets.

Report on the audit of the financial statements

5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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) that we identified. These matters included 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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. Accounting for provisions for environmental obligations

Key audit matter description	Refer to pages 49 to 52 (Audit Committee Report), Note 3 (accounting policy and Key Source of Estimation Uncertainty disclosures) and Note 23 (financial disclosures). The Group has an obligation to undertake environmental restoration, rehabilitation and decommissioning activity as a result of the ongoing production of the Kapan mining operations in Armenia. At 31 December 2021, the provisions for rehabilitation recognised by the Group totalled US$10.5m (2020: US$7.5m). Using their own expert, management has updated its provision in line with a third party technical study. Managements key assumptions include estimates for closure costs, inflation and the discount rate used. The size of the balance, level of management judgement and audit effort involved in assessing the provision for environmental obligations means we consider this to be a key audit matter.
How the scope of our audit responded to the key audit matter	To address the key audit matter our procedures included: • Obtaining an understanding of management’s processes and relevant controls for determining the provision for environmental obligations; • Reviewing the report produced by management’s expert and conducted direct inquiries of the expert in order to understand and challenge the key judgements made and the consistency of preparation with the Group’s statement that it follows international good practice requirements; • Evaluating the scope of work of management’s expert and considering their competence, capabilities and objectivity; • Testing the mechanical accuracy of management’s calculations and evaluating the key assumptions used, including inflation and discount rates for reasonableness and consistency with third-party data; • Performing detail testing over specific cost estimates deemed to have the most material impact on the valuation to evaluate the accuracy of the cost estimate by agreeing to current construction costs; • Evaluating the appropriateness of the assumed cash flow timings, including internal consistency with the reserves and resources reporting and the life of mine valuation assumptions; and • Considering whether the disclosures are appropriate.
Key observations	We are satisfied the provision for environmental obligations is within the reasonable range, noting that construction works and technical studies are ongoing, which could cause the estimate to be revised in future periods with quantified sensitivities included on page 89.

Report on the audit of the financial statements

5. KEY AUDIT MATTERS (CONTINUED)

5.2. Carrying value of the Kapan production assets

Key audit matter description	Refer to pages 49 to 52 (Audit Committee Report), Note 3 (accounting policy and Key Source of Estimation Uncertainty disclosures) and Note 17 (financial disclosures). At 31 December 2021, the Group's Kapan cash generating unit, comprising primarily of production assets, had a carrying value of US\$35.7m (2020: US\$30.6m). During the year the Group commissioned a third-party expert to prepare an updated reserves report. The reserves were lower than the previous 2019 report less subsequent depletion. The statement of resources prepared by the Group's internal competent person also showed a reduction as the reporting is now prepared on a more appropriate constrained basis. Based on the forecast commodity price outlook, the operations exceeding their production guidance in 2021 and the relatively short payback period implied in management's life of mine planning and valuation model, management concluded no impairment indicators existed. We also considered there to be a potential fraud risk that the assumptions, such as forecast production, commodity pricing and discount rates applied to the impairment indicator assessment could be subject to conscious or unconscious bias. The size of the balance, the importance and technical nature of the reserves and resource reporting and the resource to reserves conversion assumptions used to forecast production, and audit effort involved in assessing the carrying value of these assets meant we consider this to be a key audit matter.
How the scope of our audit responded to the key audit matter	The procedures we performed include the following: • Obtaining an understanding of management's processes and relevant controls for assessing indicators of impairment of the Kapan cash generating unit; • Reviewing the third party expert's reserves report and together with the assistance of our internal mining industry specialists challenging the report and the Group's senior technical leadership in order to evaluate the report and the key underlying judgements; • Sensitising and stress testing management's life of mine valuation model with the assistance of our internal mining industry specialists to determine the level of headroom implied using consensus analyst pricing, a discount rate and annual production levels and mine life; • Challenging management and independently assessing whether, within the currently assumed relatively short life of mine for Kapan, there were any physical climate change risks and transition risks that could potentially impact the recoverable value of the assets; • Evaluating the scope of work of management's expert and considering their competence, capabilities and objectivity; • Agreeing the carrying value to underlying records and checking the internal consistency and mechanical accuracy of management's life of mine valuation model; and • Considering whether the disclosures are appropriate.
Key observations	We concur with management that no impairment indicators exist and consider the carrying value of the Kapan production assets at 31 December 2021 to be appropriate.

Report on the audit of the financial statements

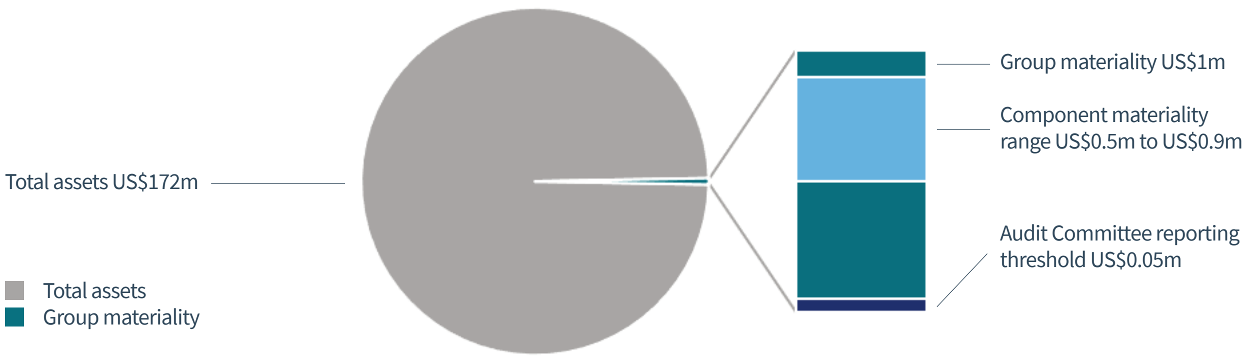
6. OUR APPLICATION OF MATERIALITY

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	US$1,000,000 (2020: US$1,000,000)
Basis for determining materiality	The materiality that we used for the Group financial statements was determined on the basis of total assets and represents approximately 0.6% of that metric.
Rationale for the benchmark applied	Total assets was considered to be the most relevant benchmark as it is considered to the most stable and comparable metric given the volatility of earnings and the scale of assets not yet in production. We consider the measure suitable and have also considered other relevant benchmarks of net assets, revenue and EBITDA, where our materiality equates to 1.3%, 1.1% and 7.4% respectively.
Component materiality	The work performed on components identified in our Group audit scope was completed to a component materiality level between US$500,000 and US$900,000.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit. In determining performance materiality, we considered the following factors:

- the quantum and nature of the uncorrected misstatements identified in the prior year by the predecessor auditor;
- our assessment for the potential of uncorrected misstatements in the current year;
- the size and nature of the risks of material misstatement identified; and
- the heightened uncertainty of forecasting and maintaining the control environment in a COVID-19 environment.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$50,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

Report on the audit of the financial statements

7. AN OVERVIEW OF SCOPE OF OUR AUDIT

7.1. Scoping
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls. This exercise has considered the relative size of each subsidiary's contribution to total assets, net assets, revenue and EBITDA.

The Group is primarily comprised of the production of copper and zinc concentrate (containing gold and silver) from a deposit located in Armenia (through the entity Chaarat Kapan CJSC) and exploration of gold deposits located in the Kyrgyz Republic (through the entity Chaarat Zaav CJSC).

We identified three components subject to full-scope audit procedures, being Chaarat Kapan CJSC, Chaarat Zaav CJSC and the Parent Company which contribute 100% of revenue and 98% of net assets. The remaining components were subject to analytical review procedures.

7.2. Working with other auditors
The audit of Chaarat Kapan CJSC was performed by the Deloitte member firm in Armenia and the audits of the remaining components were performed by the Group team.

Our oversight of component auditors in Armenia focused on the planning of their audit work and understanding of their risk assessment process to identify key areas of estimates and judgement, as well as the execution of their audit work.

We issued detailed instructions to the component auditors, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files and held regular remote communication to interact on any related audit and accounting matters which arose. We mitigated our inability to visit the overseas component due to COVID-19 travel restrictions through increased remote communication and remote review of audit working papers.

In addition to the work performed at a component level, at Group level we have audited the consolidation process and carried out analytical procedures over the residual financial information of the remaining components not subject to full-scope audit or audit of specified account balances.

7.3. Our consideration of the control environment
We obtained an understanding of the internal controls relevant to our audit. We used our understanding of the internal controls over key management estimates in performing our risk assessment procedures.

7.4. Our consideration of climate-related risks
In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements. We held discussions with management to understand the Group's process for identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements.

The Group does not mine or extract hydrocarbons such as coal, natural gas or oil but it does emit greenhouse gases directly from, for example, energy used in its mining operations, the processing of metals and minerals, and the transportation of its products.

Climate change impacts the long-term outlook of aspects of the mining industry, especially given greenhouse gas intensity in the use of certain of the industry's products (measured under Scope 3 emissions).

As a BVI registered, AIM listed company, Chaarat Gold Holdings Limited is outside the scope of mandatory climate reporting. Further information on Climate Change is provided within Environmental, Social, and Governance section on pages 14 to 15.

The Group has stated on page 15 that further work will be undertaken in 2022 to better define the physical and transition risks to the Group from climate change.

Recognising the relatively short life of mine being assumed for Kapan, and as management's experts have not highlighted any specific physical climate risks, such as limited water availability, we have not identified any climate-related risks that would constitute impairment indicators.

Report on the audit of the financial statements

8. OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

9. 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.

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on the audit of the financial statements

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, the control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team, including the significant component and relevant internal specialists, including tax and mining, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the risk of facilitation, related party or other inappropriate payments; and manipulation of key management estimates including the Group's forecasts for Going concern. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the applicable laws and regulations in relation to mining, environmental closure provisioning, and tax legislation prevailing in each country in which we identified a full-scope component.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included local employment laws and the UK Bribery Act and the terms of Group's operating licences.

Report on the audit of the financial statements

11.2. Audit response to risks identified

As a result of performing the above, we identified Going concern and Accounting for provisions for environmental obligations as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Given the jurisdictions and sectors it operates in, we identified a fraud risk that the Group could be making inappropriate payments, such as facilitation payments to governmental individuals to secure licences, permits or taxation authority outcomes; payments to sanctioned parties or related party transactions.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- obtaining an understanding of the Group's compliance policies and training, and the whistle-blowing reporting;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with relevant regulatory and taxation authorities, where applicable;
- obtaining an understanding of the Group's business relationships with suppliers, governments and any agents and intermediaries;
- scrutinising higher risk expense accounts for evidence of improper payments;
- checking for undisclosed related party transactions by researching the ultimate beneficial ownership of any significant new suppliers or other counter-party relationships in the year;
- performing audit procedures to identify and investigate potentially inappropriate payments by means of adding search parameters to our journal entry testing for key words relevant to potential fraudulent payments; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

12. USE OF OUR REPORT

This report is made solely to the Parent Company's members, as a body, in accordance with our engagement letter dated 30 September 2021 and solely for the purpose of compliance with the Alternative Investment Market Listing Rules. 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.

Deloitte LLP

Christopher Thomas FCA
For and on behalf of Deloitte LLP
Statutory auditor
London, United Kingdom

6 April 2022

Consolidated Income Statement
For the Year Ended 31 December 2021

	Note	**2021 US$'000**	2020 US$'000
Revenue	4	**92,434**	75,994
Cost of sales	5	**(69,258)**	(55,286)
Gross profit		**23,176**	20,708
Selling expenses	7	**(2,444)**	(1,864)
Administrative expenses	8	**(12,966)**	(16,970)
Other income		**22**	21
Operating profit	6	**7,788**	1,895
Finance income		**23**	19
Finance costs	12	**(7,896)**	(21,432)
Fair value gain on warrant	30	**434**	595
Profit/(loss) before tax for the year		**349**	(18,923)
Income tax charge	13	**(3,937)**	(3,520)
Loss for the year		**(3,588)**	(22,443)
Loss per share (basic and diluted) – US$ cents	14	**(0.53)**	(4.40)

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2021

	2021 US$'000	2020 US$'000
Loss for the year, attributable to equity shareholders of the parent	**(3,588)**	(22,443)
Items which have been reclassified to the income statement		
Exchange differences on translating foreign operations disposed of during the year	**-**	73
Items which may subsequently be reclassified to the income statement		
Exchange differences on translating foreign operations and investments	**849**	(480)
Other comprehensive income/(loss) for the year, net of tax	**849**	(407)
Total comprehensive loss for the year attributable to equity shareholders of the parent	**(2,739)**	(28,850)

The accompanying notes are an essential part of these financial statements.

Consolidated Balance Sheet
As at 31 December 2021

	Note	2021 US$'000	2020 US$'000
Assets			
Non-current assets			
Exploration and evaluation costs	15	**66,305**	61,359
Other intangible assets	16	**1,213**	1,221
Property, plant and equipment	17	**47,306**	40,538
Prepayments for non-current assets		**530**	563
Deferred income tax assets	18	**4,381**	5,631
Total non – current assets		**119,735**	109,312
Current assets			
Inventories	19	**18,442**	12,251
Trade and other receivables	20	**22,247**	6,646
Cash and cash equivalents	21	**11,134**	6,928
Total current assets		**51,823**	25,825
Total assets		**171,558**	135,137
Equity and liabilities			
Equity attributable to shareholders			
Share capital	22(b)	**6,894**	5,401
Share premium		**242,695**	191,594
Own shares reserve	22(e)	**(132)**	(216)
Convertible loan note reserve	22(d)	**1,420**	2,493
Merger reserve		**10,885**	10,885
Share option reserve	22(c)	**11,383**	14,103
Translation reserve		**(14,433)**	(15,282)
Accumulated losses		**(181,836)**	(184,527)
Total equity		**76,876**	24,451
Liabilities			
Non-current liabilities			
Provision for environmental obligations	23	**10,521**	7,479
Lease liabilities	28	**732**	771
Other loans	29	**9,688**	21,947
Total non-current liabilities		**20,941**	30,197
Current liabilities			
Trade and other payables	27	**30,717**	17,400
Contract liabilities	26	**2,379**	5,328
Lease liabilities	28	**246**	654
Other loans	29	**11,640**	31,400
Warrant financial liability	30	**380**	814
Convertible loan notes	25	**25,625**	23,252
Other provisions for liabilities and charges	31	**2,754**	1,641
Total current liabilities		**73,741**	80,489
Total liabilities		**94,682**	110,686
Total liabilities and equity		**171,558**	135,137

The financial statements were approved and authorised for issue by the Board of Directors on 6 April 2022.

Mike Fraser
Chief Executive Officer

David Mackenzie
Interim Chief Financial Officer

The accompanying notes are an essential part of these financial statements.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

	Note	Share Capital US$'000	Share Premium US$'000	Own Shares Reserve US$'000	Convertible Loan Note Reserve US$'000	Merger Reserve US$'000	Share Option Reserve US$'000	Shares To Be Issued US$'000	Translation Reserve US$'000	Accumulated Losses US$'000	Total US$'000
As at 1 January 2020		**4,688**	**168,616**	**(216)**	**2,493**	**10,885**	**10,624**	**217**	**(14,875)**	**(162,253)**	**20,179**
Loss for the year		-	-	-	-	-	-	-	-	(22,443)	(22,443)
Translation losses for the year		-	-	-	-	-	-	-	(407)	-	(407)
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(407)**	**(22,443)**	**(22,850)**
Share options lapsed		-	-	-	-	-	(159)	-	-	159	-
Share options expense		-	-	-	-	-	3,612	-	-	-	3,612
Share options exercised		1	21	-	-	-	(10)	-	-	10	22
Share scheme modification		-	-	-	-	-	36	-	-	-	36
Issuance of shares for cash		191	6,041	-	-	-	-	-	-	-	6,232
Issuance of shares for settlement of liabilities		513	16,707	-	-	-	-	-	-	-	17,220
Issuance of shares for exercised warrants		8	209	-	-	-	-	(217)	-	-	-
As at 31 December 2020		**5,401**	**191,594**	**(216)**	**2,493**	**10,885**	**14,103**	**-**	**(15,282)**	**(184,527)**	**24,451**
Loss for the year		-	-	-	-	-	-	-	-	(3,588)	(3,588)
Translation gains for the year		-	-	-	-	-	-	-	849	-	849
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**849**	**(3,588)**	**(2,739)**
Share options lapsed	22(c)	-	-	-	-	-	(715)	-	-	715	-
Share-based payment charge	6	-	-	-	-	-	1,251	-	-	-	1,251
Issuance of shares for cash	22(b)	841	28,711	-	-	-	-	-	-	-	29,552
Issuance of shares for settlement of liabilities	22(b)	652	22,390	-	-	-	-	-	-	(101)	22,941
Transfer of treasury shares	22(e)	-	-	84	-	-	(3,256)	-	-	3,172	-
Modification of convertible loan notes	22(d)	-	-	-	(1,073)	-	-	-	-	2,493	1,420
As at 31 December 2021		**6,894**	**242,695**	**(132)**	**1,420**	**10,885**	**11,383**	**-**	**(14,433)**	**(181,836)**	**76,876**

Consolidated Cash Flow Statement
For the Year Ended 31 December 2021

	Note	2021 US$'000	2020 US$'000
Cash flows from operating activities			
Operating profit		**7,788**	1,895
Depreciation and amortisation	6	**7,115**	5,959
Loss on disposal of property, plant and equipment	6	**4**	66
Non-cash expenses	20	**87**	335
Gain on disposal of subsidiary		**-**	(7)
Change in provisions	31	**75**	(897)
Unrealised foreign exchange (gains)/losses	6	**(1,475)**	2,456
Share-based payments	6	**1,251**	3,612
Increase in inventories		**(6,507)**	(3,263)
(Increase)/decrease in trade and other receivables		**(15,915)**	2,330
Increase/(decrease) in trade and other payables		**15,920**	(1,682)
(Decrease)/Increase in contract liabilities	26	**(3,250)**	5,334
Cash generated in operations		**5,093**	16,138
Income taxes paid		**(1,806)**	(205)
Net cash generated in operations		**3,287**	15,933
Investing activities			
Purchase of property, plant & equipment	17	**(9,117)**	(7,417)
Purchase of intangible assets	16	**(152)**	(155)
Exploration and evaluation costs	15	**(6,212)**	(4,389)
Proceeds from sale of property, plant & equipment		**1**	51
Disposal of subsidiary		**-**	(5)
Interest received		**17**	19
Net cash used in investing activities		**(15,463)**	(11,896)
Financing activities			
Proceeds from issue of share capital	22	**29,983**	6,255
Share issue costs paid		**(431)**	-
Repayments of principal portion of lease liabilities	28	**(674)**	(573)
Finance costs paid for modifications of other loans	24	**(104)**	(686)
Repayments of principal amount of loan	29	**(9,800)**	(8,000)
Payments of interest	29	**(2,295)**	(3,185)
Proceeds from loans	29	**-**	5,300
Net cash from/(used in) financing activities		**16,679**	(889)
Net change in cash and cash equivalents		**4,503**	3,148
Cash and cash equivalents at beginning of the year		**6,928**	3,585
Effect of changes in foreign exchange rates		**(297)**	195
Cash and cash equivalents at end of the year	21	**11,134**	6,928

Notes to the Consolidated 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 Company's shares are admitted to trading on the Alternative Investment Market of the London Stock Exchange (AIM:CGH).

The registered address of the Company is: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110.

As at 31 December 2021 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	England and Wales	Services company
Chaarat Kapan CJSC*	Armenia	Production company

* Companies owned indirectly by the Company.

2. GOING CONCERN

As at 31 March 2022 the Group had approximately US$6.6 million of cash and cash equivalents and US$45.1 million of debt (excluding lease liabilities, contract liabilities and warrants) comprising the following:
- US$26.5 million convertible loan notes including accrued interest to 31 March 2022 (Note 25)
- US$18.6 million other loans outstanding, including accrued interest to 31 March 2022 (Note 29)

Kyrgyz Republic
In order to achieve the planned (though as yet uncommitted) capital developments of assets in the Kyrgyz Republic, future financing will need to be raised.

Kapan
The Board has based the cash flow forecasts for Kapan on the most recent budgets which show that Kapan is expected to generate sufficient revenue to cover its operating costs and principal and interest payments and meet its covenants. Based on current forecasts, covenants will be met, however, performance of Kapan is sensitive to commodity prices and production.

Convertible Loan Notes
By 31 October 2022, the convertible loan notes are due to be redeemed by conversion into equity at approximately £0.30 per ordinary share, at the holder's option, or will be repaid in cash for a total of US$28.8 million (which includes accrued interest).

Conclusion (including material uncertainty)
The convertible loan notes will need to be refinanced with cash or alternative funding, to the extent that loan note holders do not choose to convert to equity, prior to 31 October 2022. To proceed with the development in Kyrgyz Republic further financing will also be required.

Notwithstanding the above, the directors consider there is a reasonable expectation that sufficient funding will be raised and therefore have continued to adopt the 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, 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. Should the project funding not be available for the Kyrgyz Republic development projects there may be a material impairment of the US$78 million carrying value of the related assets. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

3. 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 consolidated financial information has been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and on a historical cost basis.

New standards, interpretations and amendments adopted by the Group

Adoption of new and revised Standards
In the current year, the Company has adopted all new and revised IFRS standards that became effective as of 1 January 2021, the changes being:
(i) Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) The amendments introduce a practical expedient for modifications required by the reform, provide an exception that hedge accounting is not discontinued solely because of the IBOR reform, and introduces disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBOR's to alternative benchmark rates, and how the entity is managing this transition;
(ii) Amendments to IFRS 4 Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9; and
(iii) Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021.

These amendments did not have a material impact on the Company. It is expected that where applicable, these standards and amendments will be adopted on each respective effective date.

Revised standards not yet effective
At the date of the authorisation of these consolidated financial statements, the following revised IFRS standards, which are applicable to the Company, were issued but not yet effective:
(i) Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) – effective for year ends beginning on or after 1 January 2022

The amendments specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The Company will apply the amendments to contracts for which the Company has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives will not be restated.

(ii) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) – effective for year ends beginning on or after 1 January 2023

The amendments specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations, and clarify that the initial recognition exception does not apply to transactions where both an asset and a liability are recognised in a single transaction. Accordingly, deferred tax is required to be recognised on such transactions.

(iii) Definition of Accounting Estimates (Amendments to IAS 8) – effective for year ends beginning on or after 1 January 2023

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies.

(iv) Materiality of Accounting Policy Disclosure (Amendments to IAS 1) – effective for year ends beginning on or after 1 January 2023

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies. No significant changes to presentation or disclosures within these financial statements are expected following the adoption of these amendments.

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 the Group loses control of a subsidiary, the gain or loss on disposal recognised in the income statement is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests.

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.

3. ACCOUNTING POLICIES (CONTINUED)

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.

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 as well as ore purchased from third parties 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 on a Cost, Insurance and Freight “CIF” basis meaning that control passes to the buyer when the concentrate is loaded on the vessel in the port of shipment (e.g., port of Poti, Georgia) or on the Ex Works basis meaning that control passes to the buyer at the point the concentrate is loaded on the truck at the Kapan mine. In respect of freight revenues, these are recognised over time.

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 loaded on the truck at the Kapan mine or the vessels at the specified port the provisional invoice is issued based on the estimates of the amount of consideration.

Sales are based on provisional 1-3 month commodity forward prices on the London Metal Exchange (LME) and as such, contain an embedded derivative which is marked-to-market at each month end using the forward price for the month of price finalisation. The estimated transaction price is updated for the quotational period (usually one or three months) and any changes in the estimates of the metal content. The change is recognised as an increase in 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 at that date and final adjustments for weighting, sampling, or moisture determination changes.

3. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Third-party revenue

In addition to own concentrates, the Group also processes third party ore into concentrate and sells it to customers. The revenue from these sales is recognised in accordance with the revenue recognition principles above.

Advance payments from customers

The Group receives advance payments from its customers which represent prepayments for the future transfer of concentrate. These are either classified as contract liabilities or financial liabilities under IFRS 15 and IFRS 9, respectively, depending on the terms of the customer agreements and how the prepayments are settled. If settled in cash, they are classified as financial liabilities and if offset against final invoices, they are classified as contract liabilities. The contract liabilities are unwound, and revenue is recognised when shipments take place and control passes to the customers. The advance payments accrue interest which is separately recognised from revenue in the Consolidated Income Statement.

Royalties

Under 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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants are presented as "other income" in the Statement of Comprehensive Income and cash inflows from operating activities in the Statement of Cash Flows.

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 2021 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 18% in Armenia, 19% in the United Kingdom and 12.5% in Cyprus (Note 13). 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.

3. ACCOUNTING POLICIES (CONTINUED)

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.

3. ACCOUNTING POLICIES (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 ready for use 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 ("CGU"). Indicators of impairment include:

- 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;
- substantive expenditure on further exploration of mineral resources in the specific area is nether budgeted nor planned;
- 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; and
- 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 ("CGU") 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 ("DCF") method 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 CGU) 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.

3. ACCOUNTING POLICIES (CONTINUED)

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 qualify for an exemption under IFRS 16 which the Group has applied. For these leases, the Group recognises the lease 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.

When the Group revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. Any gain or loss relating to the partial or full termination of any lease is recognised in profit or loss.

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 and work in progress are determined on the first-in-first-out (FIFO) method. The cost comprises raw material, direct labour, other direct costs, and related production overheads (based on normal operating capacity), 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.

The Company's policy is to write-down to nil the items that have not been utilised for more than two years. This is done on a quarterly basis.

Inventory items used in the production process are recognised as cost of sales when the related sale of concentrate takes place. This includes the cost of purchased ore and consumables and spare parts.

Cost of purchased ore
The Group purchases ore from third parties which is processed and sold to Kapan's customers. The amount expensed in cost of sales is equal to the price paid to third parties in line with the purchase agreements.

Cost of purchased concentrate
The Group processes third party ore into concentrate and then purchases the concentrate to sell to Kapan's customers. The substance and accounting for these transactions is that of an ore purchase agreement with the amount expensed in cost of sales equal to the price paid to third parties in line with the purchase agreements, which is net of a processing fee charged by Kapan.

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.

3. **ACCOUNTING POLICIES** (CONTINUED)

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 transactions costs directly related to the share issue.
- "Own shares reserve" represents the nominal value of equity shares that have been repurchased by the company.
- "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 the Company 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.
- "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.

Functional and presentational 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$) as the current exploration and evaluation expenditure is currently primarily in USD. The functional currency of 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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period where these approximate the rates at the dates of the transactions. Any exchange differences arising are classified within the statement of comprehensive income and transferred to the Group's cumulative translation adjustment reserve. Cumulative translation differences are recycled from equity and recognised as income or expense on disposal of the operation to which they relate.

3. ACCOUNTING POLICIES (CONTINUED)

Share-based payments
The Company operates equity-settled share-based remuneration plans for directors and some 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 and through settlement of the issue of new shares, 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.

In certain instances, the Company issues shares to satisfy outstanding financial liabilities. The measurement of these equity-settled share-based payment transactions is outlined below. Shares are also issued to satisfy obligations under warrant agreements whereby the estimated fair value of the warrants issued is measured by use of the Black Scholes model as detailed in Note 30.

The Company operates an Employee Benefit Trust ("the 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
When equity instruments are issued to extinguish all or part of a financial liability, the Group measures them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, is recognised in profit or loss. The equity instruments are recognised initially and measured at the date the financial liability (or part of that liability) is extinguished. This does not include transactions with a creditor who is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect shareholder, in accordance with IFRIC 19.

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.

3. ACCOUNTING POLICIES (CONTINUED)

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 receivables. 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.

Financial liabilities

The Group's financial liabilities consist of financial liabilities measured subsequently at amortised cost using the effective interest rate method (including trade payables, other loans, and borrowings) and financial liabilities at fair value through profit or loss.

3. ACCOUNTING POLICIES (CONTINUED)

Warrant financial liability
The Group's warrant financial liability relates to warrants to purchase ordinary shares. The warrants are recognised initially at their fair value using the Black-Scholes model and subsequently remeasured at each reporting date with the corresponding fair value gains or losses recognised through profit or loss.

Convertible loan notes
The 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.

The modification of a standard loan is considered substantial where a conversion option is included. Upon modification, the original liability is extinguished, new liability and equity components are recognised at the fair values with a difference attributed to profit or loss.

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. When conversion option is not exercised, the equity element is transferred to accumulated losses.

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 is 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. Part of the assessment includes consideration whether the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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.

Contingent liability
Contingent liabilities are recognised when the Group has a probable obligation that may arise from an event that has not yet occurred. A contingent liability which is not probable 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 environmental obligations
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 decommissioning 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 costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses. 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. 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.

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 are the critical accounting judgements (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 have the most significant effect on the amounts recognized in the financial statements.

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 2021, the capitalised costs of the exploration and evaluation assets amounted to US$66.3 million, details of which are set out in Note 15.

The assets relate to the Chaarat Gold Project in the Kyrgyz Republic, 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 2021, management does not consider there to be any indications of impairment in respect of the assets included in the Chaarat Gold Project CGU. Management has budgeted the costs for further development of these assets however their recoverability is dependent on future funding.

As set out in the Going concern conclusion per Note 2, a material uncertainty exists in relation to the Group's ability to obtain the additional funding needed to develop the Kyrgyz Republic development projects as 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. Should that funding not be available there would be an indication of impairment which could result in a material provision against the carrying value of the related exploration and evaluation assets and assets under construction.

3. ACCOUNTING POLICIES (CONTINUED)

Costs capitalised to exploration and evaluation assets
The costs capitalised to exploration and evaluation assets in 2021 was US$5.7 million (2020: US$6.3 million). Judgement is applied in the determination of the type of costs that are capitalised to exploration and evaluation assets as described in the accounting policy note above. Payroll costs that are directly attributable to exploration and evaluation related activities are capitalised.

Costs capitalised to property, plant and equipment (mining properties)
The costs capitalised to mining properties in 2021 was US$7.9 million (2020: US$5.9 million). Judgement is applied in the determination of the type of costs that are capitalised to mining properties as described in the accounting policy note above.

Functional currency of Kapan
The functional currency of the subsidiary located and operating in Armenia is the Armenian Dram (AMD), as this is the currency of the primary economic environment in which it operates.

Treatment of royalty expense
Royalties paid in Armenia of US$5.7 million (2020: US$6.5 million) are included in cost of sales as they are calculated on the basis of revenue earned from the supply of concentrates. As the royalties expense is not a charge on profit or loss before tax, management does not consider it to be an income tax expense within the scope of IAS 12 Income Taxes. Whilst the royalty rate is applied to revenue, the formula to determine this rate can be split into two components, a base amount applied to revenue, and a further amount based on the level of profit in the period. In these circumstances, an accounting policy choice is required to determine whether the entire amount will be classified as a royalty expense, or a component separately recognised as an income tax expense within the scope of IAS 12. If the Group had elected to recognise a component of this royalty within the scope of IAS 12, the royalty expense would have been reduced and EBITDA for the year would have been increased by US$2.5 million (2020: US$3.1 million) with a corresponding increase in the income tax charge, and the deferred tax asset recognized at 31 December 2021 would have increased by US$1.3 million (2020: US$1.5 million).

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Accounting for the concentrate purchase agreement
In 2021 the Group entered into a new contractual arrangement under which third party ore has been received, processed, purchased and sold to the customer.

The substance of this arrangement was considered to be an ore purchase agreement such that inventory recognition occurs from that point and the processing fee recoverable is deducted from the cost of the material purchased.

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 depreciation 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.

3. ACCOUNTING POLICIES (CONTINUED)

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. The carrying value of inventory at 31 December 2021 was US$16.2 million (2020: US$12.3 million) and the inventory write-down provision to net realisable value amounted to US$1.9 million as at 31 December 2021 (2020: US$0.8 million), relating mainly to consumables and spare parts.

Provision for environmental obligations

A provision for the costs to restore working areas on the Kapan mine, including decommissioning of plant and securing of the tailings dam, requires estimates and assumptions to be made. These include estimates and assumptions around the relevant environmental and regulatory requirements, inflation, the magnitude of the possible disturbance and the timing, extent, and costs of the required decommissioning activities.

In calculating the provision, cost estimates of the future potential cash outflows based on current assessments of the expected decommissioning activities and timing thereof, are prepared. These forecasts are then discounted to their present value using a discount rate of 9.91% as disclosed in Note 23. The works and technical studies are continuing and as the actual future costs can differ from the estimates due to changes in regulations, technology, costs and timing, the provision including the estimates and assumptions contained therein are regularly reviewed by management. The current estimate reviewed by management is based on a new estimate completed in 2021. The provision at 31 December 2021 is US$10.5 million (2020: US$7.5 million). A 25% increase or decrease in the potential cash flows would increase or decrease the provision by US$2.6 million. The basis of the provision recognised is an assumed mine closure date of 2026 with rehabilitation being primarily completed in the subsequent year. An acceleration or deferral of this expenditure by one year would increase/decrease the provision by US$1 million.

Legal claim provisions

As disclosed in Note 31, legal claim provisions totalling US$2.8 million have been recognised as the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the disputes, a reliable estimate can be made of the amount of the obligation however there is uncertainty around the timing of payments to be made. US$0.8 million of the employment dispute provision is covered by an indemnity included in the original Kapan acquisition agreement. The directors consider recoverability virtually certain and accordingly have recognised a corresponding contingent asset within other receivables as shown within note 20.

4. REVENUE

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

	2021 US$'000	2020 US$'000
Copper concentrate	**77,134**	61,827
Zinc concentrate	**13,114**	14,167
Zinc concentrate freight	**2,186**	-
Total	**92,434**	75,994

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 which is marked-to-market at each month end.

The Group's sales are to internationally well-established commodity traders under standard offtake terms.

In 2021, Copper concentrate sales were made on an Ex Works basis meaning that control passes to the buyer when the concentrate is loaded on the truck at the Kapan mine. Zinc concentrate sales were made on a cost, insurance, and freight ("CIF") basis meaning that control passes to the buyer when the concentrate is loaded on the vessel in the port of shipment (e.g., port of Poti, Georgia).

In addition to the Group's own concentrates, it processes third party ore into concentrate and sells it to customers. Of the US$92.4 million generated from concentrate sales in 2021, US$72.8 million relates to own concentrate sales and US$19.6 million relates to third-party concentrate sales (2020: US$69.9 million and US$6.1 million).

In 2021, the Group has continued to recognise contract liabilities in relation to its contracts with customers for prepayments received for the future transfer of concentrates, as set out in Note 26.

5. COST OF SALES

	2021 US$'000	2020 US$'000
Depreciation and amortisation	**5,941**	4,851
Employee benefit expenses	**8,817**	9,467
Materials	**12,973**	10,183
Services	**14,616**	13,566
Royalties	**5,665**	6,473
Energy and fuel	**4,103**	4,169
Cost of purchased ore and concentrate*	**16,143**	5,451
Short-term lease charges	**951**	1,075
Other	**49**	51
Total	**69,258**	55,286

* In 2021, the Group started processing third party ore into concentrate for a fee. The Group purchases the processed concentrate and sells it to customers, resulting in third-party revenue, which is recognised in addition to own ore revenue, as disclosed in note 4. The amount expensed in cost of sales is equal to the price paid to the third party, which is net of the processing fee charged by the Group on the basis the substance of these arrangements is that of an ore purchase agreement. on the basis that the substance of these arrangements is that of an ore purchase agreement.

6. OPERATING PROFIT

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

	2021 US$'000	2020 US$'000
Depreciation of property, plant and equipment	**6,841**	5,693
Amortisation of intangible assets	**274**	266
Short-term/low value lease charges	**1,083**	1,219
Share based payment charges	**1,251**	3,612
Loss on the sale of fixed assets	**4**	66
(Gain)/loss on foreign exchange	**(1,475)**	2,456
Fees payable to Group auditors for the audit of the Group financial statements	**234**	162
Fees payable to associated firms of the auditor for the audit of subsidiaries	**83**	48
Change in legal provision	**75**	(29)
Change in provision for environmental obligations (income) – Note 23	**-**	(1,088)
Selling expenses	**2,444**	1,864
Loss on termination of lease	**-**	22

7. SELLING EXPENSES

Selling expenses consisted of the following:

	2021 US$'000	2020 US$'000
Transportation expenses	**1,099**	1,214
Sampling and inspection	**125**	125
Staff costs	**246**	233
Customs clearance	**675**	36
Utilities	**30**	28
Depreciation and amortisation	**6**	13
Material	**77**	180
Services	**27**	-
Other	**159**	35
Total	**2,444**	1,864

8. ADMINISTRATIVE EXPENSES

The administrative expenses consisted of the following:

	2021 US$'000	2020 US$'000
Readmission and acquisition costs	**242**	65
Legal and compliance	**422**	128
Regulatory	**359**	263
Investor relations	**363**	382
Salaries	**6,383**	6,274
Change in provision for environmental obligations (income) – Note 23	**-**	(1,088)
Corporate support	**3,787**	7,171
Travel and subsistence	**159**	163
Share-based payment charges	**1,251**	3,612
Total	**12,966**	16,970

Notes to the Consolidated Financial Statements
continued

9. 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")

31 December 2021	**Kyrgyz Republic US$'000**	**Armenia US$'000**	**Corporate US$'000**	**Total US$'000**
Revenue				
Sales to external customers	-	92,434	-	92,434
Total segment revenue	**-**	**92,434**	**-**	**92,434**
Operating profit/(loss)	(2,299)	17,448	(7,361)	7,788
Finance income	-	17	6	23
Finance costs	-	(3,043)	(4,853)	(7,896)
Fair value gain on warrant	-	-	434	434
Profit/(loss) before income tax	**(2,299)**	**14,422**	**(11,774)**	**349**
Income tax charge	-	(3,937)	-	(3,937)
Profit/(loss) after income tax	**(2,299)**	**10,485**	**(11,774)**	**(3,588)**
Assets				
Segment assets – non-current	78,562	41,173	-	119,735
Segment assets - current	277	43,797	7,749	51,823
Total assets	**78,839**	**84,970**	**7,749**	**171,558**
Liabilities				
Segment liabilities	2,253	65,753	26,675	94,682
Total liabilities	**2,253**	**65,753**	**26,675**	**94,682**

31 December 2020	Kyrgyz Republic US$'000	Armenia US$'000	Corporate US$'000	Total US$'000
Revenue				
Sales to external customers	-	75,994	-	75,994
Total segment revenue	-	75,994	-	75,994
Operating profit/(loss)	(2,277)	12,747	(8,575)	1,895
Finance income	-	19	-	19
Finance costs	-	(3,804)	(17,628)	(21,432)
Fair value gain on warrant	-	-	595	595
Loss before income tax	(2,277)	8,962	(25,608)	(18,923)
Income tax charge	-	(3,520)	-	(3,520)
Loss after income tax	(2,277)	5,442	(25,608)	(22,443)
Assets				
Segment assets – non-current	71,604	37,708	-	109,312
Segment assets - current	135	24,544	1,146	25,825
Total assets	71,739	62,252	1,146	135,137
Liabilities				
Segment liabilities	5,571	56,860	48,255	110,686
Total liabilities	5,571	56,860	48,255	110,686

10. STAFF NUMBERS AND COSTS

	2021 Number	2020 Number
Management and administration	**167**	169
Exploration and evaluation	**54**	45
Production and service	**948**	980
Total	**1,169**	1,194

The aggregate payroll costs of these persons were as follows:	US$'000	US$'000
Staff wages and salaries	**17,725**	17,032
Employee share-based payment charges	966	1,354
Directors' remuneration as detailed in the Remuneration Report		
Wages and salaries	**880**	1,097
Termination benefits	**575**	-
Share-based payment charges	**285**	2,258
Total	**20,431**	21,741

The share-based payment charges relate to the remaining fair value attributed to restricted stock units ("RSUs") granted under the Management Incentive Plan ("MIP") in 2019. The vesting of the tranche 3 RSUs took place in April 2021 following final determination by the remuneration committee of the extent to which performance criteria had been achieved, in the case of awards subject to performance conditions. Tranche 3 RSUs not subject to performance conditions vested at the same time.

The staff wages and salaries include amounts capitalised to exploration and evaluation assets of US$3.1 million (2020: US$2.2 million).

11. 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 32, 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	2021 US$'000	2020 US$'000
Salary and fees paid directly	**830**	1,041
Salary and fees paid via related party consultancy companies	**50**	56
Termination benefits	**575**	-
Share-based payment charges	**285**	2,258
Total	**1,740**	3,355

The share-based payment charge in 2021 relates to the fair value charge attributed to tranche 3 RSUs which vested in April 2021.

12. FINANCE COSTS

		2021 US$'000	2020 US$'000
Interest on convertible loan notes	25	**3,793**	3,258
Interest on other loans	29	**2,184**	5,763
Interest on lease liabilities	28	**128**	169
Interest on contract liabilities	26	**204**	102
Unwinding of discount – provision for environmental obligations	23	**705**	655
Financing costs	29	**867**	11,485
Other		**15**	-
Total		**7,896**	21,432

The interest on other loans of US$2.2 million includes interest on borrowings of US$1.9 million, interest on other borrowings of US$0.1 million and interest on the Labro Term Loan of US$0.2 million. The interest charge in the comparative year was higher as it included interest on the Investor Loan and the Labro Facility of US$2.6 million. Both of these loans were extinguished in 2021.

The financing costs of US$0.9 million, a non-cash cost, relates to the amortisation of the Labro Facility commitment fee as disclosed in Note 29. In 2020, the financing costs of US$11.5 million related to the refinance of the Investor Loan and the Labro Term Loan, which were expensed as part of the substantial modification of these loans.

13. 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 18%, 12.5% and 19%, respectively.

Within Armenia, the rate of corporate income tax is 18% for resident companies (with a worldwide tax base) for 2021. The tax period of corporate income tax is one calendar year (1 January – 31 December). Advance payments of corporate income tax are required to be made quarterly by the 20th day of the third month of each quarter. The advance payment is equal to 20% of the corporate income tax reported in the previous tax year. The balance of tax due must be paid by 20 April of the year following the reporting year. Corporate income 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 is payable on the sale of gold. In 2021, the fixed royalty percentage remained at 8%, comprising a royalty of 5% and a contribution to local infrastructure of 3% (2020: 5% and 3%). However, due to the Stabilisation Agreement that was signed in 2019 which entitled the Company's local subsidiary, Chaarat Zaav, to benefit from any future changes in direct taxes during the 10 years from the date of the agreement, the fixed royalty percentage is capped at 7%. 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%. However, as the Group's assets in the Kyrgyz Republic are at an exploration stage, the Group has no royalty payable in respect of these assets for the years ended 31 December 2021 or 31 December 2020.

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 this 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 18.

Analysis of tax charge for the year

	Notes	**2021 US$'000**	2020 US$'000
Armenian tax		**2,269**	1,979
Current tax		**2,269**	1,979
Origination and reversal of temporary differences		**1,668**	1,541
Deferred tax	18	**1,668**	1,541
Income tax expense		**3,937**	3,520

Reconciliation of tax charge for the year

	2021 US$'000	2020 US$'000
Profit/(loss) before tax	**349**	(18,923)
Tax calculated at applicable corporation tax rate:		
Armenian corporation tax at 18% (2020:18%)	**63**	3,406
Tax effects of:		
Items non-deductible/(non-taxable) for tax	**127**	(696)
Income eliminated on consolidation	**(566)**	(614)
Different tax rates applied in overseas jurisdictions	**(2,188)**	(4,468)
Current tax losses not recognised	**(345)**	(551)
Write-down of previously recognised deferred tax assets	**(1,028)**	(597)
Income tax expense	**(3,937)**	(3,520)

Tax losses

	2021 US$'000	2020 US$'000
Unused tax losses for which no deferred tax asset has been recognized		
United Kingdom	**278**	313
Tax benefit at 19%	**53**	59

Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which unused tax losses and unused tax credits can be utilised.

14. LOSS PER SHARE

Loss per share is calculated by reference to the loss for the year of US$3.6 million (2020: loss of US$22.4 million) and the weighted average number of ordinary shares in issue during the year of 673,320,329 (2020: 510,466,838).

At 31 December 2021, 8,920,341 (2020: 8,920,341) warrants, 49,692,252 (2020: 55,027,006) 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.

15. EXPLORATION AND EVALUATION COSTS

	Tulkubash US$'000	Kyzyltash US$'000	Total US$'000
At 1 January 2020	45,868	9,202	55,070
Additions	6,289	-	6,289
At 31 December 2020	**52,157**	**9,202**	**61,359**
Additions	4,775	899	5,674
Reclassification to property, plant & equipment	(728)	-	(728)
At 31 December 2021	**56,204**	**10,101**	**66,305**

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 3. As at 31 December 2021, management does not consider there to be any indicators of impairment in respect of these assets.

In 2021, the Company entered into a new investment agreement ("The Investment Agreement") with Çiftay which supersedes the previous agreement that was signed in September 2019. Çiftay and the Company decided to replace the previous agreement with the Investment Agreement, in order to simplify the structure of the partnership and further align the interests of both parties. Under the Investment Agreement, Chaarat retains 100% ownership of the Tulkubash and Kyzyltash projects with Çiftay becoming a strategic investor at the Company level, through the issuance of new ordinary shares. In July 2021, the Company issued 2.8 million new ordinary shares to Çiftay with a fair value of US$0.8 million in settlement of accrued expenses relating to Tulkubash construction activities. Further shares issues will only take place once certain terms of the agreement are triggered by securing project finance.

16. INTANGIBLE ASSETS

	Computer Software US$'000	Other intangible assets US$'000	Total US$'000
Cost			
At 1 January 2020	1,405	480	1,885
Additions	155	44	199
Disposals	-	(214)	(214)
Effect of translation to presentation currency	(109)	(29)	(138)
At 31 December 2020	**1,451**	**281**	**1,732**
Prior year reclassification from PPE	18	-	18
Additions	152	-	152
Reclass from PPE to IA	18	-	18
Effect of translation to presentation currency	120	26	146
At 31 December 2021	**1,741**	**307**	**2,048**
Accumulated amortisation			
At 1 January 2020	276	-	276
Charge for the year	245	21	266
Effect of translation to presentation currency	(30)	(1)	(31)
At 31 December 2020	**491**	**20**	**511**
Charge for the year	246	28	274
Effect of translation to presentation currency	45	5	50
At 31 December 2021	**782**	**53**	**835**
Net book value			
At 31 December 2021	**959**	**254**	**1,213**
At 31 December 2020	960	261	1,221
At 1 January 2020	1,129	480	1,609

17. 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 2020	**9,144**	**29,931**	**1,597**	**663**	**2,755**	**616**	**44,706**
Additions	6	4,789	10	39	4,570	1,565	10,979
Transfers	203	666	-	-	(869)	-	-
Changes in estimates of provision for environmental obligations	-	(29)	-	-	-	-	(29)
Disposals	-	(916)	(34)	(35)	-	(272)	(1,257)
Reclassification from inventories	-	418	-	-	57	-	475
Effect of translation to presentation currency	(339)	(2,636)	(106)	(19)	(66)	(128)	(3,294)
At 31 December 2020	**9,014**	**32,223**	**1,467**	**648**	**6,447**	**1,781**	**51,580**
Additions	-	4,358	16	-	2,955	-	7,329
Transfers	32	510	1	-	(543)	-	-
Changes in estimates of provision for environmental obligations	-	1,566	-	-	-	-	1,566
Disposals	-	(508)	(2)	-	-	-	(510)
Reclassification from inventories	-	1,499	-	-	165	-	1,664
Reclassification from exploration and evaluation asset	-	-	-	-	728	-	728
Effect of translation to presentation currency	330	3,055	105	19	120	157	3,786
At 31 December 2021	**9,376**	**42,703**	**1,587**	**667**	**9,872**	**1,938**	**66,143**
Accumulated depreciation							
At 1 January 2020	**1,231**	**4,428**	**403**	**271**	**-**	**104**	**6,437**
Charge for the year	1,078	4,229	319	116	-	608	6,350
Disposals	-	(915)	(27)	(35)	-	(164)	(1,141)
Effect of translation to presentation currency	(67)	(461)	(32)	(9)	-	(35)	(604)
At 31 December 2020	**2,242**	**7,281**	**663**	**343**	**-**	**513**	**11,042**
Charge for the year	802	5,431	375	109	-	590	7,307
Disposals	-	(503)	(2)	-	-	-	(505)
Effect of translation to presentation currency	100	754	54	11	-	74	993
At 31 December 2021	**3,144**	**12,963**	**1,090**	**463**	**-**	**1,177**	**18,837**
Net book value							
At 31 December 2021	**6,232**	**29,740**	**497**	**204**	**9,872**	**761**	**47,306**
At 31 December 2020	6,772	24,942	804	305	6,447	1,268	40,538
At 1 January 2020	7,913	25,503	1,194	392	2,755	512	38,269

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.

As at 31 December 2021, management does not consider there to be any indicators of impairment in respect of the Group's property, plant and equipment.

18. DEFERRED TAX

Deferred tax assets have been recognized as a result of temporary differences where the 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. As disclosed in Note 13, unused tax losses for which no deferred tax asset has been recognised amounts to US$0.3 million (2020: US$0.3 million).

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

	2021 US$'000	2020 US$'000
At 1 January	**5,631**	7,652
Charged to the income statement	**(1,668)**	(1,541)
Effect of currency translation	**418**	(480)
At 31 December	**4,381**	5,631
Comprising:		
Deferred tax assets	**4,381**	5,631
Deferred tax liabilities	**-**	-

18. **DEFERRED TAX** (CONTINUED)

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

2021	**At 1 January US$'000**	**Charged to the income statement US$'000**	**Effect of currency translation US$'000**	**Total US$'000**
Property, plant and equipment	4,516	(706)	365	4,175
Trade and other receivables	49	119	9	177
Inventories	684	(892)	18	(190)
Other provisions	48	2	4	54
Trade and other payables	108	(61)	7	54
Lease liabilities	226	(130)	15	111
Total	**5,631**	**(1,668)**	**418**	**4,381**

2020	At 1 January US$'000	Charged to the income statement US$'000	Effect of currency translation US$'000	Total US$'000
Property, plant and equipment	5,760	(885)	(359)	4,516
Trade and other receivables	35	18	(4)	49
Inventories	1,402	(637)	(81)	684
Other provisions	57	(5)	(4)	48
Trade and other payables	101	17	(10)	108
Lease liabilities	297	(49)	(22)	226
Total	7,652	(1,541)	(480)	5,631

19. **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.

	2021 US$'000	2020 US$'000
Consumables and spare parts	**8,861**	7,211
Copper and zinc concentrate in stock	**5,984**	3,844
Copper and zinc concentrate in transit	**1,432**	-
Ore stockpiles extracted	**2,157**	749
Other	**8**	447
At 31 December	**18,442**	12,251

The cost of inventories recognised as an expense and included in cost of sales amounted to US$13.2 million (2020: US$10.2 million) for raw materials and consumables and spare parts and US$16.1 million (2020: US$5.5 million) for purchased ore and concentrate. The inventory write-down provision to net realisable value amounted to US$1.9 million as at 31 December 2021 (2020: US$0.8 million), relating mainly to consumables and spare parts.

20. **TRADE AND OTHER RECEIVABLES**

	2021 US$'000	2020 US$'000
Trade receivables	**18,620**	3,447
Other receivables	**2,856**	1,055
Unpaid shares issued*	**6**	122
Prepayments	**766**	2,293
Less: expected credit losses	**(1)**	(271)
At 31 December	**22,247**	6,646

* Shares were issued to key management personnel ("KMPs") and other employees in April 2020 upon terms that the subscription price would be satisfied by way of set-off against a proportion of fees and salaries due and to become due until such time as the subscription price was fully paid. The total amount set-off against fees and salaries during the year was US$0.1 million (2020: US$0.5 million). Amounts relating to KMPs are disclosed in Note 32.

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

	2021 US$'000	2020 US$'000
At 1 January	**271**	101
Movement during the year	**(270)**	191
Effect of currency translation	**-**	(21)
At 31 December	**1**	271

21. CASH AND CASH EQUIVALENTS

	2021 US$'000	2020 US$'000
Cash on hand	**2**	5
Current accounts in UK	**7,646**	132
Current accounts in the Kyrgyz Republic	**264**	118
Current accounts in Armenia	**3,222**	6,673
At 31 December	**11,134**	6,928

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.

22. CAPITAL AND RESERVES

The share capital of the Company 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 shareholders of the Company.

22(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 short and long-term borrowings including convertible loan notes less cash and cash equivalents. The Group's net debt to equity ratio at 31 December was as follows:

	2021 US$'000	2020 US$'000
Total Equity	**76,876**	24,449
Convertible loan notes	**25,625**	23,252
Other loans	**21,328**	53,347
Contract liabilities	**2,379**	5,328
Lease liabilities	**978**	1,425
Warrant financial liability	**380**	814
Less: cash and cash equivalents	**(11,134)**	(6,928)
Net debt	**39,556**	77,238
Net debt to equity ratio	**51%**	316%

Other loans include borrowings which 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, all of which were met as at 31 December 2021.

The convertible loan notes, as disclosed in Note 25, respectively, do not have covenants attached to them. As the convertible loan notes are repayable within the next 12 months, they have been disclosed as a current liability as at 31 December 2021.

22. CAPITAL AND RESERVES (CONTINUED)

22(b) Share capital

	2021		2020	
Ordinary shares of US$0.01 each	**Number of shares ('000)**	**Nominal value US$'000**	Number of shares ('000)	Nominal value US$'000
Authorised	**1,395,167**	**13,952**	1,395,167	13,952
Issued and fully paid				
At 1 January	**540,061**	**5,401**	468,811	4,688
Issued for cash	**84,115**	**841**	19,046	191
Issued to settle liabilities	**65,235**	**652**	51,259	513
Exercise of warrants	**-**	**-**	825	8
Exercise of share options	**-**	**-**	120	1
At 31 December	**689,411**	**6,894**	540,061	5,401

On 5 February 2021, the Company issued 55,240 ordinary shares to Labro to satisfy outstanding drawdown fees under the Labro Facility agreement. On the same day, a further 62,380,154 ordinary shares were issued to Labro to set off the outstanding amount owed by the Company on the Labro Term Loan.

Later in February 2021, as part of an equity fundraise the Company issued a further 84,114,549 ordinary shares of US$0.01 each to new and existing investors for cash (US$30.0 million).

On 30 July 2021, the Company issued 2.8 million new ordinary shares of US$0.01 each in the Company to Çiftay under the new investment agreement entered into on 21 June 2021 (see note 15).

22(c) Share options and share-based payments

Share options

The Group operates a share option plan 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:

	2021		2020	
	Number of options	**Weighted average exercise price (US$)**	Number of options	Weighted average exercise price (US$)
Outstanding at 1 January	**55,027,006**	**0.523**	56,925,258	0.522
Exercised during the year	**-**	**-**	(120,000)	0.187
Granted during the year	**-**	**-**	-	-
Replaced during the year	**-**	**-**	-	-
Lapsed during the year	**(5,334,754)**	**0.578**	(1,778,252)	0.523
Outstanding at 31 December	**49,692,252**	**0.567**	55,027,006	0.523
Exercisable at 31 December	**49,692,252**	**0.567**	55,027,006	0.523

The share options outstanding at 31 December 2021 had a weighted average remaining contractual life of 2.7 years (2020: 3.7 years). Maximum term of the options granted was 5 years from the grant date. The share options outstanding at 31 December 2021 had an exercise price of £0.42 (2020: £0.42).

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. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions and expected exercise period.

The total number of options over ordinary shares outstanding at 31 December 2021 was as follows:

Exercise period	**Number**	**Exercise price**
18 September 2019 to 18 September 2024	49,692,252	£0.42
Total	**49,692,252**	**£0.42**

22. CAPITAL AND RESERVES (CONTINUED)

22(c) Share options and share-based payments (continued)

Management Incentive Plan

On 18 September 2019, the Group adopted a new Management Incentive Plan ("MIP") whereby 56,805,258 share options exercisable at £0.42 per share and 21,494,198 restricted stock units ("RSUs") were granted to key management personnel ("KMPs") and other employees (subject to performance conditions for executives in the case of the RSUs). 33% of the share options and RSUs vested on 15 October 2019 (Tranche 1), 33% on 31 December 2019 and (in the case of RSUs subject to performance conditions) on 21 February 2020 (Tranche 2), and the remaining 33% of share options vested on 31 December 2020 subject to a vesting condition of continued employment by the Group. On 15 April 2021, 5,308,640 RSUs (Tranche 3) vested following final determination by the remuneration committee of the extent to which performance criteria had been achieved, in the case of awards subject to performance conditions. RSUs not subject to performance conditions in Tranche 3 vested at the same time.

On 22 April 2021, a further 2,122,466 RSUs were granted to KMPs and other employees which vested immediately on this date. As a result, a total share-based payment charge of US$1.3 million was recognised during 2021, US$0.5 million of which related to the remaining Tranche 3 RSUs and US$0.8 million to the additional RSUs granted on 22 April 2021.

There was no exercise of share options during 2021, however 5,334,754 share options lapsed due to two employees leaving the Company during the year.

No further share awards were granted in 2021, however as disclosed in Note 35, a further 5 million share options were granted under the MIP to the Company's new Chief Executive Officer on joining in January 2022.

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 has control over the Trust and therefore the results of the Trust were consolidated within these financial statements. During the year, expenses of US$0.05 million were incurred by the Trust (2020: US$0.1 million). At 31 December 2021, the Trust held 1,070,194 shares (2020: 8,504,596 shares).

22(d) Convertible loan note reserve

The convertible loan note reserve represents the equity component of convertible loan notes issued by the Company. Refer to Note 25 for further information.

	2021 US$'000	2020 US$'000
At 1 January	**2,493**	2,493
Modification of convertible loan notes	**(1,073)**	-
At 31 December	**1,420**	2,493

22(e) 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:

	2021 US$'000	2020 US$'000
At 1 January	**(216)**	(216)
Transfer of treasury shares	**84**	-
At 31 December	**(132)**	(216)

23. PROVISION FOR ENVIRONMENTAL OBLIGATIONS

The provision for environmental obligations 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 are as follows:

	2021 US$'000	2020 US$'000
At 1 January	**7,479**	8,638
Change in provision	**1,566**	(1,088)
Unwinding of discount	**705**	655
Reclassification to deferred expenses	**-**	(44)
Effect of currency translation	**771**	(682)
At 31 December	**10,521**	7,479

The change in provision of US$1.6 million in 2021 was as a result of a reassessment of the Company's obligations under international good practice requirements that took place in 2021 by an independent third party.

Further details relating to the calculation of the balance as at 31 December 2021 are as follows:

	31/12/2021	31/12/2020
Discount rates	**9.91%**	8.63%
Provision settlement date	**31/12/2027**	31/12/2027
Estimated undiscounted cash flow required to settle the provision	**US$14.1 million**	US$9.6 million

24. RECONCILIATION OF LIABILITIES

Liabilities from financing activities	**Convertible loans US$'000**	**Contract liabilities US$'000**	**Lease liabilities US$'000**	**Other loans US$'000**	**Total US$'000**
At 1 January 2020	**19,994**	**-**	**578**	**59,258**	**79,830**
Cash flows:					
Cash proceeds	-	7,000	-	5,300	12,300
Transaction costs paid	-	-	-	(209)	(209)
Payment of interest	-	-	-	(3,185)	(3,185)
Payment of principal amount	-	-	-	(8,000)	(8,000)
Lease payments	-	-	(573)	-	(573)
Net proceeds	**-**	**7,000**	**(573)**	**(6,094)**	**333**
Non-cash items:					
Loan modification	-	-	-	(20,665)	(20,665)
Interest capitalised	-	-	-	587	587
Interest accrued	3,258	102	169	5,176	8,705
Additions	-	-	1,565	21,788	23,353
Reclassification	-	-	(126)	-	(126)
Lease termination	-	-	(80)	-	(80)
Converted to equity	-	-		(6,338)	(6,338)
Settlement of interest against receivables	-	(71)		-	(71)
Transaction costs	-			(361)	(361)
Amounts recognised as revenue during the year	-	(1,667)		-	(1,667)
Effect of currency translation	-	(36)	(108)	(4)	(148)
Total liabilities from financing activities at 31 December 2020	**23,252**	**5,328**	**1,425**	**53,347**	**83,352**
Non-current	**-**	**-**	**771**	**21,947**	**22,718**
Current	**23,252**	**5,328**	**654**	**31,400**	**60,634**
Cash flows:					
Cash proceeds	-	-	-	-	-
Payment of interest	-	-	-	(2,295)	(2,295)
Payment of principal amount	-	-	-	(9,800)	(9,800)
Lease payments	-	-	(674)	-	(674)
Net proceeds	**-**	**-**	**(674)**	**(12,095)**	**(12,769)**
Non-cash items:					
Loan modification	(1,420)	-	-	8	(1,412)
Converted to equity	-	-	-	(22,117)	(22,117)
Interest accrued	3,793	204	128	2,184	6,309
Settlement of interest against receivables	-	(120)	-	-	(120)
Amounts recognised as revenue during the year	-	(3,250)	-	-	(3,250)
Effect of currency translation	217	99	1	317	
Total liabilities from financing activities at 31 December 2021	**25,625**	**2,379**	**978**	**21,328**	**50,310**
Non-current	**-**	**-**	**732**	**9,688**	**10,420**
Current	**25,625**	**2,379**	**246**	**11,640**	**39,890**

25. CONVERTIBLE LOAN NOTES

During the year no new convertible loan notes were issued, however the maturity date was extended by one year from 31 October 2021 to 31 October 2022 and the conversion price of the notes was decreased from £0.37 per share to £0.30 per share. The only other transaction during the year was accrued interest of US$3.8 million (2020: US$3.3 million).

2021 Notes	**US$'000**
At 31 December 2019	**19,994**
Cash proceeds	-
Transaction costs	-
Net proceeds	-
Amount classified as equity	-
Accrued interest	3,258
At 31 December 2020	**23,252**
Cash proceeds	-
Transaction costs	-
Net proceeds	-
Loan modification	(1,420)
Accrued interest	3,793
At 31 December 2021	**25,625**

The number of shares to be issued on conversion is fixed. There are no covenants attached to the convertible loan notes.

The 2021 notes accrued 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 2022 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 £0.30 per ordinary share. If not converted, the notes will be repaid in cash for a total of US$28.8 million in October 2022, as disclosed in Note 2.

On 21 October 2021, the maturity date of the convertible loan notes was extended from 31 October 2021 to 31 October 2022 and the conversion price reduced from £0.37 to £0.30 per share, which was treated as a substantial modification for accounting purposes. The coupon interest rate remains at 12% p.a.

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

As the notes fall due in October 2022, they have been classified as current liabilities at 31 December 2021.

26. CONTRACT LIABILITIES

The movements in the Group's contract liabilities for the year are presented below:

	2021 US$'000
At 1 January 2021	5,328
Interest on contract liabilities	204
Settlement of interest against receivables	(120)
Amounts recognised as revenue during the year	(3,250)
Effect of currency translation	217
At 31 December 2021	**2,379**
Non-current	**-**
Current	**2,379**

The contract liabilities balance relates to prepayments received from one of Chaarat Kapan's customers for the future sale of concentrates. The prepayments accrue interest at a rate defined in the sales contract of 6-month LIBOR plus 5% p.a. and are settled by way of deduction against future outstanding invoices.

27. TRADE AND OTHER PAYABLES

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

	2021 US$'000	2020 US$'000
Trade payables	**27,799**	11,414
Social security and employee taxes	**1,951**	1,698
Accruals	**967**	4,288
As at 31 December	**30,717**	17,400

Trade and other payables are all unsecured.

28. LEASES

The Group's 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 equipment and land in the jurisdictions from which it operates, the most notable being the land that is leased in Armenia. Certain items of property, plant and equipment are also leased 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 year are presented below:

Right-of-use assets

	Land US$'000	**Property US$'000**	**Equipment US$'000**	**Total US$'000**
At 1 January 2020	315	197	-	512
Additions	666	-	899	1,565
Depreciation charge	(111)	(89)	(408)	(608)
Lease termination	-	(102)	-	(102)
Effect of translation to presentation currency	(62)	(6)	(31)	(99)
At 31 December 2020	**808**	**-**	**460**	**1,268**

	Land US$'000	**Property US$'000**	**Equipment US$'000**	**Total US$'000**
At 1 January 2021	808	-	460	1,268
Depreciation charge	(114)	-	(476)	(590)
Effect of translation to presentation currency	66		19	85
At 31 December 2021	**760**	**-**	**3**	**763**

Lease liabilities

	Land US$'000	**Property US$'000**	**Equipment US$'000**	**Total US$'000**
At 1 January 2020	302	276	-	578
Additions	666	-	899	1,565
Reclassification	29	(155)	-	(126)
Interest expense	98	2	69	169
Lease payments	(171)	(38)	(364)	(573)
Lease termination	-	(80)	-	(80)
Effect of translation to presentation currency	(65)	(5)	(38)	(108)
At 31 December 2020	**859**	**-**	**566**	**1,425**

	Land US$'000	**Property US$'000**	**Equipment US$'000**	**Total US$'000**
At 1 January 2021	859	-	566	1,425
Interest expense	97	-	31	128
Lease payments	(189)	-	(485)	(674)
Effect of translation to presentation currency	72	-	27	99
At 31 December 2021	**839**	**-**	**139**	**978**

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.

28. LEASES (CONTINUED)

	Within 6 months US$'000	6 months to 1 year US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total at 31 December 2021 US$'000
Land leases	98	99	774	189	1,160
Equipment leases	139	-	-	-	139
Total	237	99	774	189	1,299

	Within 6 months US$'000	6 months to 1 year US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total at 31 December 2020 US$'000
Property leases	90	91	719	347	1,247
Land leases	341	255	-	-	596
Total	431	346	719	347	1,843

As at 31 December 2021, the gross contractual discounted cash flows due on the Group's lease liabilities amounts to US$1.0 million (2020: US$1.4 million).

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 2021, a discount rate of 12% per annum has been used to calculate the Group's lease liabilities for its land and equipment leases.

29. OTHER LOANS

Other loans at 31 December consisted of the following:

	Labro Facility US$'000	Labro Term Loan US$'000	Borrowings US$'000	Other Borrowings US$'000	Total US$'000
At 1 January 2021	791	21,947	28,583	2,026	53,347
Interest accrued	17	177	1,857	133	2,184
Loan modification	14	(6)	-	-	8
Converted to equity	-	(22,117)	-	-	(22,117)
Payment of interest in cash	(22)	-	(2,154)	(119)	(2,295)
Payment of principal amount in cash	(800)	-	(9,000)	-	(9,800)
Effect of currency translation	-	-	-	2	2
At 31 December 2021	**-**	**-**	**19,286**	**2,042**	**21,328**
Non-current	**-**	**-**	**9,688**	**-**	**9,688**
Current	**-**	**-**	**9,598**	**2,042**	**11,640**

Labro Facility
In February 2021, the Company repaid the outstanding US$0.8 million on the Labro Facility. The consideration paid exceeded the carrying amount extinguished and therefore a loss of US$13,900 was recognised in profit or loss as a financing cost under IFRS 9. No further drawdowns took place from this point until the maturity date of the facility on 30 June 2021. The remaining commitment fee of US$0.9 million was amortised and recognised as a financing cost in profit or loss on this date.

Labro Term Loan
In February 2021, the outstanding US$22 million on the Labro Term Loan as well as the US$0.2 million of accrued interest was converted into equity. Labro subscribed for 62,380,154 ordinary shares of US$0.01 each in the Company at the issue price of £0.26 per share.

Borrowings
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 incurs interest at LIBOR plus 8% and was originally repayable through quarterly payments over a four-year period however in July 2021, the maturity date of the facility was extended from 31 January 2023 to 2 October 2023.

This bank financing has certain covenants attached to it that the Group needs to adhere to. All covenants were met as at 31 December 2021 and as such the Group remains in full compliance with the loan.

Other borrowings
Other borrowings include an amount owing to one of Chaarat Kapan's customers in respect of prepayments for the future sale of concentrates. The prepayments accrue interest at 1-month LIBOR plus 6% p.a. and are expected to be settled in cash in accordance with a repayment schedule defined in the sales contract. The prepayments can be requested upon notice and therefore are repayable on demand.

The contractual maturities of other loans (representing undiscounted cash-flows) are disclosed in Note 34.

30. WARRANT FINANCIAL LIABILITY

In October 2020, as compensation for the extension option of the Investor Loan, 8,920,341 warrants were issued with an exercise price of £0.26, expiring on 5 October 2023. The warrants are revalued at each reporting date. In 2021, a fair value gain of US$0.4 million was recognised in profit or loss due to a decline in the share price. The movement in the balance is set out below:

	2021 US$'000	2020 US$'000
At 1 January	**814**	-
Issue of warrants	**-**	1,409
Fair value gain	**(434)**	(595)
As at 31 December	**380**	814

The warrants to purchase ordinary shares remain outstanding at 31 December 2021 as follows:

	2021		2020	
Expiry date	**Number of warrants**	**Exercise price (£)**	Number of Warrants	Exercise price (£)
5 October 2023	**8,920,342**	**0.26**	8,920,342	0.26
Total	**8,920,342**	**0.26**	8,920,342	0.26

The estimated fair value of the warrants was measured based on the Black-Scholes model. The inputs used in the calculation of the fair value of the warrants at 31 December 2021, using an exchange rate of 1.35, were as follows:

	31 December 2021
Fair value	US$0.04
Share price	US$0.26
Weighted average exercise price	US$0.35
Expected volatility	57.20%
Expected life	1.38 years
Expected dividend yield	0.00%
Risk-free interest rate	0.52%

The expected volatility is based on the historical share price of the Company.

31. OTHER PROVISIONS FOR LIABILITIES AND CHARGES

Other provisions for liabilities and charges relate mainly to employment disputes in Armenia ("Legal Claims Provision") of US$1.2 million at 31 December 2021 (2020: US$0.3 million) and a legal claim of US$1.3 million at 31 December 2021 (2020: US$1.4 million) that was charged against Chaarat in the Kyrgyz Republic whereby compensation for agricultural losses was demanded ("Land Provision"). US$0.8 million of the employment dispute provision is covered by an indemnity included in the original Kapan acquisition agreement. The Directors consider recoverability virtually certain and accordingly have recognised a corresponding within other receivables as shown within Note 20.

The provisions have 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 disputes, however there is uncertainty around the timing of payments to be made. There are no expected reimbursements relating to these provisions.

The movement in provisions in 2021 is as follows:

	Legal Claims Provision US$'000	**Land Provision US$'000**	**Other Provision US$'000**	**Total US$'000**
At 1 January 2021	266	1,375	-	1,641
Change in provision	875	-	205	1,080
Foreign exchange on conversion	66	(33)	-	33
At 31 December 2021	**1,207**	**1,342**	**205**	**2,754**

32. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel
Remuneration of key management personnel is as follows:

	2021 US$'000	2020 US$'000
Short term employee benefits	**1,618**	1,684
Termination benefits	**575**	-
Share-based payments charge	**856**	2,970
Total	**3,049**	4,654

Included in the above key management personnel are 8 directors and 2 key managers (2020: 7 and 2).

Entities with significant influence over the Group
At 31 December 2021, Labro Investments Limited, Chaarat's largest shareholder, owned 44.17% (2020: 40.57%) of the ordinary US$0.01 shares in Chaarat ("Ordinary Shares") and US$1.0 million of 10% secured convertible loan notes 2021 which, assuming full conversion of principal and interest to maturity on 31 October 2022, are convertible into 3,579,088 Ordinary Shares. If converted, Labro's ownership would increase to 44.46% of the ordinary shares in Chaarat at 31 December 2021.

For all share issues to Labro, the independent directors of the Company considered, having consulted with the Company's nominated adviser at the time of the transactions, that the terms were fair and reasonable insofar as the Company's shareholders are concerned.

Labro Facility 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 under the Labro Facility and reduction of indebtedness under the Labro Term Loan:

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
30 June 2021	US$24,000	Drawdown fee	55,240	5 February 2021
n/a US$	22,123,195	Indebtedness reduction	62,380,154	5 February 2021

Refer to Note 29 above for a reconciliation of the Labro Facility during the year, showing a nil balance as at 31 December 2021.

On 5 February 2021, the Company issued 55,240 Ordinary Shares at £0.33 per share to Labro to settle the drawdown fees that were incurred on the US$0.8 million drawdown that took place in November 2020.

On the same date, the Company issued 62,380,154 Ordinary shares at £0.26 per share to Labro. Labro's obligation to deliver cash in respect of these shares was offset against the Company's indebtedness under the Labro Term Loan with the consequence that the Company's obligations under the Labro Term Loan decreased by US$22.1 million to nil, as disclosed in Note 29.

Shares issued to Key Management Personnel
In April 2020, 1,286,839 Ordinary Shares were subscribed for by, and issued to, key management personnel ("KMPs") at a price of £0.26 per Ordinary Share upon terms that the subscription price would be satisfied by way of set-off against a proportion of fees and salaries due and to become due until such time as the subscription price was fully paid. As at 31 December 2021, the subscription price of these shares was fully repaid as outlined below:

Category	Total Number of Placing Shares issued	Total amount	Total repayments	Outstanding balance at 31 December 2021
Directors (including the Executive Chair)	1,073,635	US$ 352,500	US$ 352,500	US$ nil
Other KMPs	213,204	US$ 70,000	US$ 70,000	US$ nil
Total	**1,286,839**	**US$ 422,500**	**US$ 422,500**	**US$ nil**

33. COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments
The Company had a commitment of US$4.9 million at 31 December 2021 (2020: US$6.3 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 28.

Licence retention fee commitments
The Company has calculated a commitment of US$0.10 million at 31 December 2021 (2020: US$0.10 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 licence agreements. These minimum levels of investment have always been achieved. The commitment recognised in 2021 is US$0.06 million (2020: US$0.02 million).

34. 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

	2021	2020
Financial assets measured at fair value	**US$'000**	US$'000
Trade and other receivables	**22,247**	6,646
Cash and cash equivalents	**11,134**	6,928
Total financial assets	**33,381**	13,574
Financial liabilities measured at amortised cost		
Trade and other payables	**28,766**	15,703
Contract liabilities	**2,379**	5,328
Lease liabilities	**978**	1,425
Other loans	**21,328**	53,347
Convertible loan notes	**25,625**	23,252
Financial liabilities measured at fair value through profit or loss		
Warrant financial liability	**380**	814
Total financial liabilities	**79,456**	99,869

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 2021 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. In line with 2020, COVID-19 did not significantly impact the credit risk of the Group's customers in 2021 and therefore no changes were required to the Group's credit risk management in response to the pandemic.

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 21 are cash and cash equivalents at 31 December 2021 of US$11.1 million (2020: US$6.9 million).

34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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), Armenian Dram (AMD), British Pounds (GBP) and Kyrgyz Som (KGS). Equity fund-raising has taken place mainly in US dollars, with debt denominated in US dollars as well. 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, which has a functional currency of AMD.

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:

Net foreign currency financial assets/(liabilities)

	2021 US$'000	2020 US$'000
GBP	**5,866**	(151)
AMD	**(3)**	(883)
KGS	**268**	(58)
Other	**(7)**	(1)
Total net exposure	**6,124**	(1,093)

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:

	2021 Move (%)	**Income statement profit/(loss)**	**Equity**	2020 Move (%)	Income statement profit/(loss)	Equity
Fall in value of GBP vs US$	**5**	**309**	**309**	5	8	8
Increase in value of GBP vs US$	**5**	**(279)**	**(279)**	5	(7)	(7)
Fall in value of AMD vs US$	**5**	**-**	**-**	5	(42)	(42)
Increase in value of AMD vs US$	**5**	**-**	**-**	5	46	46
Fall in value of KGS vs US$	**10**	**30**	**30**	10	5	5
Increase in value of KGS vs US$	**10**	**(24)**	**(24)**	10	(6)	(6)

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 2021 and 2020 did not differ materially from their carrying values.

34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

At 31 December 2021	**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**
Trade and other payables	**30,717**	**-**	**-**	**-**	**-**
Contract liabilities	**-**	**2,379**	**-**	**-**	**-**
Lease liabilities	**175**	**162**	**196**	**577**	**189**
Other loans	**3,072**	**9,425**	**10,223**	**-**	**-**
Convertible loan notes	**-**	**28,777**	**-**	**-**	**-**
Total	**33,964**	**40,743**	**10,419**	**577**	**189**

At 31 December 2020	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
Trade and other payables	17,400	-	-	-	-
Contract liabilities	-	5,328	-	-	-
Lease liabilities	259	519	208	509	347
Other loans	2,684	11,025	14,000	34,127	-
Convertible loan notes	-	26,357	-	-	-
Total	20,343	43,229	14,208	34,636	347

As a result of the maturity date extension that took place in 2021, the Group's convertible loan notes are repayable on 31 October 2022.

35. POST BALANCE SHEET EVENTS

Share options and shares issued to the Company's Chief Executive Officer, Mr. Michael Fraser
In January 2022, the Company granted options over five million ordinary shares of US$0.01 each in the Company to the newly appointed Chief Executive Officer, Mr. Michael Fraser, under the Chaarat Gold Holdings Limited Management Incentive Plan 2019 (the "MIP"). The options are exercisable at a price of £0.42 per share between 18 January 2022 and 18 January 2027 subject to the rules of the MIP.

The Company also agreed to pay Mr Fraser a sign-on bonus of US$62,500. It was agreed that this would be satisfied by the issue of ordinary shares of US$0.01 each in the capital of the Company at £0.185 per share, being the average middle market quotation (MMQ) over the three dealing days immediately prior to the issue of the shares. Due to human error, one of the MMQs used to calculate the three-day average MMQ was incorrect which resulted in 255,935 shares being issued to Mr Fraser rather than 247,368 shares. Mr Fraser rectified this by paying the Company a cash subscription price for the additional 8,567 shares at the three-day average MMQ.

Ukraine conflict and Russian sanctions
The conflict in Ukraine and the associated sanctions against Russia have had no material impact on our operations so far, and therefore no impact on these financial statements.

Notes

Shareholder Information

Chaarat Gold Holdings Limited (AIM:CGH)

Registered number
1420336

Registered office
Palm Grove House
PO Box 438, Road Town
TORTOLA VG1110
British Virgin Islands
E. info@chaarat.com
W. www.chaarat.com

Kyrgyz Republic office
Chaarat Zaav CJSC
10th Floor, Victory Business Centre
Ibraimov str. 103
BISHKEK 720011
Kyrgyz Republic
T: +996 312 97 61 00
E: info@chaarat.kg
W: www.chaarat.kg

Armenia Office
Chaarat Kapan CJSC
Gortsaranayin str. 4
KAPAN 3302
Syunik Region
Republic of Armenia
T: +374 285 59215
E: info@chaarat.am
W: www.chaarat.am

NOMAD and Joint Broker
Canaccord Genuity Limited
88 Wood Street
LONDON EC2V 7QR
United Kingdom

Registrars
Link Market Services (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St. Sampson
GUERNSEY GY2 4LH
Channel Islands

Depositary
Link Market Services Trustees Limited
10th Floor, Central Square
29 Wellington Street
LEEDS LS1 4DL
United Kingdom

Auditors
Deloitte LLP
Hill House, 1 Little New Street
LONDON EC4A 3TR
United Kingdom

Designed and produced by effektiv
+44 (0)20 7459 4266 / www.effektiv.co.uk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