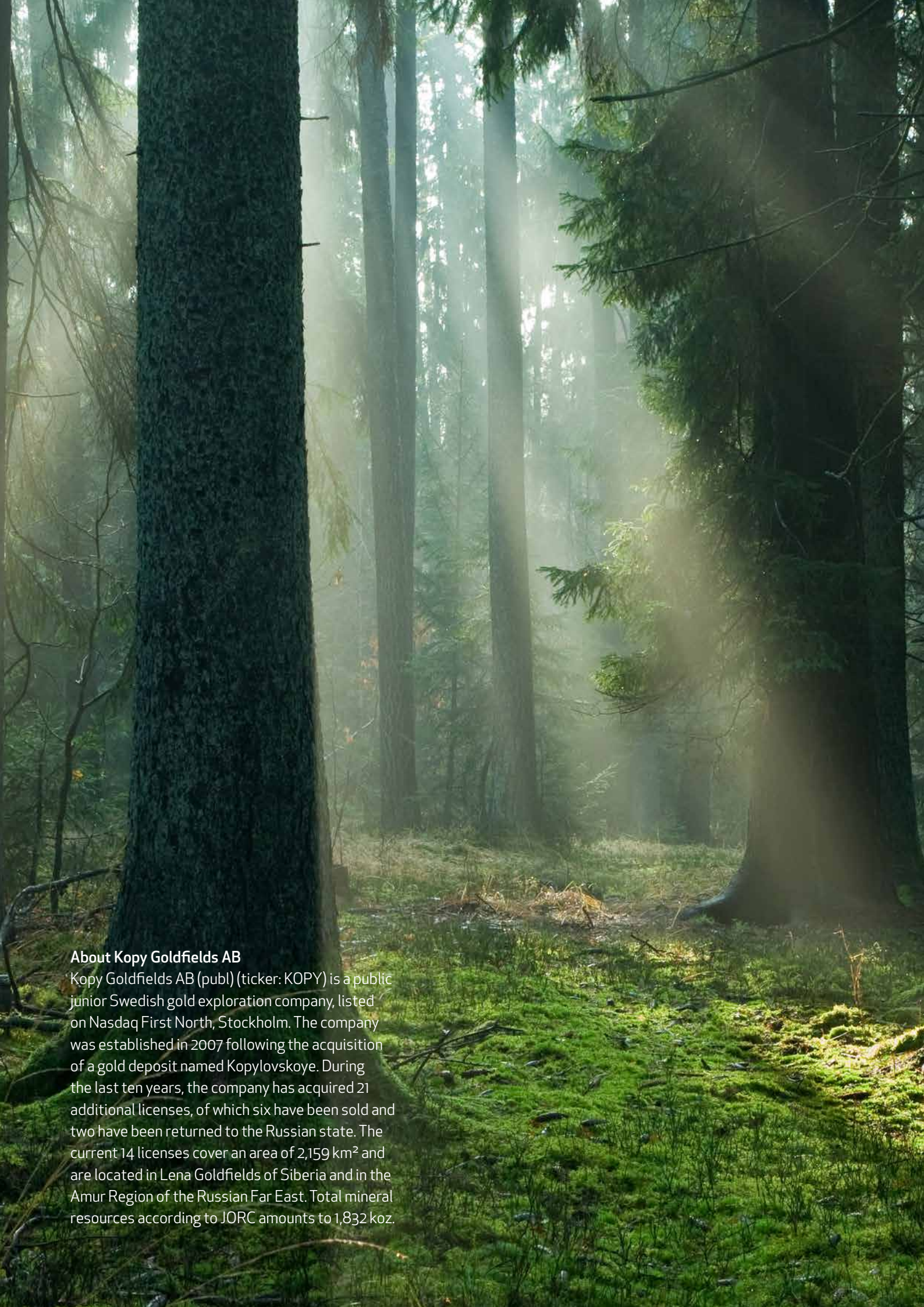


An aerial photograph of a vast landscape. In the foreground, a river winds through a dense, green forest. The middle ground shows rolling hills and a small town in the distance. In the background, a range of mountains is visible under a dramatic sky with a rainbow arching over the scene.

# ANNUAL REPORT 2018

**KOPY GOLDFIELDS**  
GOLD EXPLORATION





### About Kopy Goldfields AB

Kopy Goldfields AB (publ) (ticker: KOPY) is a public junior Swedish gold exploration company, listed on Nasdaq First North, Stockholm. The company was established in 2007 following the acquisition of a gold deposit named Kopylovskoye. During the last ten years, the company has acquired 21 additional licenses, of which six have been sold and two have been returned to the Russian state. The current 14 licenses cover an area of 2,159 km<sup>2</sup> and are located in Lena Goldfields of Siberia and in the Amur Region of the Russian Far East. Total mineral resources according to JORC amounts to 1,832 koz.

# A SOLID TRACK RECORD OF SUCCESSFUL EXPLORATION IN RUSSIA

Kopy Goldfields was founded in 2007 with the aim of exploiting the rich bedrock gold deposits of Lena Goldfields, located in the Irkutsk region of Russia and home to one of the world's largest untapped deposits of gold.

Combining the skills and knowledge of Russian geologists with an efficient, Swedish organization, we strive to create a world-class exploration company. Our business model is based on using our expertise in identifying high potential areas, while cooperating with partners to develop them into production.

After more than a decade of operating in Russia, we have achieved a solid track record and long experience of running successful exploration projects. In 2018 – in accordance with our business model – we focused on marketing our most advanced projects, Krasny and Kopylovskoye, while adding new high-quality exploration projects to our portfolio. The aim is to achieve short-term gains, while creating long-term value.

We will now continue our search for new high-potential projects in the Bodaibo area, the center of our operations, spurred by the results we have achieved so far. Meanwhile, rising gold prices has contributed to a worldwide return of interest in exploration projects in Russia, not least after one of the world's largest gold deposit, Sukhoy Log – part of Lena Goldfields and formerly state-owned – was sold in 2017 and is currently being developed.

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# THE YEAR IN BRIEF

# 90.2

90.2% gold recovery  
for the Vostochny  
mineralization according  
to process test  
done in 2018



# 6

Kopylovskoye project  
sold in December 2018  
for MUSD 6

# 4

Four new licenses  
acquired in 2018

# 373

MUSD 373 undiscounted  
free cash flow according  
to scoping study published  
in December 2017

# 257

257 koz of probable  
gold reserves according  
to JORC



# 3

Three identified target  
areas with a total area of  
10.2 sq. km ready for  
drilling and trenching in the  
Maly Patom project



# 50

50 drill holes and  
11,638 meters of core  
drilling in 2018

# +32%

+32% total gold  
resources at 1,832 koz.  
JORC Mineral Resource  
Report published in June  
2018 for the Krasny license

## THE YEAR IN BRIEF

### Sale of the Kopylovskoye project for 6 MUSD

In December 2018, Kopy Goldfields sold the four bedrock gold exploration and production licenses Kopylovskoye, Vostochnaya Ploshad, Pravovesenny and Takhtykan to group of private Russian investors. Kopylovskoye deposit has reported 7.4 tons of C1+C2 bedrock gold reserves. The total sales price amounts to USD 6 million, corresponding to SEK 54.3 million, and will be paid in several installments until the end of 2021. The first payment of RUB 8 million, corresponding to SEK 1.1 million, was duly received in December 2018. If all payments are accelerated and completed by December 31, 2020, the total price is reduced to USD 5 million. Until the full payment is made, the project is pledged in favor of Kopy Goldfields.

### Mineral resource update announced for the Krasny-deposit and decision to exit the project

In June 2018, a mineral resource update in accordance with JORC was announced for the Krasny project. The report was developed by Micon International. The report is based on the exploration data acquired through to March 2018. The report shows 1,832 koz of Indicated and Inferred gold resources, an increase of 32 per cent since the previous year, reflecting the successful exploration activities of 2017. The resource estimation includes both "Krasny" and "Vostochny" (previously "Krasny North"). The report also includes 257 koz of Probable gold reserves. Meanwhile, during the year Kopy Goldfields decided to explore possibilities to exit the project, that has been successfully developed since 2010 and now is ready for further development towards mining operations.

### Acquisition of new licenses

In September 2018, a new exploration property, Verkhovya Tamaraka, was acquired. It is located 40 km from Bodaibo and covers an area of 83 sq. km. The license provides the right for bedrock gold prospecting and exploration for seven years. The license is issued by the Russian State and was acquired on a "first come, first served" basis with no upfront payment. If gold is discovered, Kopy Goldfields is entitled to a priority production permit for the area. In June 2018, a new alluvial gold exploration project in the Amur region of Russian was started. The project includes four alluvial exploration properties covering 104 sq. km, valid for five years. The project is located within 60 km from Blagoveshensk, the capital of the Amur region, in a historic gold mining area with well-developed infrastructure.

Kopy Goldfields paid no acquisition price for the licenses, but instead earn into the project based on the investments made in exploration activities. Partners in the project are well-established local entrepreneurs.

### Share issue

During October-November 2018, SEK 21.6 million was raised by Kopy Goldfields via a preferential rights issue. The share issue was subscribed to 111.2 per cent, with 90.5 per cent of the shares subscribed by shareholders using their preferential rights.

A loan of SEK 15 million was granted by Scandinavian Credit Fund I AB in February 2018. The loan bears an annual interest rate of 11.75% but no arrangement fee and is due for repayment in March 2021.

## KEY FIGURES 2018

	2018	2017	2016	2015	2014	2013
Earnings per share, SEK	-0.52	-0.17	-0.08	-0.07	0.37	-2.27
Equity/assets ratio, %	78.2	85.7	95.7	89.3	90.8	88.7
Investments in exploration and evaluation, KSEK	2,518	2,291	1,913	2,672	1,859	19,376
Investments in licenses, KSEK	25					18
Investments in joint ventures, KSEK	5,131	8,541	8,626			
Market capitalization, MSEK	118.4	103.8	91.0	40.0	23.4	49.3
Average number of employees	9	7	6	8	14	38

# KOPY GOLDFIELDS IN BRIEF

Kopy Goldfields AB (publ) (ticker: KOPY) is a public junior Swedish gold exploration company, listed on Nasdaq First North, Stockholm. The company was established in 2007 following the acquisition of a gold deposit named Kopylovskoye. During the last ten years, the company has acquired 21 additional licenses, of which six have been sold and two have been returned to the Russian state. The current 14 licenses cover an area of 2,159 km<sup>2</sup> and are located in Lena Goldfields of Siberia and in the Amur Region of the Russian Far East. Total mineral resources according to JORC amounts to 1,832 koz.

## VISION AND STRATEGY

Kopy Goldfield's vision is to become a world-class gold exploration company with focus on Russia. Our strategy to achieve this is to:

- Identify and acquire high potential gold projects, located within the established area of alluvial and bedrock gold mining in Russia
- Develop the projects into mining operations in cooperation, or under joint venture agreements, with major international or Russian national producers to maximize shareholders' returns
- Maintain a pipeline of bedrock exploration projects at different stages
- Attract and retain strong international and Russian geological expertise
- Combine Russian geologic knowledge and science with international management, "best industry practices" and modern and efficient technology in order to identify and explore mineral deposits in a cost-efficient way
- Establish a small but efficient organization with the right competencies in exploration and mining
- Build-up professional and friendly relations with regional authorities and communities in order to support the company's growth and development
- Develop exploration and mining activities in a safe and environmentally friendly way in compliance with Russian and international industry standards

## PROOF OF CONCEPT

- In 2018, Kopy Goldfields sold the Kopylovskoye gold project, consisting of four licenses. The project was acquired in 2007 and an exploration program was developed at the site during 2008-2011. The exploration reported 7.4 tons of C1+C2 bedrock gold reserves when the project was sold to Russian investors. The total sales price equalled MUS\$ 6.
- In 2014, the two licenses Kavkaz and Prodolny were sold for MRUB 50 in cash, corresponding to approximately MSEK 10.
- In 2014, after three years of exploration, Kopy Goldfields sold 51 per cent of the Krasny license to the Russian gold producer GV Gold. GV Gold paid MUS\$ 3 in cash to Kopy Goldfields and invested MUS\$ 6 for further exploration.

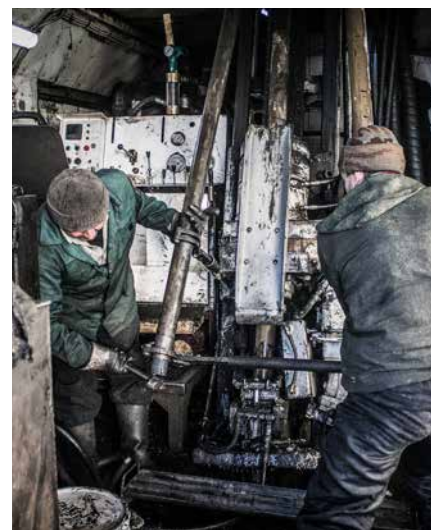
IDENTIFY  
TARGET AREA

GET LICENSE

PROSPECT  
& EXPLORE

CASH-IN OR  
FARM-OUT

**BUSINESS CONCEPT** Kopy Goldfields business concept is to create value by identifying and acquiring high potential gold projects, located within the established area of alluvial and bedrock gold mining in Russia, prospect and explore them until they reach the stage of being ready to be sold for cash or further developed in cooperation with a partner.



Ten of the licenses are located in Lena Goldfields – one of the most gold rich and underexplored area of the world

# 1.8 Moz

of mineral resources under JORC including 100% of the Krasny license

# 14

exploration and production licenses

# 2,159

sq. km exploration area

## HISTORY

The key events in the history of the Company are listed chronologically below:

- 2006** Central Asia Gold AB (CAG) acquires OOO Kopylovsky and the Kopylovskoye license.
- 2007** Kopylovskoye AB is founded as a subsidiary to CAG and becomes the owner of OOO Kopylovsky.
- 2008** Acquisition of the Prodolny and Kavkaz licenses. Exploration activities for the Kopylovskoye project commenced. Kopylovskoye AB shares are distributed to CAG's shareholders in a spin off and becomes an independent company.
- 2009** Exploration and development work continues following positive results from an evaluation made by SRK Consulting.
- 2010** Acquisition of the Krasny, Pravovesenny and Vostochnaya licenses. The Company is listed on Nasdaq First North Stockholm.
- 2011** Acquisition of the Takhtykan license. The Company changes name to Kopy Goldfields AB. The Company publishes its first international mineral resource report in accordance with JORC for the Kopylovskoye deposit. Eldorado Gold Corp becomes a major shareholder in Kopy Goldfields. The Krasny license shows substantial gold contents and grades.
- 2012** Acquisition of the Purpolskaya and Verkhnyaya Orlovka licenses as well as six licenses in the Maly-Patom area of Lena Goldfields, covering a total area of 1,852 km<sup>2</sup>. The company reports an international mineral resource report according to JORC for Krasny.
- 2013** Updated JORC report for Krasny. A scoping study for Krasny indicates favourable conditions for open pit mining of 60 koz gold/year during 18 years. Two licenses, Kavkaz and Prodolny, are sold for MRUB 50 in cash (approx. MSEK 10). A letter of intent is signed with the Russian gold producer GV Gold regarding the Krasny license.
- 2014** Two licenses, Purpolskaya and Verkhnyaya Orlovka, are returned to the Russian state as they are considered as being too early in the exploration stage. A joint venture is formed with GV Gold to take Krasny to production. According to the agreement, GV Gold invests MUS\$ 9 for a 51 per cent stake of the licenses. Step 1 of a new, joint exploration program on Krasny is initiated.
- 2015** Step 2 of the joint exploration program for Krasny is initiated. The results from step 1 and 2 are used for mineral resource reports according to GKZ and JORC, as well as for production planning.

Test results from metallurgical processing tests indicate that the same technology can be used for both the oxidised ore and the primary ore with an estimated gold recovery of 90 per cent for the primary ore and 78–79 per cent for the oxidised ore.

- 2016** A substantial gold mineralization in the lower structure of Krasny is confirmed. The GKZ authorities in Irkutsk formally approve a GKZ report, confirming gold reserves of 9.7 tons (314 koz) in the C2 category. An updated JORC report is issued, showing 288 koz of Indicated mineral resources and 667 koz of Inferred mineral resources within an economically mineable open pit. A scoping study confirms feasibility in the Krasny mine development. Feasibility studies are commenced and a new exploration program initiated.
- 2017** An updated mineral resource report according to the JORC code issued by Micon International confirms a 45 per cent increase in resources to 1,388 koz of gold. The increase primarily relates to the new gold structures identified within the northern part of Krasny – Vostochny. Results from a scoping study are released, including several options for production on the Krasny project. All scenarios return positive free cash flows. A new exploration program for Krasny is carried out, showing that there is a significant potential for a further resource increase. Meanwhile, geochemical tests at the Maly Patom licenses confirm that this is a high potential area.
- 2018** Results from the 2017 exploration program, covering seven out of 21 identified exploration targets on the Maly Patom licenses, are reported, confirming a strong exploration potential. Three anomalous geochemical areas are identified and now ready for drilling and trench sampling. In the first quarter of 2018, a new mineral processing test for the Vostochny gold mineralization is completed. It confirms that it is a similar type of gold mineralization as Krasny and that they can be developed together, sharing the same infrastructure and processing plant. The total gold recovery for the Vostochny gold ores is reported at 90.2 per cent. In June, a JORC mineral resource update is announced for the Krasny project, showing a 32 per cent increase in gold resources to 1,832 koz since 2017. The resource estimation includes both Krasny and Vostochny. During the summer several new licenses in the Amur region of Russia are acquired, covering an area of 104.4 km<sup>2</sup>. In addition, one license at an area of 83 km<sup>2</sup>, located only 40 km from Bodaibo is also acquired in September. Meanwhile, Kopy Goldfields hands over the operatorship of Krasny to GV Gold during the year and also decides to exit the 49 per cent stake in the project. The sales process is initiated during the autumn 2018. In December 2018, the sales agreement for the Kopylovskoye project is signed. The buyer represents a group of Russian private investors and the sale price is MUS\$ 6.

## WORDS FROM THE CEO

# FULFILLING OUR STRATEGY; EXIT OF ADVANCED PROJECTS, ACQUISITION OF NEW EXPLORATION PROPERTIES

In 2018, we made the strategically important decision to exit our most advanced gold projects, while intensifying our search for new, high quality exploration properties. There were several reasons for this; one was to realize the value we have created through developing the Kopylovskoye and Krasny projects, another to secure the long-term potential of the company. Our main expertise lies in identifying high potential gold mining areas, while cooperating with partners to develop them into production. We are proud to have proven the success of this strategy through moving the Krasny project from the initial greenfield stage to the current total of 1.8 Moz of I&I gold resources. We are also proud of the attention we received over the year from both investors and the mining community as one of the few junior Russian gold exploration companies, with our share issue being oversubscribed by existing shareholders.



A major part of our efforts from 2010 and onwards have focused on developing our flagship project Krasny, located near the mining city of Bodaibo in Lena Goldfields. In 2014, we entered into a partnership with Russian gold company GV Gold to continue developing the highly promising gold deposit together, with Kopy Goldfields as the operator of the exploration activities. The assignment of leading the initial prospecting and exploration was finalized at the beginning of 2018. We are proud

of the fact that we have moved the Krasny project from the initial greenfield stage to the current total of 1.8 Moz of I&I gold resources, as reported by Micon in May 2018 in accordance with JORC – up 34 per cent over the year. In addition, as the mineralizations are open along both the strike and down dip, we see strong further potential for gold resource growth. At this stage, we had two options; either continuing to develop the deposit into mine production, or to exit the project. We believe it is a good time to look for an exit – if we find the right buyer prepared to pay the right price. Our overall target is that the project shall generate return to our shareholders. In parallel with the sales process, we are reviewing different options with our partner on how to proceed with Krasny to get the best outcome for all parties.

### Sale of the Kopylovskoye project

By the end of 2018, we also completed the sale of the Kopylovskoye project. The project combines four bedrock gold exploration and production licenses: Kopylovskoye, Vostochnaya Ploshad, Pravovesenny and Takhtykan. The sale process turned out to be legally challenging, as the initial buyer of Kopylovskoye, with whom we signed an agreement in July 2018, failed to pay as scheduled. We therefore decided to contest and reverse the initial agreement and restore our ownership of the project. Finally, we found a new buyer. The total sale price is USD 6 million cash payable in several installments until the end of 2021. If all payments are accelerated and completed by December 31, 2020, the total price will be reduced to USD 5 million. The first payment was duly received and the new owner is enthusiastic about the project and is preparing for the 2019 development season.

### New projects

After more than a decade of operating in Russia, we have achieved a solid track record and long experience of running successful exploration projects. To utilize our exploration expertise, we will continue looking for new projects in the area. The completed sale of the Kopylovskoye project and the proposed exit from the Krasny project, both representing short-term wins for our portfolio of assets, have also enabled us to intensify our search for new, promising exploration properties.

Within the Bodaibo area and in addition to our existing Maly Patom project, we acquired a new prospecting license called Verkhovya Tamaraka. The license is located close to the city of Bodaibo with its well-developed infrastructure. We are now





summarizing the historic exploration data and will then propose a new exploration program to understand the potential of the license.

Meanwhile, international interest in Lena Goldfields is increasing, following the sale in January 2017 of Sukhoy Log, one of the world's largest undeveloped deposits with approximately 1,953 tons (62.8 Moz) of gold. Sukhoy Log's annual gold production is expected at 56-60 tons of gold per year, which is three times more than the total current gold production in the area. Not only has the sale increased international focus on the area, the exploitation of the deposit is also expected to provide a significant improvement of the local infrastructure – and thus a reduction of the mining costs in the area.

In 2018, Kopy Goldfields also entered its first alluvial gold exploration project outside Lena Goldfields - in the Amur region of the Russian Far East. The project combines four exploration properties with total area of 115 sq. km located in a historic gold mining area with well-developed infrastructure. During the autumn, we completed a limited revision program including some exploration drilling and sample testing to understand the scope of the project. When we entered the project we had very high expectations, but currently we are reviewing other options for the project since the exploration results do not seem to support these high expectations.

#### **Positive sentiment**

During the year, we have noted that interest in our company has increased. One important sign was that our share issue was oversubscribed. Another the amount of attention we have received

from the international mining community. In 2018, we were invited to speak and participate in panel discussions at the Eastern Economic Forum in Vladivostok, the MINEX Far East conference in Magadan, the China Gold Congress in Beijing, and at the MINEX conference in Moscow. We were also pleased to welcome the delegation from the Ministry of natural resources of Russia to our booth to discuss our projects and to give our view on certain aspects of the industry. Just back from an intense week of meetings and presentations at the PDAC conference in Toronto, I conclude after comparing with other projects that we have a good asset in Krasny in combination with good potential in our greenfield project.

There is an increasingly positive market sentiment around gold. We have proven that our business concept works. And we can now look forward to the exciting prospect of entering into new projects. Together, this means that the future of the company looks promising indeed. On behalf of Kopy Goldfields, I thank you for your interest and support of the company. As always, I recommend a visit to [www.kopygoldfields.com](http://www.kopygoldfields.com) for further information on our operations. Together with my colleagues, I will continue to do my best for the company.

Stockholm in April 2019

Mikhail Damrin  
CEO Kopy Goldfields

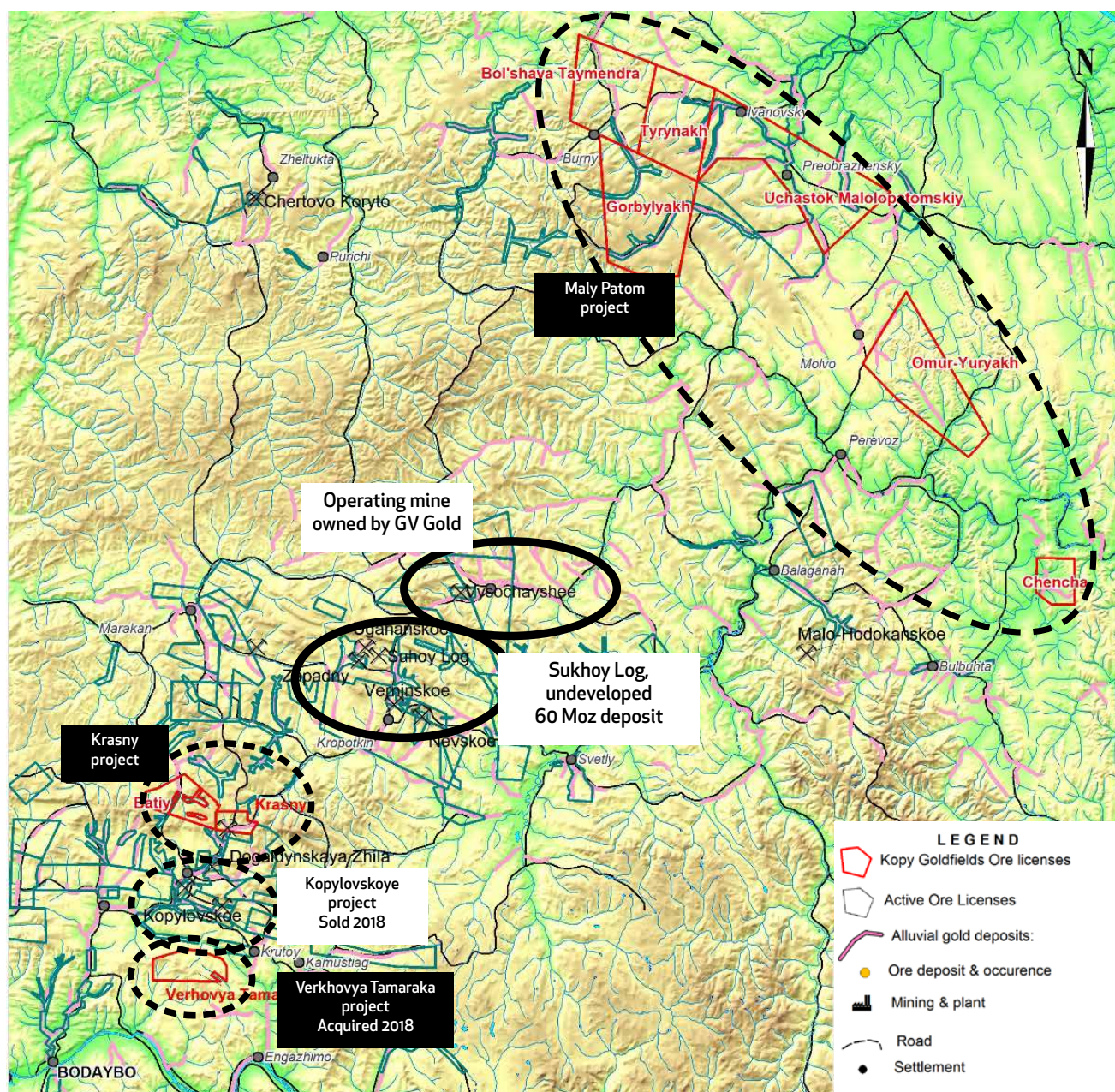


# EXPLORATION PROJECTS IN DIFFERENT STAGES

The company has a diversified portfolio of exploration targets in different stages. Kopy Goldfields currently holds nine bedrock and five alluvial exploration and production licenses. All licenses have been grouped into a portfolio consisting of four projects: Krasny, Maly-Patom (previously the Northern Territories), Amur and Verhovya Tamaraka.

Krasny, consists of three licenses (Krasny bedrock, Krasny alluvial and Batiy bedrock) with a total area of 117 km<sup>2</sup>. The Maly-Patom project is split into six bedrock licenses (Tyrynakh, Bolshaya Taimendra, Gorbylyakh, Omur-Yuryakh, Chench, Malo-Patomsky) with a total area of 1,852 km<sup>2</sup>. The newly acquired Amur project currently includes four alluvial licenses

(Evtukan, Bolshaya Kamenushka, Pad' Varnatskaya and Evtukan Verchniy) with a total area of 104.4 km<sup>2</sup>. In September 2018, a bedrock license in the Bodaibo area, Verhovya Tamaraka, was acquired but no exploration has been started.



## KOPY GOLDFIELD'S PROJECTS IN LENA GOLDFIELDS

Kopy Goldfields has developed a diversified portfolio of exploration licenses in Lena Goldfields. Within each license, one or several exploration programs may be conducted in parallel, with focus on projects with the highest potential.



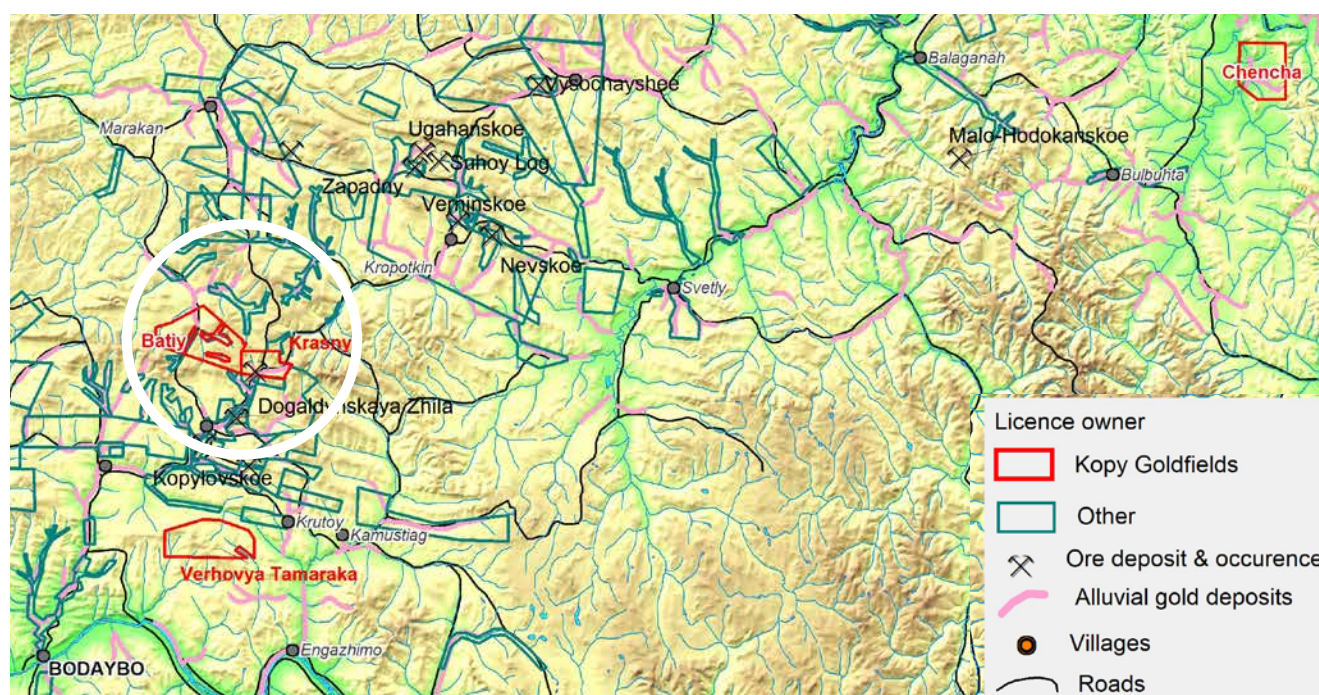


License	Project	Acquired	Mineral reserves according to JORC	Mineral resources according to JORC	Mineral resources according to GKZ	Valid until:	Ownership Kopy Goldfields AB	License area
Krasny (Bedrock)	Krasny	2010	Krasny Probable: 257 koz@1.09 g/t	Krasny Indicated: 290 koz@1.2 g/t Krasny Inferred: 1 201 koz@2.02 g/t Vostochny Inferred: 338 koz@1.57 g/t Signed by Micon 2018	C1+C2: 314 koz P1: 233 koz	2035	49%	31 sq km
Krasny (Alluvial)	Krasny	2015			P2: 1 koz	2030	49%	2.46 sq km (within the bedrock license)
Batiy	Krasny	2017			P3: 322 koz	2024	49%	86 sq km
Tyrynakh	Maly Patom	2012			P3: 578 koz	2037	100%	250 sq km
Bolshaya Taimendra	Maly Patom	2012			P3: 578 koz	2037	100%	289 sq km
Gorbylyakh	Maly Patom	2012			P3: 578 koz	2037	100%	417 sq km
Omur-Yuryakh	Maly Patom	2012			P3: 160 koz	2037	100%	365 sq km
Chencha	Maly Patom	2012			P3: 321 koz	2037	100%	71 sq km
Malo-Patomsky	Maly Patom	2012			P3: 578 koz	2037	100%	460 sq km
Verkhovaya Tamaraka	Verkhovaya Tamaraka	2018			P3: 1476 koz	2025	100%	83.08 sq km
Bolshaya Kamenushka	Amur	2016				2021	51%	12.85 sq km
Evtukan	Amur	2018				2023	51%	32.41 sq km
Pad' Varnatskaya	Amur	2018				2023	51%	1.45 sq km
Evtukan Verchniy	Amur	2018				2023	51%	57.71 sq km
Total			JORC: Probable: 257 koz	JORC: Indicated: 290 koz Inferred: 1,539 koz	Russian GKZ: C1+C2: 646 koz P1-P3: 4.152 koz			2.159 sq km

Kopy Goldfields Licenses, For further details about reporting of mineral resources, see page 20.

# PROJECT KRASNY

Krasny is Kopy Goldfields' most advanced gold project to date and consists of three licenses – the Krasny bedrock license, the Krasny alluvial license and the neighboring Batiy bedrock license. Exploration activities have been performed at the site since 2010, when the project was acquired from the Russian state through a competitive public auction. Located in the vast expanse of the Patom Highland in the Bodaibo area of Irkutsk region of Russia and 75 km from the city of Bodaibo, Krasny sits on an area of 31 km<sup>2</sup>. The area is known for its alluvial gold production with several placers (including three active) within, or neighboring, the license area. Kopy Goldfields' Krasny license is valid until 2035 and provides rights for bedrock gold prospecting, exploration and production.



Most of Kopy Goldfield's exploration efforts and funds was put into the Krasny project. An updated mineral resource report according to the JORC Code was finalized during the year, showing a 32 per cent increase y-o-y of the gold resources at the Krasny deposit to 1,832 koz. Exploration at the site has almost been finalized and Kopy Goldfields and GV Gold are now evaluating alternatives for an exit. The 49 per cent stake of the project, held by Kopy Goldfields, had a book value of MSEK 95, as per June 30, 2018.

## Geology and mineralization

The Krasny project is located in a gold rich lithological and stratigraphical area. It is characterized by intensive geochemical gold anomalies and rich alluvial gold deposits in the streams. The Krasny deposit is located within the Upper Riphean Vacha suite in the form of a single discontinuous-continuous mineralized zone, consisting of two saddle-shaped groups of vein-veinlet-disseminated quartz sulphide gold ore bodies (upper and lower), one ore body put upon another one. The mineralized zone is confined to the axial part of the main structure of the ore occurrence – the Rudnaya anticline. The anticline represents an oblique overfold of the southeast strike with the axial surface dipping at 70-85° northeast. The limbs are composed of bands of alternating sandstone and phyllites up to 60 m thick. The southern limb dips northeast at 85°, and the northern limb dips northeast as well at 45-75°.

Within the Krasny deposit, the mineralized zone is traced in trenches and boreholes from the exploration line 8 (northwest) to the exploration line 67 (southeast) at 2,360 meters. It is discontinuous-continuous lens-shaped or lens-shaped band-like in plan and saddle-shaped and lens shaped in section, with bends, bulges, splits and thinning out. The thickness is up to 20-80 meters at the flanks and up to 160-200 meters at the central part. The contours of the ore bodies have no clear boundaries and are defined on the basis of core and channel sampling results only. The oxidation zone is developed to the depth of 20-100 meters. The upper group of the ore bodies is about 1,200 meters long; the vertical span of the mineralization is 250 meters wide; the lower group of the ore bodies is 2,360 meters long, and the vertical span of the mineralization is 400 meters. The total span of the mineralization studied in boreholes is 590 meters (elevation 1,010-420 meters) the length along the strike is 2,360 meters. The intensity of mineralization correlates directly with the degree of occurrence of quartz-sulphide veinletting and imposition of other hydrothermal-metasomatic alterations.

The mineralized zone within the Vostochny gold occurrence is traced in trenches and boreholes for 2,340 meters from the exploration line 146 in the west to the exploration line 205 in the east. The gold mineralization is located within the northern and southern limbs of the upper structure and within the hinge zone of the lower structure. Within the upper structure, the ore bodies have



a thickness of 5-8 meters. The northern limb of the upper structure is dipping north-east at 45 degrees. The southern limb dips sub vertically. It is possible, that the hinge zone of the upper ore body has been fully eroded. The vertical span of the upper mineralization is 130 meters. The lower structure has been traced between the drill profiles 150 and 158. The lower mineralization is located at the saddle zone of the anticline. It dips to the north-east at 61-65 degrees. It has been traced for 100 meters down the dip. Both the upper and the lower mineralizations are open along the strike and down the dip. Vostochny and Krasny represent the same type of gold mineralizations and may be processed together.

Meanwhile, the quartz content in the mineralized zone does not exceed 2-3 per cent. The morphological type of mineralization is mineralized zones-beds with veinlet-disseminated quartz-sulphide mineralization with the total sulphide quantity up to 3-3.5 per cent. Hosting ore bodies are presented by alternation of carboniferous quartz-sericite schists, siltstone and sandstone of the Vacha suite. The main mineral type of ore is quartz low-sulphide (pyrite).

### Joint venture with GV Gold

In the summer of 2014, the Company entered into a joint venture agreement with the Russian gold producer GV Gold over the Krasny project. Under the agreement, GV Gold earned a 51 per cent interest in the Krasny Project by initially paying the Kopy Goldfields MUSD 1 in cash and by financing an infill exploration program followed by a reserve report in accordance with both the Russian GKZ classification and the international JORC standard. The budget for the total exploration program was MUSD 6 and was financed by GV Gold in full. The initial exploration program was developed in two stages and targeted the Upper Mineralization of the Krasny deposit closest to the surface and limited to the depth of 200 meters. In April 2016, following a formal approval of a mineral reserve report for the Krasny deposit by the Russian GKZ authorities in Irkutsk, Kopy Goldfields received a further MUSD 2 in a conditional consideration cash payment from GV Gold.

### Stage 1 - exploration to confirm existing model

During the first stage, exploration activities were aimed at confirming the existing model of the Krasny Central Upper mineralization to the depth of approximately 200 meters. The total budget for Stage 1 was estimated at MUSD 3, which was paid by GV Gold upon the signing of the joint venture contract. Exploration drilling started in July 2014 and was successfully completed on schedule by the end of November the same year. In total, 51 drill holes were completed, amounting to 7,916 meters of core drilling, while 1,712 meters of exploration trenches were also developed. In addition, three core holes covering a total of 582 meters were completed with the aim of collecting rock to run metallurgical processing tests.

### Stage 2 - aimed at planning gold production

Following the successful completion of Stage 1, GV Gold contributed the next MUSD 3 for Stage 2 in March 2015 into the joint venture. During spring, a preliminary production model was drawn up based on available data, in order to find the most optimal production scenario. Based on this, the Stage 2 exploration program was revised according to the updated scenario. The main objective of this stage was to collect information, as well as to plan for gold production on the Krasny license. The stage 2 drilling was commenced on June 10, 2015 and finalized on September 18 the same year.

Overall, 49 drill holes were completed, totalling 7,551 meters of core drilling. The drilling results confirmed and developed the geological model for Krasny deposit. Following completion of the Stage 2 exploration activities, an additional expansion drilling program was initiated on December 14, 2015 with the target of adding extra resources along the strike, but also filling in some blind spots between the drilling profiles left after the previous drilling.

This program was finalized on February 25, 2016 and included 16 drill holes and a total of 3,504 meters of core drilling. In December 2015, the technological mapping of the Upper mineralization within Krasny was initiated with the target to clarify the volume of the oxidized and primary ores to use as basis for modelling a production schedule and forecasting economic results. The final results from the assay testing were delivered in March 2016, confirming expectations of content and grade in the Upper mineralization. The Lower Mineralization was also tested, showing grades above 2 g/ ton and indicating an extra 20-23 tons of minable gold at the deposit, in addition to the 9 tons from the Upper Mineralization previously mapped out.

### Stage 3 - satellite gold mineralization discovered

The Stage 3 program was started in April 2016 and completed in February 2017. The program was partially financed by remaining funds from Stage 1 and 2, but also by a joint investment from Kopy Goldfields and GV Gold of MUSD 2, split in accordance with the ownership structure. The exploration program included a total of 100 core holes drilled, accounting for 19,622 meters of core drilling. In addition, 1,965 meters of trench sampling was performed and 21,822 fire assay tests for gold received. Most of the drilling was focused on the Central part of the Krasny deposit and within the Upper structure, with the target to upgrade the quality of the gold resources from Inferred to Indicated. The exploration results also confirmed the modelling of the Lower structure mineralization, with new high-grade intervals being discovered. The drilling results confirmed that the Lower mineralization's extend further along the strike both on the Western and the Eastern flanks outside both the initial model of 2012 and the reported JORC resources in 2016. On the western extension it also comes closer to the surface. The mineralization is still open to depth on most of the drill profiles.

During 2016, a satellite gold mineralization within the Vostochny structure was confirmed, which is located within 3-4 km from the Krasny Central. This mineralization is within the borders of the same Krasny license and makes part of the bigger Krasny project.

### Stage 4 - all targets achieved

The exploration program Stage 4 for Krasny was commenced in March 2017 and completed in December the same year, pursuing several targets:

- Infill Exploration drilling on the Lower Structure to convert part of Inferred resources of the Lower structure into Indicated category, to proceed with Feasibility Studies for the Lower structure;
- Prospecting of both the Upper and the Lower structures within Krasny, based on strong evidences for further increase of gold resources along the strike of mineralization;
- Exploration of the Vostochny mineralization along the strike as well as infill drilling;
- Prospecting within other parts of the Krasny license area with target to identify additional "Vostochny" type gold mineralizations.

During 2017, 79 core holes were drilled, totalling 19,569 meters. In addition to drilling, all trench sampling activities were finalized in October 2017. In total, 3,110 meters of trenches were developed and logged, of which 1,425 meters were sampled and assay tested. All targets of the exploration program 2017 were achieved. Kopy Goldfields was the operator of the exploration program for the fourth year in a row since the start of the joint venture operations in 2014. The budget for the 2017 exploration program was planned at MUSD 4.4 and the program was partially financed by a positive cash balance left after Stage 3 and partially by new investments by Kopy Goldfields and GV Gold to the amount of MUSD 2.1. Cumulative joint investments in the Krasny project totalled MUSD 17.8 by the end of 2017.

The most significant outcome of the drilling activities during 2017 was the discovery of the Lower structure at Vostochny



mineralization. Based on positive exploration results from 2017, the new 2018 exploration program on Krasny and Vostochny was commenced in January 2018. Exploration activities on Krasny during 2018 included 11,638 meters of core drilling, primarily within the Krasny and Vostochny structures and within the Batiy license area. Water flow tests, engineering studies, a geochemical survey, as well as new processing tests for Vostochny were also completed during the first half of 2018.

Since February 2018, the joint venture partner, GV Gold, is the operator of the exploration program on the Krasny project.

#### MINERAL PROCESSING STUDIES

The initial mineral processing test was made in 2012 with a 60 kg bulk sample, representing primary ore. The test confirmed an 85 per cent recovery with conventional gravitation-flotation-leaching technology. In February 2015, two bulk samples of 1,000 kg each were sent to the Irgiredmet engineering company in Irkutsk, Russia, for metallurgical processing tests. The results were received in November 2015 with a recommendation for similar processing technology for both the oxidized and primary rock with a projected total recovery of 90 per cent for the primary ore and 75 per cent for the oxidized ore. A second mineral-processing test based on new samples for the oxidized part of the Upper mineralization was carried out during December 2015-March 2016. The gold recovery via gravitation-flotation-leaching process for Oxide ore from the Upper structure totalled 78-79 per cent.

#### 2017

In April 2017, a mineral processing test of a bulk sample, representing the gold ore of the Upper structure, was completed by Irgiredmet. The total weight of the processed sample was 3,259 kg with an average gold grade of 1.92 g/ t. The test developed and fine tuned the previous metallurgical results and recommended a flow chart for the Krasny gold ore treatment processes. The proposed process will involve gravitation and flotation circles with further leaching of gravity and flotation concentrates. All operations will be developed on the Krasny site. The Krasny processing plant will produce gold doré bars, which will be further refined at an external refinery to bankable quality gold bars. The through gold recovery for the ore from the Upper structure is expected at 85.5 per cent, which is higher than previous processing test results. There is a further potential to increase gold recovery to some 89 per cent which is achieved for similar types gold ore at neighbouring plants in the area.

#### 2018

During the first quarter of 2018, a mineral processing test for the Vostochny gold mineralization was completed. The processing test was done by TOMS Engineering, a mining engineering consultancy firm based in Irkutsk, Russia. The target was to evaluate the possibility of processing the gold ore from the Vostochny mineralization using the flow chart previously proposed for the Krasny gold ores. The test confirmed that the ore from the Vostochny mineralization could be processed using the processing flow chart proposed for the Krasny ore with 90.2 per cent total gold recovery. The report confirmed that the gold ore from Vostochny could be mixed in any proportions with the ore from the Krasny deposit with no loss of gold recovery. It was proven that Vostochny is a similar type of gold mineralization as Krasny and may be viewed as a satellite deposit of Krasny. This means that Krasny and Vostochny may be developed together, sharing the same infrastructure and processing plant.

#### MINERAL RESERVE REPORTS ACCORDING TO GKZ AND JORC

On December 28, 2015, a mineral reserve report for the Upper mineralization of the Krasny deposit was completed and filed with the Russian GKZ authorities in Irkutsk. The report was formally approved by the Federal Agency on Subsoil Usage (subsidiary of the Russian Ministry on Natural Resources) in Krasnoyarsk on March 30, 2016. The report classified the Krasny mineralization to be a deposit with total ore reserves under the C2 category of 6,317 ktons with an average grade of 1.55 gr/ t, which makes 9,767 kg of gold (314 koz). The report recommends the deposit for pilot gold production.

In parallel to the GKZ report, reports on the mineral resources in accordance with the JORC provisions have been developed by Micon International Co Limited. Micon is a world leading mineral industry consulting company with offices in Toronto and Vancouver (Canada) and in Norwich (United Kingdom). Micon has previously been involved in other projects in the Bodaibo area and is therefore familiar with the local geology.

#### 2017

In February 2017, an update of the 2016 JORC resource estimation was initiated by Micon. The report was completed in September 2017 and confirmed a 45 per cent increase of the gold resources to 1,388 koz of gold y-o-y. The resource estimation included both the Krasny and Vostochny mineralizations. The report also included Probable reserves for Krasny. For Krasny, the resource estimation showed 273 koz of Indicated mineral resources (mineral resources of 7,617 ktons at an average grade of 1.11 g/ t Au) and 1,052 koz



of Inferred mineral resources (18,536 ktons at an average grade of 1.76 g/ t Au). The resource statement also reported 240 koz of Probable gold reserves (7,327 ktons at an average grade of 1.02 g/ t Au) as a part of total gold resources. Vostochny showed a total of 63 koz of Inferred mineral resources (1,114 ktons at an average grade of 1.76 g/ t Au). All resources were reported within economically minable open pits.

## 2018

In May 2018, field exploration activities on Krasny were stopped and an update of the JORC resource estimation was issued in early June. The report was developed by Micon International, which made the JORC resource estimations for Krasny in 2016 and 2017. The report was based on the exploration data acquired through March 2018. The new estimation of 1,832 koz of Indicated and Inferred gold resources for the Krasny project showed a 32 per cent increase since the previous year, reflecting successful exploration activities during 2017 and early 2018. The resource estimation included both Krasny and Vostochny. For the Krasny deposit, the resource estimation showed 291 koz of Indicated mineral resources (mineral resources of 7,539 ktons at an average grade of 1.20 g/ t Au) and 1,202 koz of Inferred mineral resources (18,515 ktons at an average grade of 2.02 g/ t Au). The Vostochny mineralization showed a total of 339 koz of Inferred mineral resources (6,689 ktons at an average grade of 1.57 g/ t Au). All resources were reported within economically minable open pits. The report also includes 257 koz of Probable gold reserves.

## Scoping study

Several scoping studies covering the Krasny development have been completed over the last few years. All have provided positive outcomes. The first report was made by Miramine Mining Consultancy in 2013. The next report was developed by Irgiredmet in 2016. In October 2017, an Investment justification report was commenced by TOMS Engineering, focusing on development of the Upper mineralization only. In parallel with the Investment justification report, TOMS Engineering also prepared a Scoping study for the development of both the Upper and Lower Mineralization. The study did not, however, include the newly

discovered Vostochny mineralization, leaving this as an upside. The study evaluated different gold production options, including the development of open pit production and a combination of open pit and underground mining. All production scenarios returned positive free cash flows. The best outcome is estimated when producing both the Upper and Lower mineralizations in an open pit, with total undiscounted free cash flow of MUS\$ 373 at a fixed gold price of 1,250 USD/oz and production costs of 601 USD/oz. The earlier planned scoping study for the Vostochny mineralization in 2018 was postponed, after the joint decision between Kopy Goldfields and GV Gold to start evaluating possible alternatives for an exit of the project.

## Batiy license neighbouring Krasny

In January 2017, the Krasny Joint Venture was granted a bedrock exploration license, called “Batiy”, with a total license area of 86 km<sup>2</sup>. The new license borders the Krasny license on the Northwest. The license was granted without auction on the “first come – first serve” basis for a period of seven years and provides rights for bedrock gold prospecting and exploration.

Based on knowledge of the Krasny deposit and the area, the Batiy license has a good geological exploration potential. The gold bearing structures of the Krasny deposit potentially continues within the Batiy license area, which is located on the western strike continuations of both Krasny deposit and Vostochny mineralization. There are several direct indications of a bedrock gold mineralization, including identified quartz veins type mineralization, geochemical anomalies of gold and pathfinder metals, as well as placer gold deposits. Within the boundary of the license area, a historic bedrock gold mineralization, called Antiklinalnoye, was previously reported with potential gold resources of 20 tons. Backed by the discovery of the Vostochny mineralization, the company forecasts discoveries of a similar scale as the Vostochny within the direct vicinity of the Krasny Central deposit, which will make it into one production cluster with several potential mine sites and a central ore processing plant located at the Krasny Central.

**Table 1. Mineral Reserve Statement for the Krasny Gold Deposit, Irkutsk Region, Russia, Micon International, April, 2018\***

JORC Reserves	Tonnage (kt)	Au grade (g/t)	Au (kg)	Au (koz)
<b>Krasny</b>				
Probable	7,342	1.09	7,999	257
<b>Total reserves</b>	<b>7,342</b>	<b>1.09</b>	<b>7,999</b>	<b>257</b>

### \*NOTES:

- Reserves stated as contained within an economically minable open pit stated above a 0.4 g/t Au cut-off;
- Pit optimization is based upon an assumed gold price of \$1,250/oz, metallurgical recovery of 77.5% for oxide ore, 87.8% for transition ore and 88.5% for primary ore. The open-pit slope angle is between 40 and 52 degrees for different directions. The operating cost values are \$1.38/t for waste mining, \$1.82/t for ore mining, \$6.95/t for ore processing, and G&A costs are \$5.54/t at fixed 60 Rub/USD exchange rate;
- Mining losses – 5%, ore dilution – 10%.
- Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding;

**Table 2. Mineral Resource Statement for the Krasny Gold Deposit (inclusive of Mineral reserves), Irkutsk Region, Russia, Micon International, April, 2018\*\***

Category	Tonnage (kt)	Au grade (g/t)	Au (kg)	Au (koz)
<b>Krasny</b>				
Indicated	7,539	1.20	9,045	291
Inferred	18,515	2.02	37,371	1,202
<b>Krasny total</b>	<b>26,054</b>		<b>46,416</b>	<b>1,493</b>
<b>Vostochny</b>				
Inferred	6,689	1.57	10,537	339
<b>Grand total</b>	<b>32,743</b>		<b>56,953</b>	<b>1,832</b>

### \*\*NOTES:

- Mineral Resources are not Ore Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into an Ore Reserves estimate;
- Resources stated as contained within a potentially economically mineable open pit stated above a 0.4 g/t Au cut-off;
- Pit optimization is based upon an assumed gold price of \$1,250/oz, metallurgical recovery of 77.5% for oxide ore, 87.8% for transition ore and 88.5% for primary ore. The open-pit slope angle ranges between 40 and 52 degrees for different pit wall orientations. The operating cost values are \$1.38/t for waste mining, \$1.82/t for ore mining, \$6.95/t for processing, and G&A costs are \$5.54/t processed;
- Mineral resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding;
- Mineral resources presented in Table 2 are inclusive of the reserves shown in Table 1.

## Exploration on Krasny

A summary of the exploration activities on Krasny are listed below:

### Historical exploration (before 2010) within the license area

- Detailed geochemical and geophysical survey of 1:25,000 scale
- 14,723 meters of core drilling
- 130 meters of underground shifts

### Exploration activities 2010 – 2015

- Recognizance geological mapping of 100 km
- 103 km of exploration trenches
- Review and digitalize historic exploration data. Design of exploration activities
- Totally 30,764 meters of core drilling 100 drill holes
- Scoping study report and updated mineral resource estimation
- Engineering and metallurgical processing tests
- Mineral reserve report under the GKZ-regulations
- Mineral resource report under the JORC-code
- Hydrological tests

### Activities 2016

- Mineral resource report under the JORC-code published
- Mineral processing flow chart commenced
- Investment justification report commenced
- 95 drill holes
- 18,838 meters of core drilling
- 1,965 meters of exploration trenches

### Activities 2017

- New bedrock exploration license “Batiy” granted, bordering the Krasny license to the northwest and covering 86 km<sup>2</sup>
- Results from a mineral processing test of Krasny ore confirm 85.5 gold recovery with an average grade of 1.92 g/t
- Updated JORC resource report released showing 45 % increase of gold resources
- New scoping study based on several production scenarios – all yielding positive free cash flows
- 79 core holes drilled, totaling 19,569 meters

### Activities 2018

- A JORC resource estimation for Krasny shows a 32 per cent increase of the gold resources to 1,832 koz for the Krasny project since 2017.
- Results from a mineral processing test of Vostochny ore confirms a 90.2 per cent gold recovery, using the same flow chart proposed for the Krasny ores.
- Drilling of 11,638 meters of core holes, primarily within the Krasny and Vostochny structures and within the Batiy license area

Kopy Goldfield share of expenses related to the exploration activities conducted in 2018 amounted to KUSD 552. The company has the right to postpone the payment of this for up to 360 days. Thus, the payment must be made before July 2019, in order for the 49 per cent stake to be retained.

## Total investments

Cumulative joint investments into the Krasny project totalled MUSD 17.8 at the end of 2017.

Kopy Goldfields and GV Gold have agreed to finance Krasny with additionally MUSD 2.3 to cover the 2018 exploration and development program and sales costs for marketing Krasny. GV Gold has already paid its part. For Kopy Goldfields to keep the 49 per cent interest, KUSD 552 shall be paid by July 2019.

## Economics

Scoping Study done by TOMS Engineering and published in December 2017 shows the following (excluding any statutory tax benefits):

- Total gold mined: 40.6 tons of gold (1,304 koz)
- Average grade: 1.68 g/t
- Mine and plant capacity: 1,600 ktons of ore per annum
- Gold recovery: 86 %
- Life of mine: 17 years
- Total gold produced: 34.9 tons (1,123 koz)
- Average gold price: 1,250 USD/oz at fixed RUB/USD rate of 60
- Initial capital costs (no VAT): MUSD 182 (mill, open pit, infrastructure, equipment and machinery)
- Total production costs (mining, processing, royalty and admin), LOM: 601 USD/oz
- Annual average revenue from gold sales: MUSD 82.5
- Annual average profit before profit tax: MUSD 28
- Undiscounted project value (Free CF): MUSD 373 (MUSD 490) pretax
- Average strip ratio, LOM: 5.1 m<sup>3</sup>/t

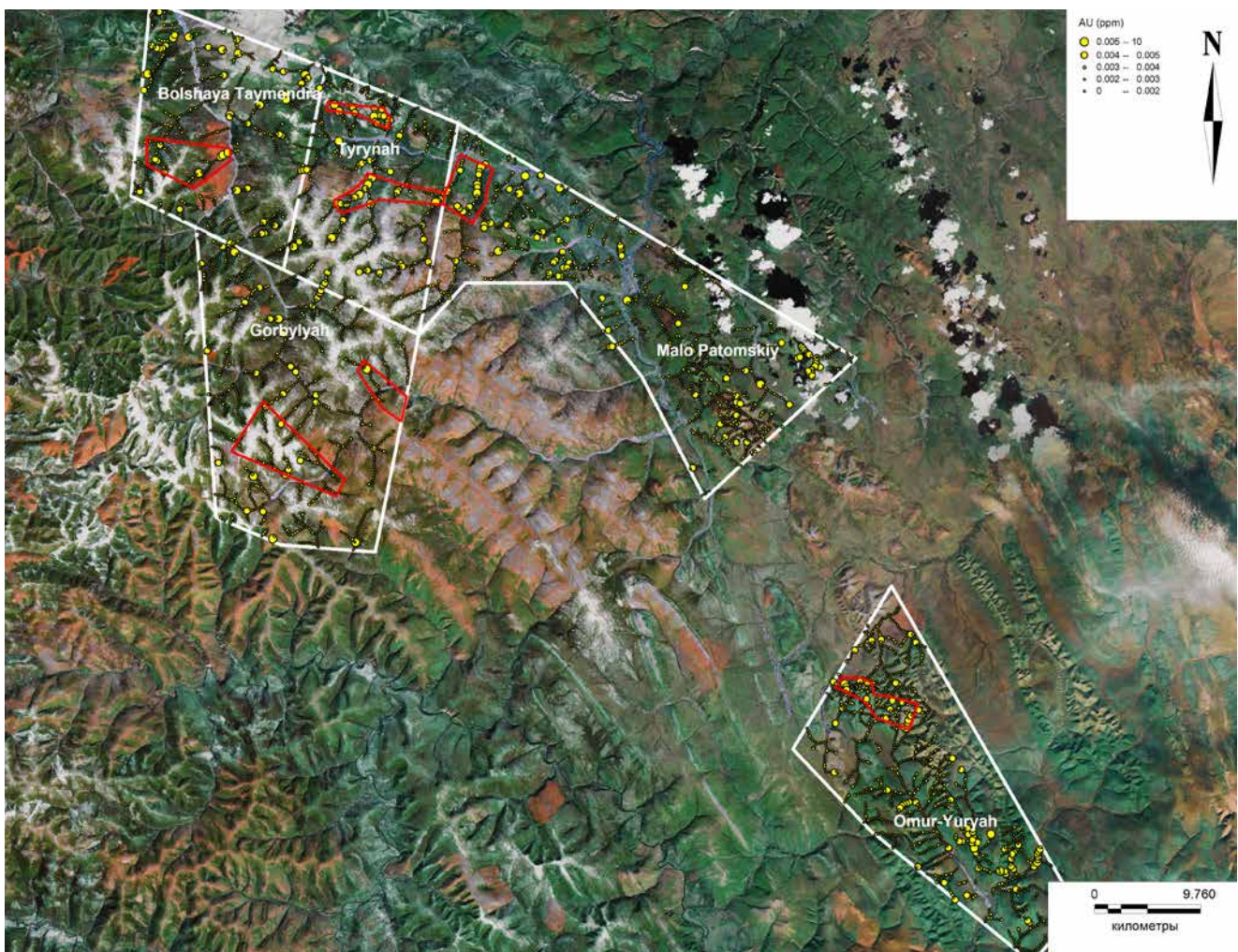
## Going forward

Having developed the Krasny project from the initial greenfield to the current Prefeasibility stage of exploration from 2010 to 2018, Kopy Goldfields and GV Gold believe it is a good time to realize the value of the project. Kopy Goldfields is now committed to exit the Krasny project during 2019.



# PROJECT MALY PATOM (THE NORTHERN TERRITORIES)

The Maly Patom-area, previously referred to “the Northern Territories”, is located to the north of Bodaibo and covers a total area of 1,852 km<sup>2</sup> (182,500 ha), split into six properties that were acquired at the end of year 2012. Kopy Goldfields’ licenses for bedrock gold prospecting, exploration and production in the Maly Patom project are valid to 2037, with extension options. The area is located in the Patomo-Nechersky gold district within Lena Goldfields, with a 100-year history of successful alluvial gold mining and with many active mining projects of this type currently under way.



Geographic location of the Maly Patom licenses

A majority of the river valleys in this part host alluvial gold deposits and placer miners have reported pristine gold grains in the area, which indicates the existence of bedrock sources of alluvial gold nearby. No serious and consistent bedrock gold exploration, however, has been conducted in the area to date.

The general geological opinion is that there is a high potential of elephant gold discoveries in the license area. The geology and age of the rock in the area is similar to that of Sukhoy Log, with stratigraphy, lithology and structural setting favorable for primary gold mineralizations. There have been numerous reports from the area of secondary gold halo, zone and points of gold mineralization, as well as many grab samples with gold. Based on the known deposits

in the area with similar characteristics, the Company is looking for strike extensions of above 500 meters and steep ore bodies with a thickness of 30 meters and upwards. Mineralizations consist of gold-sulphide, disseminated and veinlet-disseminated in black shale complexes.

## Exploration approach

During the initial review of the historic exploration data and maps of the licenses, preliminary targets were identified based on a combination of geochemical anomalies, vicinity of alluvial mines, grab samples with gold and high concentration of pathfinder elements. Kopy Goldfields has prepared an exploration program

for the project and the exploration approach includes covering the whole area with initial survey and further step-by-step target prioritization in order to reduce the whole area to 3-5 high potential targets, with at least 1 Moz resources each. By the end of the program, outlined below, the Company intends to report initial JORC Inferred resources for 3-5 targets.

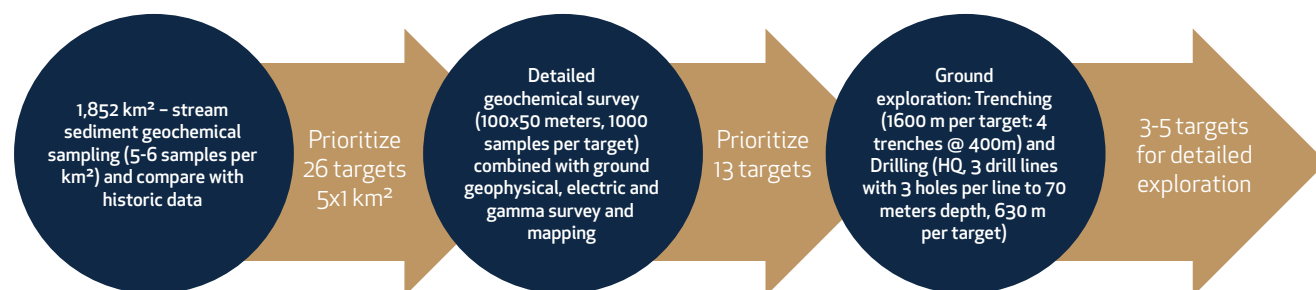
Based on characteristics of major gold deposits within Lena Goldfields (Sukhoy Log, Verninskoye, Vysochaishy) with similar geology to the area, the following exploration parameters are expected for the Maly Patom project:

- Strike extension of gold mineralization: from 500 meters; steep ore bodies with thickness from 30 meters
- Type of gold mineralization: gold sulfide, disseminated and veinlet-disseminated in black shale complexes
- Average gold grade: around 2 g/t

### Exploration program 2016

During 2016, stage 1 of the exploration program was commenced with the target of covering the total licence area with a systematic and modern method for exploration, to identify and prioritize multiple targets during the first year of field operations. The plan was to verify historic data and to identify new clusters for the next stage of exploration. Initially, the whole area of 1,852 km<sup>2</sup> was covered with a stream sediment survey with a density of 5-6 samples/km<sup>2</sup>. In total, 5,380 samples were collected and analysed, both for gold and 24 other chemical elements. The collected geochemical data was then used to develop geochemical maps of gold and concomitant elements distribution. A statistical review of the identified anomalies based on gold and pathfinder elements was completed. Further, multiplicative anomalies were identified and mapped for every license area. These anomalies, identified in the 2016 exploration activities, were compared with historic exploration data existing before

### Exploration approach Northern Territories



2016. Comparing the historic and the new exploration results, 21 exploration clusters were selected for more detailed Stage 2 follow-up explorations with a total exploration area of 243 km<sup>2</sup>.

### Exploration program 2017

In 2017, stage 2 of the exploration program was carried out, covering seven of the 21 exploration targets that were identified during the 2016 stream sediment survey. A detailed geochemical survey at 200\*50 meters grid, together with geological mapping, was conducted of the area, corresponding to 122 km<sup>2</sup>. In total, 12,896 soil samples were collected and analyzed for 32 chemical elements plus gold.

Results from the 2017 exploration program were reported in February 2018. The results confirmed the expectations of the Maly Patom being an area with high exploration potential. In line with the target, it was possible to scale down the exploration area further and three anomalous geochemical areas were identified with a total area of 10.2 km<sup>2</sup>. All three anomalies, called Mezhdurechnaya, Sekushaya and Polovinka, corresponded to the exploration parameters and target gold deposits of 1+ Moz and are now ready for drilling and trench sampling. In addition to these drilling and trench sampling targets, there are still another 14+ targets from 2016 left for detailed

geochemical survey, similar to the exploration done in 2017. Alluvial (placer) gold mining operations are currently being developed areas by external producers within the Maly Patom license under separate alluvial licenses.

### Major events at Maly Patom in 2017-2018:

- Exploration program covered seven out of the 21 exploration targets identified during the 2016 stream sediment survey
- 12,896 soil samples collected and analysed
- Great exploration potential for gold confirmed and 14 clusters left for detailed geochemical survey
- Three anomalous geochemical areas were identified with a total area of 10.2 km<sup>2</sup> that are ready for drilling and trench sampling.

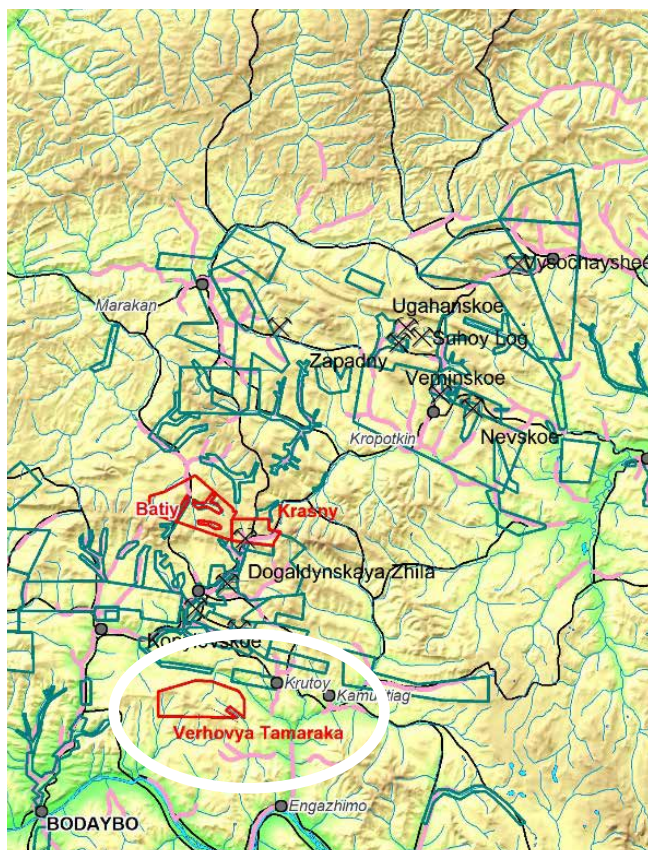
### Going forward

The Company believes in a great exploration potential of the area. Within the next two years of exploration activities, the first gold resources may be discovered and reported within the area, which would significantly increase the value of the Company. Kopy Goldfields is currently in discussion with several global mining companies over options to develop further exploration on the Maly Patom in partnership.



## NEW PROJECTS **AMUR** AND **VERKHOVYA TAMARAKA**

In 2018, Kopy Goldfields started two new gold projects. In June, a new alluvial gold exploration project in the Amur region in the far eastern Russia was initiated, while in September a new exploration property, Verkhovya Tamaraka, located in the Bodaibo area was acquired.



Geographic location of Kopy Goldfields' license Verkhovya Tamaraka

### **VERKHOVYA TAMARAKA**

Verkhovya Tamaraka, is located 40 km from Bodaibo and covers an area of 83 sq. km. Kopy Goldfield's license provides the right for bedrock gold prospecting and exploration for seven years. The license was issued by the Russian State and was acquired on a "first come, first served" basis with no upfront payment. If gold is discovered, Kopy Goldfields is entitled to a priority production permit for the area.

Exploration activities have been conducted in the area previously. However, only quartz veins and zones of quartz mineralization cropping out to the surface were appraised during the previous works. The sites in-between the vein space remains unstudied and the analytical opportunities for gold detection in lithogeochemical samples in the 60s left much to be desired. The geochemical prospecting carried out in 1985 confirmed the presence of contrast gold, silver and arsenic anomalies within the site, but they were not confirmed although recommended as priority ones.

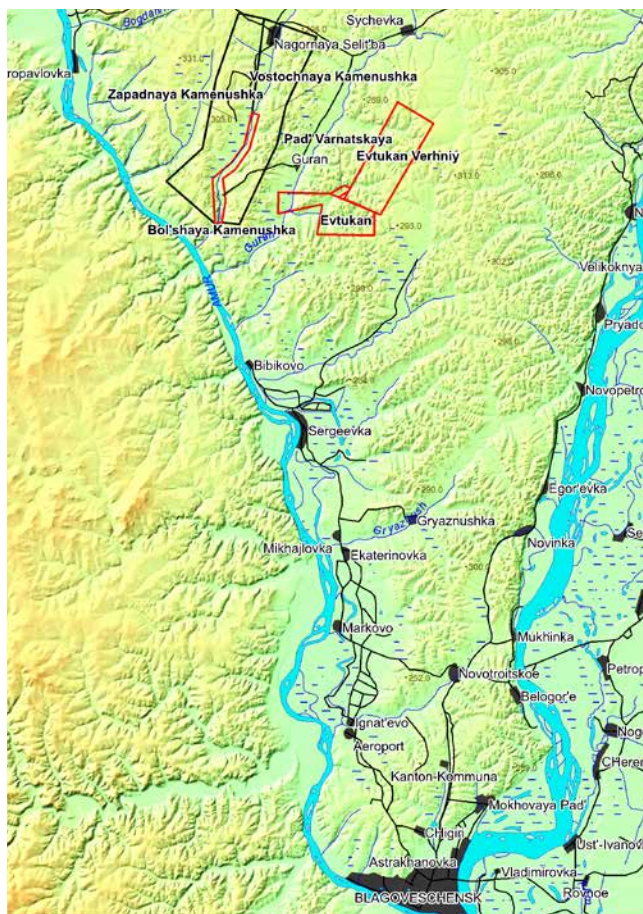
Based on the information acquired during previous studies, the presence of gold ore mineralization in the space between the veins within thin alternation of sandstones and siltstones can be expected. The nature of secondary halos (wide development of arsenic and silver anomalies) allows assuming the above-ore truncation within the site, and expecting commercial grades at the economically feasible depth within the Olyorsko-Bodaibinsky upthrust. The predicted mineralization type is combined quartz-vein and of the zones of quartz-sulfide disseminated mineralization with the potential of about 10-15 t of ore gold.

### **AMUR**

The Amur project includes four alluvial exploration properties covering 104 sq. km, valid for five years. The project is located within 60 km from Blagoveshensk, the capital of the Amur region, in a historic gold mining area with well-developed infrastructure. The first alluvial gold in the Amur region was mined in 1867. The majority of deposits currently being developed in the Russian Far East were opened and surveyed during the Soviet period. The Amur province is the third largest gold producing region in Russia, with 834 koz produced in 2017. In total, the Amur region has produced 1,100 t (approximately 33.6 Moz) of gold to date.

Kopy Goldfields paid no acquisition price for the licenses, but will instead earn into the project based on the investments made in exploration activities. Partners in the project are well-established local entrepreneurs. As a first step, Kopy Goldfields has received a 51 per cent controlling interest in the project against future investments into explorations with an option to increase to 75 per cent.

A limited revision program, including some exploration drilling and sample testing, was completed in 2018 in order to verify historic data and confirm exploration upside. The project was started with very high expectations. Unfortunately, our exploration results do not seem to support these high expectations. Currently different options for the project are discussed, including divestment. The final decision on how to proceed with the Amur project will follow later.



Geographic location of Kopy Goldfields' licenses for the Amur project



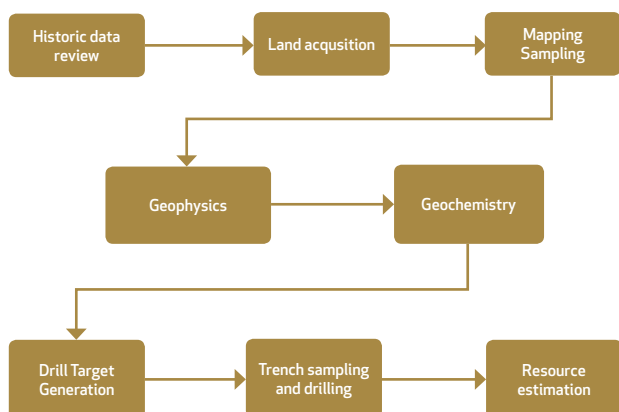
# EXPLORATION

Kopy Goldfields' operations consist of exploring for the presence of gold within areas for which the Company holds licenses for gold exploration and production. The goal is to identify the gold deposits with the highest potential for future development into mineral reserves – ultimately resulting in gold production with a cooperation partner or a cash sale.

Kopy Goldfields' exploration work is conducted in several stages and based on methods such as studying historical data, electric and magnetic surveys, soil sampling, trench sampling, drilling, analysing, evaluating and modelling, each of which requires great experience and knowledge for correct interpretation.

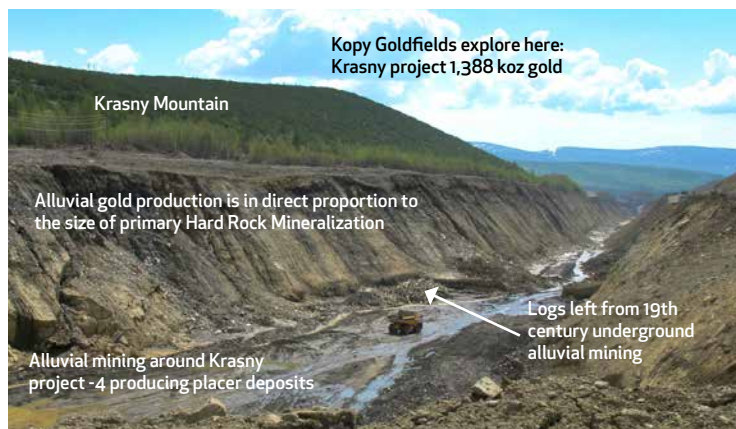
Some of the license areas controlled by Kopy Goldfields in Lena Goldfields were subject to bedrock exploration by Soviet geologists in the 1960'-80's. Exploration work after acquiring a new licence typically starts by reviewing this historic exploration data. The next step is to locate geological anomalies and get a first indication of a mineralization. Airborne surveys are sometimes used for covering large areas.

## EXPLORATION PROCESS



Once indications of a mineralization have been located, the next step is soil sampling and electric-magnetic surveys. These steps of the exploration process are relatively cheap, as they do not require soil and rock movements. As a result of these surveys, a number of soil gold anomalies are identified and the best of them are promoted for further explorations. The next step is trenching to evaluate the bedrock gold anomaly at the surface. The topsoil is removed, a ditch is excavated, and trench samples are taken along the line drawn along the floor of the ditch. Along this line, geologist use saws for cutting out mineral samples. These samples are then sent for analysis to identify gold content.

## WE LOOK FOR BEDROCK SOURCES OF PLACER GOLD (KRASNY DEPOSIT)



## Drilling and evaluation

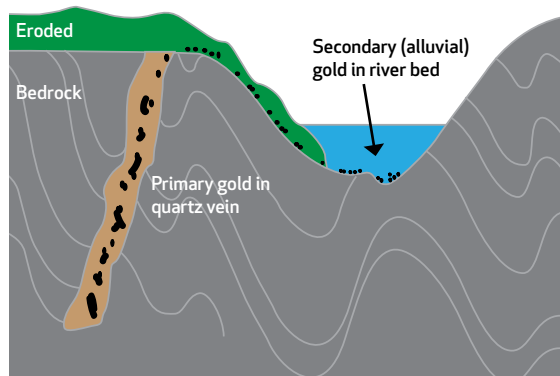
If surface samples indicate gold contents above common cut-off grades, the next step is drilling to evaluate the mineralization at depth. RC stands for Reverse Circulation and entails rock fragments – drill cuttings – being blown upwards, using compressed air in such a way that no contamination or mixing up of the samples can take place. The drill cuttings are chartered and sampled for chemical analysis. Core drilling is a method where you collect a core from the drill hole in order to analyse the grade, geology and structure of the mineralization.

As a rule of thumb, only one out of a hundred gold mineralizations identified ends up being a producing mine. The exploration process involves many phases, and costs increase as the project approaches a potential production start-up. Once the exploration work is completed, the deposit is evaluated to determine whether the technical and economical preconditions exist for starting a new mine.

## Reporting according to JORC and GKZ

Kopy Goldfields has decided to report all new mineral resources in accordance with the international JORC Code (Australasian Joint Ore Reserves Committee), which is sponsored by the Australian mining industry and its professional organisations. Resources are also reported according to GKZ rules, the Russian mineral reporting standard. JORC and GKZ reports, although using similar basic geological principals of resource calculation, are drafted under different framework and reporting procedures and therefore usually provide different estimations of resources and particularly reserves. This means that the outcome from the JORC report will not necessarily be the same as from the GKZ report. Developing and filing a GKZ report is a statutory responsibility for a Russian mineral producer to enable mineral production.<sup>1</sup>

When accepted by the Russian authorities, the GKZ report creates rights and obligations for a Russian producer in terms of annual production levels and gold recoveries/losses through mineral processing. It is also used as a basis for calculation of various taxes and commitments. The JORC-report is a globally accepted standard of reporting mineral resources and as such, the JORC-figures may be used when communicating with investors, banks or other international stakeholders.



The picture above visualizes how bedrock gold goes into the riverbed



# FROM EXPLORATION TO MINING IN RUSSIA

Russia has a strong mining tradition and is known for highly skilled mining specialists. It is also estimated to have the second largest minable gold reserves in the world. Gold mining, however, is not regarded as a strategic industry in Russia and international companies currently account for some 30 per cent of the gold production. Half of the top ten largest gold producing companies are also international, with a favourable tax legislation, amongst other factors, creating an attractive framework.

## Classification of mineral resources

The mining and tax legislation climate in Russia is favourable – it only takes 6-12 months in average to get production permits. Meanwhile, production costs are low as a result of a good supply of local expertise, combined with comparatively cheap electricity and fuel. Production costs in terms of USD is affected by the exchange rate of the Russian ruble. Cash cost for companies comparable to Kopy Goldfields, operating in Lena Goldfields, amount to 500-700 USD/oz.

Most exploration data in Russia goes back to the 1960-70s and new exploration data collected with modern technology is limited to brown field projects. The known gold deposits are not exploited to their full potential and large areas of Russia remain to be explored.

## Detailed system for exploration and mining

The Russian system for conducting exploration and mining operations is based on a detailed and objective description of how the process should be conducted, leaving less scope for professional estimations. It includes specifications for exploration methods, calculations of mineral resources and reporting.

All approvals of calculations of mineral resources and ore reserves in Russia are made by GKZ, which is the state authorities dealing with major deposits. On the regional level GKZ is represented by its branches, TKZ, which deals with the majority of deposits in Russia.

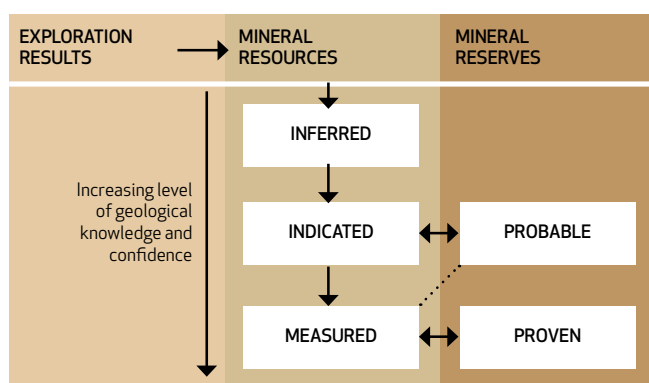
## Mineral resources and ore reserves

The Russian system uses a distinct system to classify mineralizations according to a number of qualities and characteristics. There are three main categories and seven sub-categories:

- Explored reserves and resources (A, B and C1)
- Examined reserves and resources (C2)
- Forecasted resources (P1, P2 and P3).

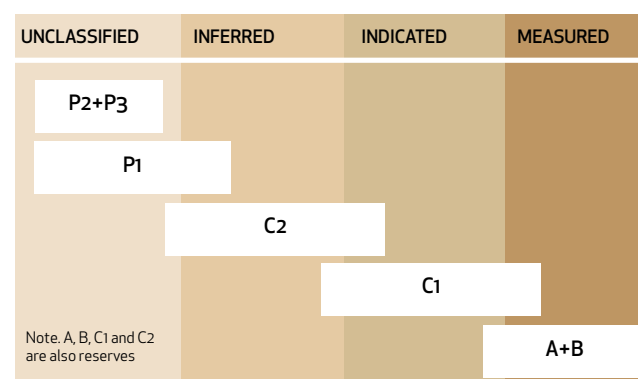
When deciding on commencing mining operations, normally the categories A, B, C1 and C2 are taken into consideration. This means that these categories could be roughly compared to the international system when it comes to measured and indicated ore reserves.

BASIC WESTERN APPROACH FOR MINERAL RESOURCE CLASSIFICATION



Consideration of mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors (the "modifying factors")

RECONCILIATION OF RUSSIAN AND INTERNATIONAL REPORTING SYSTEMS



## Legal framework

In accordance with the Constitution of the Russian Federation, mining and mining rights are joint competence of Russian Federation and its constituent bodies. As a result, the mining legislation comprises federal legislative acts and regional legislative acts. The most important of the federal legislative acts are:

- the Subsoil Law
- the Law on Dangerous Production Facilities
- the Law on Precious Metals and Precious Stones

The competence pertaining to mining and mining rights is divided between federal and regional authorities, as envisaged by the legislation. Legislative acts promulgated by regional authorities cannot contradict the federal ones.

## Designated usage

Pursuant to Article 6 of the Subsoil Law, subsoil areas are granted for geological study, exploration of natural resources, extraction of natural resources, construction and exploitation of subsoil facilities.

### Holders of mining rights

As a general rule, both Russian and foreign individuals and legal entities (joint ventures) can be holders of mining rights unless otherwise stipulated by the federal laws.

### Terms of mining rights

Terms of mining rights differ based on the type of mining rights and type of deposit; for instance, mining rights for extraction of natural resources can be granted for a term specified in the technical and economical substantiation concerning the particular mining area.

### Grounds for provision of mining rights

The Subsoil Law enumerates various grounds for provision of mining rights, including:

- Decision of the Government of the Russian Federation
- Mining auction
- Succession in interest – for legal entities (joint ventures)
- Production-sharing agreements

The most important document, which evidences the existence of mining rights, is the license. The license is issued by statutory authorities and is supplemented by the mining terms and conditions or contract. The mining terms and conditions cannot contravene the provisions of the license. Licenses can be suspended, revoked or limited if a holder of mining rights (the license-holder) violates the Subsoil Law or requirements or obligations set forth in the license or, as the case may be, in the mining terms and conditions and the contract. Suspension, revocation or limitation of the license can be challenged either in court or administrative proceedings.

### Industrial safety and dangerous production facilities

Both the Subsoil Law and the Law on Dangerous Production Facilities impose quite stringent requirements and obligations on the holders of mining rights. In most cases, gold mines, areas and occurrences are qualified as dangerous production facilities. Hence, the requirements and obligations thereunder are applicable to the holders of mining rights for gold mining areas and gold occurrences. Holders of mining rights for gold mining areas and gold occurrences are supposed to have the following documents:

- Development plan approved by relevant statutory authorities
- Insurance contract (policy) which covers liability arising out of, or in connection with, potential harm to life and health of people, their property and the environment
- Documents proving employees' qualification in the sphere of industrial safety
- Documents on inclusion of dangerous production facilities in the State Register of Dangerous Production Facilities
- Documents proving the personnel engaged in works on the dangerous production facilities is equipped with the required individual and collective protective gear and equipment

### Gold refining

The Law on Precious Metals and Precious Stones directs that extracted and produced precious metals shall be placed for gold refining to legal entities certified by the Government of the Russian Federation. However, holders of mining rights remain owners of precious metals and precious stones placed for gold refining unless otherwise agreed with gold refining companies.

### Law on strategic deposits

In 2008, Russia introduced legislation relating to strategically and nationally important industries and assets, including certain mineral resources. A gold deposit of over 50 tonnes (1.6 Moz) of gold reserves is considered to be of national significance, and thus falls within this legislative framework. The Act means, among other things, that only Russian companies can hold these assets and that the authorities have certain rights relating to a strategic resource and the companies that exploit it, including appointing directors. The government may deny a foreign investor in a Russian company to develop a strategic deposit, in exchange for reimbursement of costs incurred according to a particular model.

### The system of taxes and payments

The Subsoil Law delineates the system of taxes and payments for the mining industry. The system includes:

- Natural Resources Extraction Tax (NRET) and other taxes, as provided by the Tax Code
- Regular mining payments
- Non-recurrent mining payments

### Natural resources extraction tax (NRET)

Legal entities and sole entrepreneurs – users of subsoil resources – shall be considered as taxpayers. Extracted natural resources shall be considered as the object of taxation. The tax base is to be determined by the taxpayer with regard to every type of extracted natural resource, generally, as the value of extracted natural resources. The tax period of NRET is one calendar month. Tax rates depend on the type of the mineral resource. For gold, the current applicable tax rate is 6 per cent. The quantity and value of the extracted natural resources is determined directly (through the application of measurement means and devices) or indirectly (by means of calculations, by the data on the content of extracted natural resource in a natural raw material (waste, lost rock) extracted from subsoil). Regular mining payments may refer to annual payments for license holders regarding subsoil use for purposes of search, assessment and exploration, and water tax for the use of water on the license areas.



# FEASIBILITY STUDIES IN PREPARATION OF MINE CONSTRUCTION

Developing a deposit into a mine requires a great amount of knowledge, investments and, not least, detailed analysis ahead of each step to ensure the future potential and profitability of the project. Studies of a mining project are typically conducted in three stages: preliminary economic assessment (PEA) / scoping studies, pre-feasibility studies and feasibility studies. Each of these stages is followed by a decision whether or not to proceed.

## Quality of preparations is essential

Scoping and feasibility studies will decide whether or not a project has a potential to be developed into a profitable mine. They analyse all aspects of a project; including the estimated amount of mineral, costs for exploiting it (type of mine and mining methods required to extract the mineral) and marketing potential. The quality and detail of analysis increase from scoping to feasibility studies, continuously increasing the accuracy of forecasting. If they confirm expectations, the feasibility study will lead to permitting, equipment procurement, construction and production. Some feasibility studies are also called “bankable” if they also address a number of issues, to which banks and credit lending institutes require an answer to before they finance a project. Many types of detailed geological data are required to begin the evaluation of a mineral deposit. The data must be accurate, detailed, complete and consistent, with each stage being based on more and more detailed information about the mineralization and lower uncertainty of modelling results. The definition of a scoping study is that it is “a study that includes an economic analysis of the potential viability of mineral resources taken at an early stage of the project prior to the completion of a preliminary feasibility study”. On industry average basis, accuracy of the scoping study calculations is usually about 40 per cent.<sup>6</sup>

## 3D-images used to analyse the deposit

When a successful scoping study has been finalised, it will be followed by the feasibility studies. By the time a decision is made to proceed with a pre-feasibility study, a mineral resource report has been finalised as well as an orebody model, demonstrating its shape, tons and grade. Feasibility studies include technical investigations, ore calculations, processing tests, environmental studies and permissions, assessments of market conditions – as well as an estimation of necessary capital investments and operational costs. They involve the use of metrics and data specific to each project. 3D-images are used to analyse how the holes have been drilled and what they reveal about the structure of the deposit – and what that implies for the future mining of the deposit. Geological data and interpretations form the basis of the entire evaluation process, by de-lineating the mineralization, estimating the resource, and providing essential information for the mine and processing design. The accuracy of the feasibility study calculations is usually about 15 per cent.



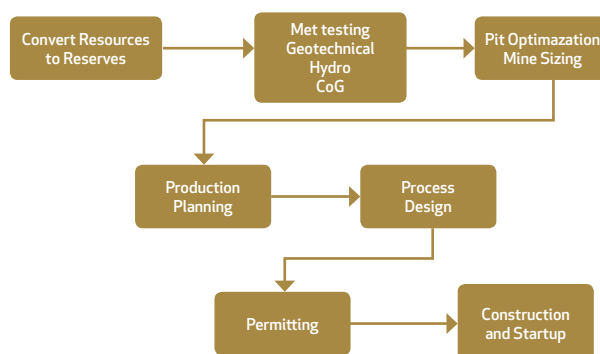
## Optimising the project

The final feasibility study is usually based on the most attractive alternative for the project development as previously determined. The aim of the study is to remove all significant uncertainties and to present the relevant information with back up material in a concise and accessible way. The final feasibility study has a number of key objectives, including:

- to demonstrate within a reasonable confidence that the project can be constructed and operated in a technically sound and economically viable manner
- to provide a basis for detailed design and construction of the mine
- to enable the raising of finance for the project from banks or other sources
- to optimise the project for best use of the mineral, capital and human resources

Other aspects to be considered include waste disposal and infrastructure requirements, such power and water supply as well as internal roads and plant infrastructure.

## MINE DEVELOPMENT PROCESS



## LENA GOLDFIELDS – GOLDEN HISTORY WITH HIGH FUTURE POTENTIAL

Kopy Goldfields' operations have until recently been concentrated to Lena Goldfields in the Irkutsk area of Russia. Lena Goldfields has a long history associated with gold production. The regional center of the Lena Goldfields area is the city of Bodaibo, located approximately 880 km north east of Irkutsk. The Irkutsk region is bigger than France but has a population of only 2.5 million people. So far, alluvial production has been dominant with bedrock production initiated only some ten years ago. In total, more than 40 Moz of gold has been produced in Lena Goldfields to date, with large parts of the area still remaining to be explored.



### Location and geology

The area of Lena Goldfields covers 105,000 km<sup>2</sup> and lies between 57 and 60 degrees North latitude, approximately 900 km south of the Arctic circle. The region comprises a broad, subcircular topographic dome, termed the Patom Highland, rising to more than 1,800 meters with a diameter of approximately 350 km. It is partly encircled by the Vitim and Lena Rivers. The deep alluvial and colluvial deposits in most channels and river valleys result from long periods of gentle drainage and glacial erosion. The major high-level landforms developed during several episodes of Pleistocene ice-sheet erosion, a late phase of trunk valley glaciation, lengthy periods of periglacial erosion and several phases of interglacial warm climate chemical erosion. The regional geological setting of Sukhoy Log and the Lena Goldfields is a complex folded sedimentary sequence at the exposed northeast end of the Akitkar Foldbelt and the included Olokit Zone, parts of which extend into the western side of the goldfield.

### History

The gold rush began in Lena Goldfields in the 19th century, when the massive goldfields that lined the river Lena attracted gold pioneers from both Russia and abroad. The jointly owned Russian-British company "The Lena Gold Mining Joint Stock Company" was the principal owner of the majority of the goldfields in the region and one of the most profitable enterprises in the Russian Empire.

Alluvial gold production has been conducted in the area ever since the 1840s and the region has steadily been producing around 0.25 Moz of alluvial gold per year. Previous exploration work has also shown that the Bodaibo area hosts several world-class bedrock gold deposits, including Vysochaishiy (2.9 Moz), Verninskoye (3.8 Moz),

Chertovo Koryto (2.4 Moz) and Sukhoy Log, the latter being the largest undeveloped gold deposit in the world with some 60 Moz of reserves. In the 1970's, there were Soviet ambitions to exploit the bedrock deposits in Lena Goldfields and ambitious exploration work was carried out. Since the collapse of the Soviet Union, however, the Russian state has focused on producing oil and gas instead of exploiting its mineral reserves. The Russian Central Bank has been the largest buyer of gold for the past six years and earlier this year overtook China to have the fifth largest reserves, with about 30 per cent of the total Russian gold production being conducted by international companies.

### Infrastructure

The regional centre of Lena Goldfields, Bodaibo, is a lively city of more than 16,000 citizens, with schools, colleges, hospital and other service facilities, and the majority of the population have a relation to the gold mining industry. The area has developed infrastructure with an airport in Bodaibo, state roads maintained all-year round to access the most important gold production sites, and hydropower plant located on the local Mamakan river. There are several established electric grids crossing the Krasny site, although the current exploration activities are supported by diesel electric generators. The Krasny sites are located favourable, with the distance to the main state road – which runs north from Bodaibo to the town of Kropotkinsky – ranging between 1 and 10 km. The Northern Territories project is accessible by all-year-round roads. The licenses owned by Kopy Goldfields have been grouped into projects with a geographical distribution that makes it possible to process ore from several deposits at one production plant per project.



# SUKHOY LOG – ONE OF THE WORLD'S LARGEST GOLD RESERVES

With estimated reserves of some 1,953 tons of gold (62.8 Moz), Sukhoy Log in the Irkutsk region of Russia is one of the world's largest untapped deposits of gold. In January 2017, the right to develop the formerly state-owned deposit, which is located next to Kopy Goldfields' project areas in Lena Goldfields, was sold to a joint venture.



## History

Sukhoy Log – the name means “dry valley” – was discovered in 1961 and intensively explored in the 1970's. Although many internal reports were written, and a few papers got published in Russia, little was known of the deposit abroad because of former official secrecy restrictions. But the exploration for – and discovery of – the Sukhoy Log deposit was in fact the culmination of many years of study and development of the Lena Goldfields by several generations of geologists and miners. The deposit is entirely “blind”, i.e. has no surface outcrop, and was discovered only by geologists using new ways of geochemical prospecting. Intensive exploration started in 1971 and was completed in 1977. The work included 209.6 km of diamond core drilling in 846 drill holes, 11.7 km of underground drives, 61 raises, of which 1,546 m were in ore, 110.3 km of trenches, 13,000 channel samples, three bulk samples of 150 t, 800 t and 980 t – and many tens of thousands of assays for gold. In addition to the Sukhoy Log deposit, several smaller gold deposits of the same type were discovered in the region, including Verninsky, Vysochaishy and Ugakhan. The two major underground drives of the 1970's exploration program was re-opened in 1995 and provided direct access to – and observation of – a large part of the interior of the orebody for the feasibility study that was conducted in 1995-96 by Star Mining Corporation, based in Sydney, Australia.

## Sold on an auction in January 2017

In January 2017, the right to develop Sukhoy Log was sold to a joint venture of miner Polyus and state conglomerate Rostec. The joint venture, SL Zoloto, acquired the deposit for RUB 9.4 billion (USD 158), compared with the starting bid price of RUB 8.6 billion. Polyus is the largest gold producer in Russia and one of the top ten gold miners globally, by ounces produced. Polyus also holds the fourth largest mineral resources base in the world.

SL Zoloto intends to conduct additional exploration works and a feasibility study, which is expected to last for approximately three to four years, supported by international mining and engineering consultants. Based on the results of the study, the company will evaluate options to initiate construction activities at Sukhoy Log. CAPEX is estimated at RUB 90-100 billion (approximately USD 1.5-1.7 billion) with development costs of some USD 4-5 billion. The development of such a large project is expected to have a significant impact on the social and economic development of the Irkutsk region, where Sukhoy Log is based, with considerable investments in infrastructure, etc.

# GOLD MARKET

Gold ended 2018 on a positive note, beating global equities and commodities for the fourth quarter. It was also the sixth most liquid asset class, with daily trading volumes nearly identical to that of the Standard & Poor 500 companies. Many analysts, including Goldman Sachs and The World Gold Council, have forecasted that demand for gold will continue in 2019, supported by a weakening of the U.S. dollar.

Gold demand in 2018 reached 4,345.1t, up from 4,159.9t in 2017 and in line with the five-year average of 4,347.5t. The 4 per cent growth in annual gold demand was driven by highest central bank buying in 50 years. Investment in bars and coins accelerated in the second half of the year, up 4 per cent to 1,090.2t in 2018. Full year jewellery demand was steady at 2,200t. Gold used in technology climbed marginally to 334.6t in 2018, although growth ran out of steam in Q4. Annual gold supply firmed slightly to 4,490.2t, with mine production inching up to a new high of 3,364.9t.

With a majority of investors now betting that the current rate hike cycle has peaked, the U.S. dollar looks to be in retreat. This is constructive for metals and commodities in general, gold specifically. Among those that are most bullish on the precious metal is Goldman Sachs. The investment bank has an overweight

“continue to favour gold as an effective diversifier and hedge against systemic risk.”

In 2018, the gold price seesawed. The metal faced significant headwinds for most of the year as the dollar strengthened, the Fed continued to hike steadily while other central banks kept policy accommodative, and the US economy was lifted by the Trump administration's tax cuts. These factors fuelled positive investor sentiment that, in turn, pushed US stock prices higher, until the start of October. But as geopolitical and macroeconomic risks continued to increase, emerging market stocks pulled back. Eventually, developed market stocks followed, in a selloff led by US tech companies. This resulted in short-covering in gold with its price ending the year near US\$1,280/oz (-1% year-on-year).

## Popular investment tool

Gold is a popular precious metal for investment purposes due to several reasons. One reason is that gold, throughout history, has been used as a substitute for money, which has led to many central banks still holding large reserves of gold. Because of this, gold is still a significant part of the economic system and is considered a very stable asset class that protects the owner against inflation, turbulent stock markets and other uncertainties in the financial system.

Today, there are some 165,000 metric tons of gold in existence above ground, according to recent estimates. If every single ounce of this gold should be placed next to each other, the resulting cube of pure gold would only measure 20 meters in any direction. Gold differs from many other assets in the way that it is virtually indestructible, being one of the least reactive chemical elements, which means that all gold that has ever been produced, still exists.

The price of gold is determined by supply and demand, but because gold can be re-used and production have long lead times,

*“Gold favoured as an effective diversifier and hedge against systemic risk”*

recommendation on gold and has raised its 12-month price forecast up from \$1,350 an ounce to \$1,425, a level last seen in August 2013. Goldman analysts contend that the gold price “will be supported primarily by growing demand for defensive assets, with a slower pace of Fed rate hikes in 2019 boosting demand only marginally.” The World Gold Council (WGC) has made a similar case in its 2019 outlook, predicting that global investors will

Goldprice indexed chart from January 1, 2007 to April 2019 in USD and RUB.



Goldprice development, Source: [www.gold.org](http://www.gold.org)



## DEMAND

The demand for gold during 2018 was 4 345 tons, an increase from 4 160 tons in 2017



for example, opening a mine can take several years, demand plays a bigger role than the supply on the price development. Demand for gold is driven by several factors, but in general it can be said that the price correlates negatively with factors such as the stock market's rise and fall in inflation.

The demand for gold derives from diverse sources in many geographies and sectors. Around 50 per cent of today's gold becomes jewellery, where India and China with their expanding economic power have been at the forefront of consumption in recent times. But jewellery creates just one source of demand; investment, central bank reserves and the technology sector are all significant.

## Production around the globe

Gold mining companies operate on every continent of the globe, except for the Antarctic where mining is banned until 2048. The vast majority of the world's gold has been mined in the modern, post-war era and as the industry has evolved it has also diversified. A greater number of countries have emerged as gold producers over recent decades, which means mine supply has become less geographically concentrated and therefore, overall, more stable.

The annual total supply of gold has averaged around 4,000 tons over the last ten years. Mining is not the only way in which gold is supplied to the market, however. Mine production accounts for typically 75 per cent of gold supply each year. Recycled gold accounts for the remaining 25 per cent and is most responsive to the gold price and economic fluctuations. Gold production experience long lead times and it takes more than ten years before a mine is ready for production. That means mining output is relatively inelastic and unable to respond quickly to a change in price outlook. Because of the long lead times, even a sustained price rally does not translate easily into increased production.

South Africa was the dominant gold producer during the 20th century, accounting for 70 per cent of the total gold production in the world in the 1970's. This has changed radically – China was the largest producer in the world in 2017, accounting for 13 per cent of total global production. Australia and Russia were the second and third largest producers, with 9 and 8.6 per cent of total global production respectively. Asia as a whole produced some 17 per cent of all newly mined gold. Around 12 per cent of the production came from Africa and 14 per cent from the CIS region. Central and South America produced around 14 per cent of the total, with North America supplying around 17 per cent.

The global demand for jewellery production reached a three-year high in 2018 of 2,186 tons from 2,143 tons last year. India saw a 14 per cent rise in jewellery demand, while China's demand improved

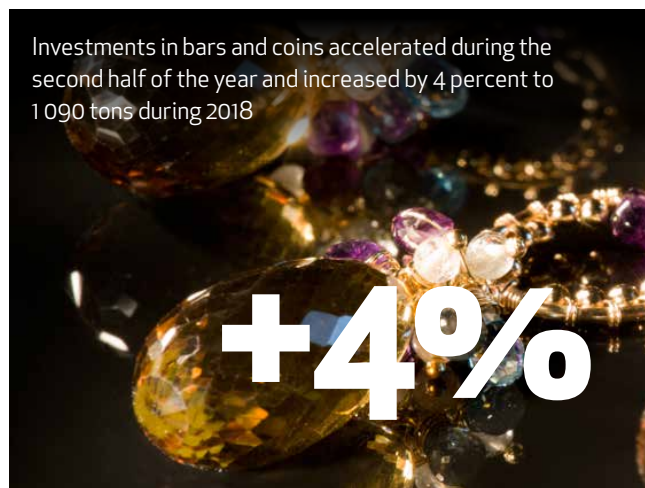
by 3 per cent. The demand is expected to persist for the longer term, supported by a greater proportion of middle-class consumers in emerging market economies, particularly in China and India, which are two of the largest consumers today. Physical investments increased by 4 per cent in 2018, while net official-sector purchases declined marginally to 350 tons in 2018 from 374 tons the previous year.

Already accounting for 9 per cent of gold demand globally, gold's use in technology is expected to increase in the future, as its unique attributes make it the only alternative for certain critical applications. Gold can be used to build highly-targeted methods for delivering drugs into the human body, to create conducting plastics and specialised pigments, or advanced catalysts that can purify water or air. It has also been used in dentistry for centuries. Although most technological applications use low volumes of gold, their impacts are diverse and wide-reaching.

## Market development in Russia

From recession in 2016, Russia's economy emerged with GDP expanding by 1.5 per cent year-on-year in 2017, with domestic demand being the main engine of growth. Improved macroeconomic stability, firming energy prices, and a recovering global economy further contributed. With recovered oil prices, macro stabilization, and improved business and consumer confidence, Russia's economy is expected to keep growing. Global Economic Prospects project a continued economic growth in Russia between 1.7 and 1.8 per cent in 2018-2020. Mining commodities, including oil, gas and metals, contributes to 11 per cent of Russia's total GDP. Russia's gold mining industry amounts to USD 908 in exports every year. Over the last ten years, according to the Russian Union of Gold Producers, Russia has mined 2,189 tons of gold and also plans to

Investments in bars and coins accelerated during the second half of the year and increased by 4 percent to 1 090 tons during 2018



increase the annual production to 400 tons by 2030. During the increase in gold mining production in recent years, Russia's weakened currency (RUB), has counteracted the relatively low global gold prices since 2014. There are a number of major gold mining regions in Russia. The regions of Amur and Magadan are the fastest growing gold hubs, while the Siberian city Irkutsk is also one of the most prominent mining areas in the country.

## STAFF OF SKILLED GEOLOGISTS AND MINING PROFESSIONALS

Bodaibo is situated in a mining dominated area in Russia. This means that many young people choose professions linked to mining and exploration. The universities of Tomsk, Krasnoyarsk, Magadan and Irkutsk supply the company with highly skilled geologists and seasonal workers.

The company is a small employer in the area, but is focusing on creating interesting job opportunities in order to attract and retain the best possible employees. This includes offering competitive wages and personal development opportunities with training. During low season, the company supports education for employees.

Kopy Goldfields strives to keep costs down, and therefore only keep key members of staff on the permanent payroll.

### RECRUITING IN THE AREA

The company seeks to recruit staff from the nearby area. However, some of the company's employees come from other regions and stay on-site in purpose-built accommodation during the time of their shift. In addition, the company has an office and a dormitory in the city of Bodaibo.

Kopy Goldfields' core values are Commitment, Responsibility and Excellence. When recruiting, it is of great importance to the company that potential employees share these values.

### FOCUS ON HEALTH AND SAFETY

All staff receives health and safety training as part of the initial introduction process. Job-specific training is then provided within each workplace. Health and safety monitoring as well as internal inspections of working environments are regularly undertaken to ensure compliance with Russian regulatory requirements. Regular medical reviews are organised in Bodaibo. The company is also seeking to go beyond this by bringing its projects in line with international best practice.



## ENVIRONMENTAL GOALS

The operations of the company in Russia across the full project lifecycle are performed in accordance with Russian regulatory requirements. All projects are subject to rigorous permitting requirements by the Russian authorities.

The State Mining and Technical Supervisory Body is reviewing Kopy Goldfields' operations on a regular basis. The result, so far, is that existing procedures have been found in compliance with the requirements of the Environmental and Safety regulations.

### LOW AIR OR WATER POLLUTION IMPACT

Emissions from the company's operations are managed in strict compliance with Russian regulatory requirements. Monitoring data at all sites has identified no air or water quality impact. Kopy Goldfields utilizes electricity supplied from hydropower. As a result, the only significant emissions from the operations emanate from trucks and other vehicles.

### REGULATIONS AND FULFILMENTS

- "On Air Protection" (edition as of 27.12.2009) Federal Law dd. 04.05.1999
- No 96-FL Adopted by the State Duma of the Federal Council of the Russian Federation
- "On Environmental Protection" Federal law dd. 10.01.2002 No 7-FL (adopted by the State Duma of the Federal Council of the Russian Federation on 20.12.2001)
- Article 16. Payment for Negative Environmental Impact.
- "On Production and Consumption Waste" Federal Law dd. 24.06.1998 No 89-FL Safety requirements to exploration (PB 08-37-2005)





# THE SHARE

## Trading in shares

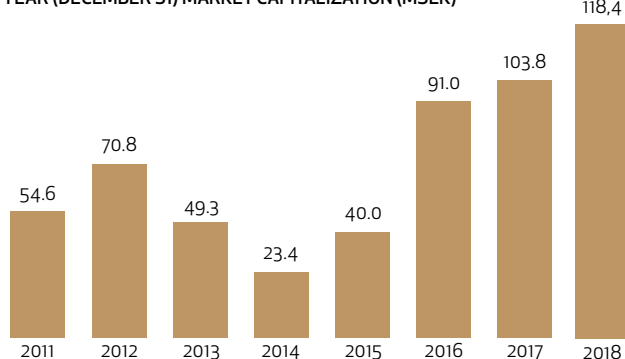
The ticker symbol for the share is KOPY and the Company has been listed on NASDAQ First North Stockholm since August 2010. In 2018, the total number of shares traded amounted to 30,472,749, with a total value of MSEK 35.9. The corresponding number of shares traded in 2017 was 56,972,471 with a total value of MSEK 82.6. Share turnover for the Kopy Goldfields share—a measure of the share's liquidity—was 35 (73) percent during the period, compared with 43 (60) percent for First North over the same period. On average, 121,891 (226,982) shares were traded daily with a value of SEK 154,324 (329,130). The average spread between the bid and ask price during the year was 1.95 (1.67) percent.

## Share price trend

Kopy Goldfields' share price on NASDAQ First North Stockholm fell by 12.3 percent in 2018 (+14.0 percent in 2017) and closed at SEK 1.14 on December 28, 2018. The highest price paid for the share in 2018 was SEK 1.73 on June 28 and the lowest was SEK 0.99 on October 11. The average price was SEK 1.27. The index for the First North Basic Materials sector, to which Kopy Goldfields belongs, was unchanged in 2018.

Kopy Goldfields' total market capitalization on December 31, 2018 amounted to MSEK 118.4 (103.8).

YEAR (DECEMBER 31) MARKET CAPITALIZATION (MSEK)



## Share capital

Kopy Goldfields' share capital on December 31, 2018 amounted to SEK 39,476,805 (30,366,773), divided into a total of 103,825,869 (79,866,054) shares with a quota value of SEK 0.38 per share. All shares are registered on NASDAQ First North Stockholm and carry equal voting rights and equal rights to a share of the Company's capital and profits.

## Ownership structure

The number of shareholders as of December 31, 2018 was 4,783 (5,011). The five largest shareholders are presented in the following table.

Shareholder	Number of shares	Shareholding (%)
KGK Holding AB	10,593,245	10.2%
Försäkringsbolaget Avanza Pension	10,251,369	9.9%
Tord Cederlund	7,662,041	7.4%
UBS Switzerland AG /Clients Account	7,267,016	7.0%
Nordnet Pensionsförsäkring	1,472,826	1.4%
Övriga aktieägare	66,579,372	64.1%
<b>Total shares</b>	<b>103,825,869</b>	<b>100.0 %</b>

## Dividend policy

The primary objective is to add value for the Company's shareholders and employees by running a profitable business with growth. This is to be achieved through increased exploration activities that add

mineral resources and ore reserves to the asset base by developing deposits and acquiring mineral resources. The Company prepares the deposits for production, thereby laying a foundation that generates cash flow and profit. The total return to shareholders over time is expected to be attributable more to the increase in share price than to dividends received.

The Board recommends that no dividend be paid for the 2018 financial year.

## Share issue

On October 9, 2018, using the authorization granted by the AGM, the Board adopted an issue of 23,959,815 new shares with preferential rights for existing shareholders. For each share held, the holder received one (1) subscription right, and ten subscription rights entitled the holder to subscribe for three new shares at a subscription price of SEK 1.05 per share. The share issue, which was oversubscribed by 11.2 per cent and raised MSEK 21.6 for the Company after issue expenses, was completed and registered in November 2018. The number of shares in Kopy Goldfields was 103,825,869 at year-end, with the new share capital amounting to SEK 39,476,805.02.

## Incentive programs

The 2018 AGM adopted two incentive programs 2018/2021: one for management and one for the Board of Directors. Up to 1,700,000 warrants can be issued under the programs. After recalculation following the 2018 share issue, each warrant entitles the holder to subscribe for 1.02 new shares in the Company, which means that share capital may be increased by up to SEK 659,304. The warrants are valid until December 31, 2021 and have an exercise price of SEK 1.67. As of December 31, 2018, the number of warrants issued was 1,700,000.

The 2017 AGM adopted two incentive programs 2017/2020: one for management and one for the Board of Directors. A total of 3,400,000 warrants were issued under the programs. After recalculation following the 2018 share issue, each warrant entitles the holder to subscribe for 1.02 new shares in the Company, which means that share capital may be increased by up to SEK 1,318,607. The warrants are valid until December 31, 2020 and have an exercise price of SEK 1.77.

See Notes 10 and 30 for more information about incentive programs.

## SHARE PRICE DEVELOPMENT DURING 2018



## Share information, December 31, 2018

Nasdaq First North Stockholm	KOPY
ISIN code	SE0002245548
Total shares	103,825,869

# DIRECTORS' REPORT

The Board of Directors and the Chief Executive Officer of Kopy Goldfields AB (publ), 556723-6335, hereby submit the annual report for the financial year January 1–December 31, 2018.

## Group structure and background

Kopy Goldfields AB is a Swedish gold exploration company listed on NASDAQ First North.

Kopy Goldfields AB is the Swedish parent company and holds 100% of the Swedish subsidiaries AB Krasny Gold Fields and Kopy Development AB and 100% of the Russian subsidiaries LLC Vostochny, LLC Patom Gold, and LLC Nirungda Gold. All Russian subsidiaries are domiciled in Bodaibo in the Irkutsk region of Russia. The Company also holds 51% of the Russian subsidiaries LLC Enerkom, LLC Stanovoy and LLC Zolt, all domiciled in Blagoveshchensk in the Amur region of Russia, and 49% of the Cyprus-based company Bodaibo Holding Ltd, which in turn is 100%-owned by the Russian company LLC Krasny. The subsidiary LLC Taiga, which held four gold licenses, was sold in December 2018. All Russian subsidiaries are Limited Liability Companies (LLC). Each of these subsidiaries is the owner of different gold exploration and production licenses.

## Vision and business concept

Kopy Goldfields' vision is to become a world-class exploration company, with a focus on Russia. The Company's business concept is to create value by identifying and acquiring high potential gold projects, located within established areas of alluvial gold mining in Russia, and to prospect and explore them until they reach the stage of either being ready to be sold for cash or developed in cooperation with a partner.

## Operations

Kopy Goldfields is an exploration company and has not yet started extraction of gold, as the projects have not yet reached production phase.

Kopy Goldfields is currently exploring within 14 license areas having a total area of 2,159 sq. km, with two bedrock licenses and an alluvial license together constituting the Krasny project, of which the Company owns 49 percent, and four alluvial licenses, together constituting the Amur project, of which the Company owns 51 percent. Ten licenses are located within the Lena Goldfields in the Irkutsk region of Siberia, Russia, while four are in the Amur region of the Russian Far East. There may be one or several exploratory drilling projects associated with each license. The licenses are all in different development stages and the Company is currently focusing on those that show the most obvious potential.

The Company focuses on the Artemovskiy district of Lena Goldfields with 20 Moz of historic alluvial gold production. Four of the Company's licenses are geographically concentrated within a 60 x 60 km area, within 50 to 75 km of Bodaibo, the area's main town. The distance from the deposits to the main road is between one and ten km. The infrastructure is well developed with access to water and electricity and federal roads to the deposits. Six licenses, which form the Maly Patom project, all acquired in 2012, are geographically located 200–300 km from Bodaibo. They are served by public roads and have a history of alluvial production. All projects in the Bodaibo area are located up to 150 km from Sukhoy Log (60 Moz), which is the largest undeveloped gold deposit in Russia.

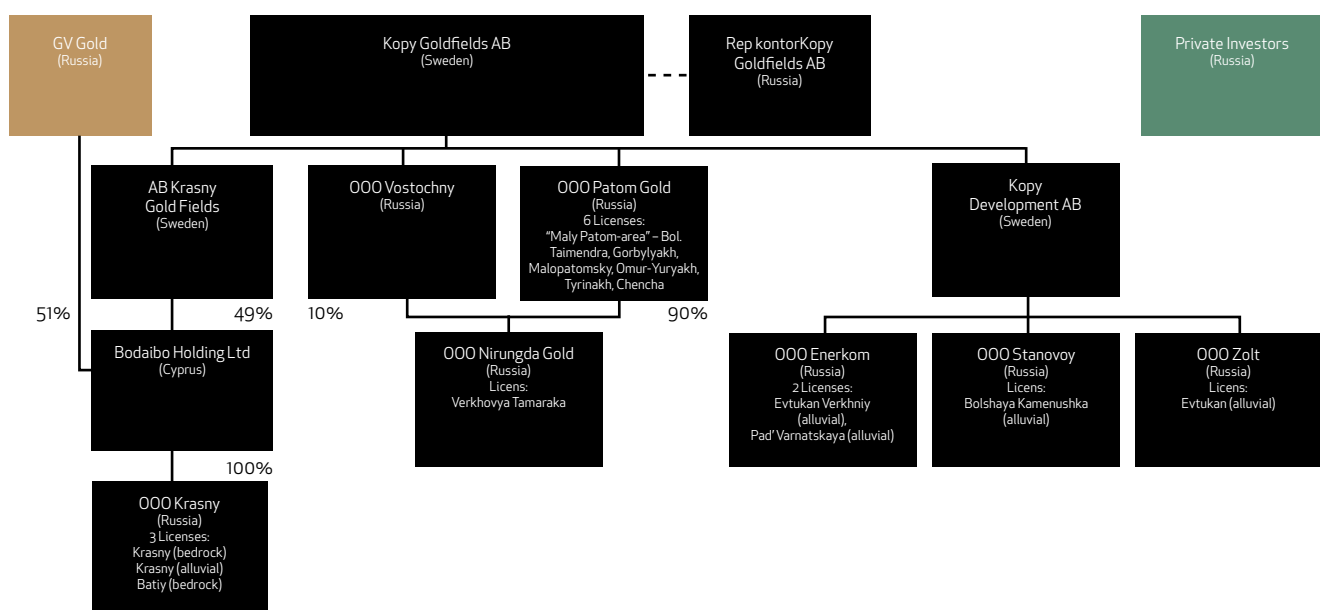
Kopy Goldfields currently holds one of the largest exploration areas in Lena Goldfields and has a diversified portfolio of exploration projects. The Company has identified several clusters to develop or divest, which are briefly presented below. In 2018, the Company focused most activities on the sale of the Kopylovskoye project, and on the Krasny and Amur projects, while exploration activities and expenditures on other projects were limited to statutory license reporting and upholding and renewing the terms of the licenses. For detailed

information about the respective deposits and exploration activities, see the section "Exploration projects in different stages" starting on page 10.

## Krasny project

The Krasny license is the Company's main project. In the summer of 2014, Kopy Goldfields entered into a joint venture agreement with the Russian gold producer GV Gold regarding the Krasny deposit. Under the agreement, GV Gold obtained a 51 percent interest in the Krasny Project by making a cash payment of MUSD 1 to Kopy Goldfields and by financing an infill exploration program totaling MUSD 6, followed by a mineral reserve report in accordance with both the Russian GKZ classification and the internationally adopted JORC Code. The agreement also included a contingent consideration of MUSD 2, which was received in April 2016. In the period 2016 to 2018, another MUSD 6 was invested by GV Gold and Kopy Goldfields for further development of the project. Cumulative joint investments in the Krasny project totaled MUSD 20.1 at the end of 2018.

With effect from February 2018, Kopy Goldfields is no longer the operator of the exploration program in the Krasny project. The role has been handed over to the joint venture partner GV Gold. Exploration activities in 2018 were aimed at increasing the mineral resources for the Vostochny mineralization, the Krasny deposit and for the Batiy license area. Overall, 50 boreholes were drilled totaling 11,638 meters of core drilling. The cumulative results led to an updated JORC mineral resource report, issued in early June. The report was produced by Micon International, which also conducted the JORC mineral resource reports for Krasny in 2016 and 2017. The report is based on the exploration data acquired up to the end of March 2018. The new estimation of 1,832 koz of indicated and inferred gold resources for the Krasny project shows an increase of 32% since the previous year. The resource estimation includes both Krasny and





Vostochny. For the Krasny deposit, the resource estimation shows 291 koz of indicated mineral resources (7,539,000 tons at an average grade of 1.20 g/t Au) and 1,202 koz of inferred mineral resources (18,515,000 tons at an average grade of 2.02 g/t Au). Vostochny shows a total of 339 koz of inferred mineral resources (6,689,000 tons at an average grade of 1.57 g/t Au). The report also includes 257 koz of probable gold reserves. As the mineralization is open along the strike and down dip, there is significant potential for increased gold resources.

A new mineral processing test for the Vostochny gold mineralization was completed in Q1 2018. The processing test was conducted by TOMS Engineering, a company from Irkutsk, Russia. The test confirmed that the ore from the Vostochny mineralization may be processed using the processing flow chart proposed for the Krasny ore with total gold recovery of 90.2%. The report confirmed that the gold ore from Vostochny may be mixed in any proportions with the ore from the Krasny deposit with no loss of gold recovery.

In spring 2018, Kopy Goldfields decided to evaluate opportunities to exit the Krasny project. In June 2018, Kopy Goldfields AB and GV Gold agreed to review various options on developing the project going forward, including 100% divestment of Krasny. In summer 2018, Kopy Goldfields and GV Gold agreed to invest a total of MUS\$ 2.3 in the Krasny project to be used for sales activities, the 2018 exploration program and other value-adding activities. GV Gold has already paid its full share of the investment. Kopy Goldfields paid KUSD 559 in November 2018 after the finalization of the 2018 share issue, with the remaining KUSD 553 due for payment in July 2019.

#### **Maly Patom area**

Maly Patom, known as the Northern Territory, covers a total area of 1,852 sq. km (182,500 ha) and is divided into six licenses. The area is in the northeastern part of the Bodaibo region, about 250 km northeast of the city of Bodaibo. The area has a long history of successful alluvial gold extraction, and within the six bedrock licenses there are many active gold projects of this type still in operation. Most of the river valleys in this area have alluvial gold deposits and placer miners have reported pristine non-reformed gold grains in the area, which indicates the existence of bedrock sources of alluvial gold nearby. The geology and age of the rock in the area is like that of Sukhoy Log, with stratigraphy, lithology and structural setting favorable for primary gold mineralizations. There have been many observations of gold halos in the area with secondary gold, zones and points of gold mineralization, as well as pure occurrences taken manually by hand. However, more extensive gold prospecting in the bedrock has not been conducted in the area to date.

The first year of field work was 2016 when the total license area of 1,852 sq. km was covered by a stream sediment survey with a density of 5-6 samples per sq. km. In total, 5,380 samples were taken and analyzed for gold and 24 other chemical elements. The collected geochemical data was then

used to develop geochemical maps of gold and multiplicative anomalies for every license area. These anomalies, the result of exploration activities in 2016, were compared with historical exploration data existing before 2016. Based on the work done, 21 prospective clusters for more detailed exploration were identified.

In 2017, the Stage 2 exploration program was carried out, consisting of a detailed soil geochemical survey using a 200\*50-meter grid, together with geological mapping, within the seven most promising gold anomalies in a total area of 122 sq. km. In total, 12,896 soil samples were collected and analyzed for 32 chemical elements plus gold. The results confirm the expectations of the Northern Territories being an area with high exploration potential. In line with defined targets, it was possible to scale down the exploration area further and three anomalous geochemical areas were identified with a total area of 10.2 sq. km. All three anomalies, called Mezhdurechnaya, Sekushaya and Polovinka, correspond to the defined exploration parameters and the target gold deposits of +1 Moz. They are now ready for drilling and trench sampling. In addition to these drilling and trench sampling targets, there are still another 14+ targets for detailed geochemical surveying from 2016, comparable to the exploration done in 2017.

#### **Kopylovskoye project**

The Kopylovskoye project, consisting of the Kopylovskoye, Pravovesenny, Takhtykan and Vostochnaya licenses, was sold in 2018. The project was acquired in 2007 and an exploration program was conducted in the period 2008-2011. The exploration activities showed 7.4 tons of Russian C1+C2 gold reserves and the project was sold to a group of Russian investors. The total sales price was MUS\$ 6.

#### **Amur project**

In October 2018, the acquisition of several new licenses in the Amur region of Russia was completed by means of registration of ownership of the Russian companies LLC Stanovoy, LLC Zolt and LLC Enerkom. Each of the subsidiaries holds an exploration license for alluvial gold. The Amur project includes four alluvial exploration licenses covering 104 sq. km. that are valid for five years.

Kopy Goldfields does not pay a purchase consideration for the licenses, but instead receives a share of the project through an earn-in arrangement based on direct investments in exploration activities. Partners in the project are well established and experienced local entrepreneurs. As a first step, Kopy Goldfields received a controlling interest of 51% in the project in return for future investments, with an option to increase to 75%.

A limited revision program, including some exploration drilling and sample testing, was completed in 2018, and was aimed at verifying historical data and confirming exploration potential. The project started with very high expectations, but at present the exploration results do not appear to correspond to these high expectations. Various possibilities for the project are currently being evaluated, one of which is

divestment. A decision on the continuation of the Amur project will be made in due course based on the results.

#### **Ownership structure**

The number of shareholders on December 31, 2018 was 4,783. The five largest shareholders were KGK Holding AB (10.2%), Försäkringsbolaget Avanza Pension (9.9%), Tord Cederlund (7.4%), UBS Switzerland AG Clients Account (7.0%) and Nordnet Pensionsförsäkring (1.4%).

#### **The share**

The Company's share has been listed on NASDAQ First North since August 2010.

The number of outstanding shares as of December 31, 2018 was 103,825,869 and share capital amounted to SEK 39,476,805.02. All shares have equal voting rights and equal rights to a share in the Company's capital and profits.

#### **Earnings**

In December 2018, the Company sold the wholly owned subsidiary LLC Taiga, which in turn holds the four gold licenses Kopylovskoye, Vostochnaya, Ploshad, Pravovesenny and Takhtykan. The total sales price was MUS\$ 6 (corresponding to MSEK 54.3), of which MRUB 8 (corresponding to MSEK 1.1) was paid in December 2018. The remainder will be paid in several installments until December 31, 2021. However, if the payments are accelerated and completed by December 31, 2020, the total price will be reduced by MUS\$ 1 to MUS\$ 5.

As of December 31, 2018, the sales amount of MUS\$ 5 has been discounted and recognized in the income statement. The receivable in the balance sheet amounts to MSEK 32.2, net of transaction costs. In accordance with IFRS 10, historical exchange differences of MSEK 33.1 attributable to the Kopylovskoye project have been recognized as an expense in the income statement, resulting in an accounting loss of MSEK 20.4 from sales of subsidiaries for the Company. Historical exchange differences from the Kopylovskoye project have been recognized directly in equity in previous periods. The expenses for 2018 are therefore only a reclassification and do not have a net impact on equity.

Operating earnings amounted to MSEK -40.5 (-16.3), which is MSEK 24.2 lower than in the previous year. The change is primarily due to the effects of the sale of the subsidiary LLC Taiga. Earnings from joint ventures amounted to MSEK -7.4 (-4.3) for 2018. The difference of MSEK -3.1 is largely due to exchange differences.

Earnings after tax attributable to parent company shareholders holders amounted to MSEK -43.8 (-13.9). Net financial items for 2018 were MSEK -3.2 (-0.8). The decline from the previous year is attributable to higher interest expenses in 2018.

Comprehensive income for 2018 amounted to MSEK -5.1 (-1.9). The improvement is due to historical exchange differences from the Kopylovskoye project being reclassified from other comprehensive income to the income statement.

### Tax

Net tax for the period amounted to MSEK -0.2 (3.1). The previous year's figure was due to a change in the deferred tax liability as a result of the divestment of LLC Kopylovskoye. Management's assessment is that the Group will not generate any taxable profits from operating activities over the next few years. The Company does not capitalize deferred tax assets attributable to tax losses.

### Earnings per share

Earnings per share for the year amounted to SEK -0.52 (-0.17). Equity per share was SEK 1.22 (1.35).

### Cash flow, liquidity and financial position

Cash flow from operating activities, before changes in working capital, amounted to MSEK -13.5 (-10.2). The change in working capital was MSEK 2.4 (1.1). Cash flow from investing activities was MSEK -6.6 (-11.1), with the difference from the previous year mainly explained by the initial payment of MSEK 1.1 for the Kopylovskoye project, received in December 2018, and investments of MSEK 5.1 in joint ventures, compared with MSEK 8.5 in 2017. Cash flow from financing activities amounted to MSEK 36.6 (15.4), with the difference from the previous year attributable to the share issue in autumn 2018, which brought in MSEK 21.6, net of issue expenses.

Interest-bearing liabilities amounted to MSEK 30 (15) at year-end. A loan of MSEK 15 was granted by Scandinavian Credit Fund I in February 2018. This is a two-year loan with an interest rate of 11.75%. Consolidated cash and cash equivalents amounted to MSEK 20.1 (5.9) at year-end.

The equity/assets ratio amounted to 78 percent at year-end compared to 86 percent in the prior year. No dividend was paid to shareholders during the year.

### Equity

On October 9, 2018, using the authorization granted by the AGM, the Board adopted an issue of 23,959,815 new shares with preferential rights for existing shareholders. The share issue, which was oversubscribed by 11.2% and raised MSEK 21.6 for the Company after issue expenses, was completed and registered in November 2018. The number of shares in Kopy Goldfields was 103,825,869 at year-end, with the new share capital amounting to SEK 39,476,805.02.

The 2018 AGM adopted two incentive programs 2018/2021: one for management and one for the Board of Directors. Up to 1,700,000 warrants can be issued under the programs. Each warrant entitles the holder to subscribe for 1.02 new shares in the Company, which means that share capital may be increased by up to SEK 659,304. As of December 31, 2018, the number of warrants issued to participants was 1,700,000 and the effect on equity for 2018 was KSEK 90.

### Investments

The Group's investments in exploration and evaluation amounted to MSEK 2.5 (2.3) during the year. MSEK 0 (2.2) of the exploration activities consisted of capitalized work for the Company's own use. Five licenses were acquired for a total of

KSEK 25 (no acquisitions in the previous year). The Group also invested MSEK 5.1 (8.5) in the joint venture project for the Krasny license. Investments in buildings, machinery and equipment amounted to MSEK 0 (0.2) in 2018.

Depreciation for the year amounted to MSEK 0.2 (0.4).

The Group's property, plant and equipment and intangible assets were tested for impairment during the year. No impairment was identified.

### Parent Company

The Swedish Parent Company is a holding company with no significant operational activity. The Parent Company supports the subsidiaries with financing, strategy decisions, etc.

Parent Company earnings amounted to MSEK -21.8 (-13.3) and equity was MSEK 107.7 (108.0) on December 31, 2018. Cash and cash equivalents amounted to MSEK 19.9 (5.5).

### Environmental policy

All exploration activity in the Kopy Goldfields Group follows existing environmental regulations in the country where operations are conducted. There were no environmental accidents in 2018.

### Personnel

The average number of full-time employees in the Kopy Goldfields Group was 9 (7) in 2018, including 1 (1) female employee. At the start of the year the number of employees was 7 and at the end of the year the number was 8 (7 male and 1 female).

### Work of the Board

The Board consisted of three members in 2018. The Board held 13 minuted meetings and stayed in continuous contact with each other during the 2018 financial year. The Board also maintained regular contact with management. The Board paid special attention during the year to raising capital, monitoring the joint venture agreement with GV Gold and following up exploration activities.

The Board intends to gradually implement the Swedish Corporate Governance Code.

## SIGNIFICANT RISKS AND UNCERTAINTIES

### Market-related risks

#### Risks related to macroeconomic factors

Negative developments in the world economy and a challenging environment for the global capital markets may affect the Company's operations and hinder the Company's ability to obtain financing in the future.

#### Gold price volatility

The gold price may change due to reduced demand, changes in the US dollar or other macroeconomic factors, which may adversely affect the Company's operations and financial position. Fluctuations in the official exchange rate of the Russian ruble, euro and US dollar directly and indirectly affect the value of assets and liabilities.

#### Insurance

The insurance industry is not yet developed in Russia and several forms of insurance protection

common in more economically developed countries are not yet available in Russia on equivalent terms.

### Risks related to Russia

Operating in Russia subjects the Company to several political, legal and economic factors that may affect its operations and financial position. The Company sees the following risks as the biggest challenges to operating in Russia:

International capital flows can be hampered by global financial difficulties.

Changes in inflation may affect the Company's financial position.

Relations between Russia and the EU and/or the US may worsen, and current sanctions may be extended. The Company is not currently affected by the sanctions but does monitor developments.

Conflicts in the Russian federal system, including illegal or lucrative state incidents, may lead to uncertainty in daily operations.

Crime and corruption and the use of illegal or unacceptable business methods.

The Company is dependent on the approval of state and local authorities, which may be a time-consuming process.

Changes in laws, which currently prevent the nationalization of international assets, may have a negative effect on the Company's operations.

The risk that Russia does not accept the decisions of a foreign court of law and pursues issues in local arbitration.

Russia's infrastructure is to some extent underdeveloped and may impair or delay the Company's operations or lead to increased costs.

The taxation and legal systems in Russia are subject to frequent changes and are thereby difficult to anticipate. The Russian tax system is also subject to different interpretations on the federal, regional and local levels.

### Risks related to the Company's operations

#### Geological risk

Gold exploration is associated with high risk. All estimates of recoverable mineral resources in the ground are largely based on probabilities. Estimates of mineral resources and ore reserves are based on extensive test drilling, statistical analyses and model studies and remain theoretical in nature until verified by industrial mining. There is no methodology for determining with certainty the exact amount of gold available or the shape of a potential ore body and its distribution. The exact amount of gold is known only when the gold has been extracted from the gold deposit. Data relating to mineral resources and ore reserves as presented by the Company, and by others, should be viewed against this background and may therefore deviate from this.

#### Technical risk

Technical risks can arise from the exploration of mineral deposits, which could lead to interruptions in exploration work and negatively affect the Company. A lack of advanced drilling equipment or rental equipment or delayed delivery of such equipment could increase costs and retard the Company's growth.



**Environmental risk**

If incorrect technical or chemical equipment is used in exploration and production, environmental risks may arise that may delay the Company's operations and increase the cost of exploration, which may have a negative effect on the financial position of the Company. Environmental requirements and counterparty costs may be directed toward the Company, which may delay other work or increase the Company's costs. Currently, the Company does not have any material asset retirement obligations.

However, a change in the governing laws may impose stricter requirements regarding asset retirement procedures, which could lead to increased costs for the Company.

**License management**

Delays may occur in the exploration work, with the result that the Company must renew the production licenses, which may lead to delays in the start of production and which may affect the Company's financial position negatively. The Company may be late in meeting the obligations of newly acquired licenses, which may affect the Company's financial position negatively. In addition, breach of license obligations may result in license revocation, which may have a significantly negative effect on the Company's financial position.

**Useful life of the deposits**

The useful life and profitability of a deposit depends on several factors, such as metal prices, the size of the mineral resource, financing costs, etc. An unforeseen negative development in any of these parameters may negatively affect the Company's earnings and financial position. There is a risk that ore reserves may change in the future due to changes in production costs, processing yield or product price.

**Suppliers**

Dependence on third parties and local suppliers and their services, access to equipment and construction assistance may be delayed.

**Acquisitions**

The acquisition of licenses is part of the Company's strategy. All acquisitions and divestments are associated with risks and uncertainty. While the Company believes it is in a favorable position to make a fair assessment of development opportunities and risks associated with exploration and production licenses, there can be no guarantee that the expected potential of acquired licenses in terms of value creation for the Company will ultimately be realized.

**Dependence on qualified personnel**

The Company's development is highly dependent on the existing management and organization and their ability to recruit and retain experienced personnel for future operations. The workforce, located in the Bodaibo area, may choose to move to bigger cities, which can make it difficult to recruit competent personnel.

**Accidents**

Mining and exploration are more accident-prone industries than many others. As such, the Company's employees are exposed to occupational risks. Mining and exploration work is also exposed to potential natural disasters. A serious accident or natural disaster could have a significantly negative effect on the Company's earnings and financial position.

**Reporting process**

The Company's management processes and internal reporting controls may suffer if its subsidiaries do not follow established procedures for reporting to the Parent Company, as the reporting of financial data must be reliable and timely.

**Risks related to the Parent Company**

The Company's financial position depends on the subsidiaries' contractual and legal possibilities to recognize and settle intra group balances. A deterioration in these possibilities can have a negative effect on the Company's financial position and operating profit.

**Financial risks****Currency risks**

Kopy Goldfields has significant costs, assets and liabilities in Russian rubles (RUB), US dollars and euros, resulting in currency exposure in the income statement, balance sheet and cash flow statement. In dealing with currency risks, Kopy Goldfields separates transaction exposure and translation exposure.

**Transaction exposure**

The transactions in the Russian subsidiaries are predominantly in their functional currency, RUB. The existing transaction exposure primarily relates to when the Parent Company forwards loans to the subsidiaries, which is normally done in USD, and historically also in RUB.

**Translation exposure**

Net income in the Russian subsidiaries and the value of the Parent Company's net investments in them are affected by exchange rate fluctuations, which in turn affect the consolidated balance sheet and income statement on translation to SEK.

**Interest rate risk**

Kopy Goldfields is exposed to interest rate risk, as the Company is partly financed through debt. The discount rate and the assessed fair value of certain balance sheet items are affected by changes in the underlying interest rate. Interest income and interest expenses are also affected by interest rate fluctuations.

**Financing risks****Need for additional capital**

The Company may require additional capital in the future. The capital may be acquired through the issuance of shares, other equity instruments or debt instruments, or by obtaining other external financing. There is no guarantee that the Company will be able to obtain financing or that the terms and

conditions of such financing will be advantageous for the Company or without considerable dilution for the shareholders. Failure to obtain additional financing at the right time may result in the Company being forced to postpone, decrease, or terminate business operations and investments or to sell assets. There is no guarantee that such sale of assets can be done on terms and conditions that are advantageous to the Company.

**Liquidity risk**

Liquidity risk is the risk that Kopy Goldfields cannot meet its short-term payment obligations due to lack of cash funds or illiquid cash reserves. Since the Company is expected to show negative cash flow from operations over the next several years, it must continue to raise external capital or to find joint venture partners or asset buyers to be able to continue to develop the business and meet future obligations.

**Refinancing risk**

Refinancing risk is the risk that Kopy Goldfields cannot refinance its outstanding liabilities on acceptable terms, or at all, at a given point in time.

**Share-related risk**

Investing in shares is associated with risk and an investor may lose all or part of the value of the investment.

**EVENTS AFTER THE END OF THE FINANCIAL YEAR**

In March 2019, the Company's two long-term loans of MSEK 15 each, granted by Scandinavian Credit Fund I AB, originally due for repayment on July 7, 2019 and March 3, 2020, were renegotiated and extended. The loans were merged into one loan of MSEK 30, with a new repayment date of March 4, 2021. The new loan has an annual interest rate of 11.75 percent and no arrangement fees.

In April 2019, the acquisition of a new exploration license was announced, which gives the right to investigation and exploration in the bedrock for seven years. The license, called Polovinka, covers 88 sq. km and is in the Bodaibo area of the Irkutsk region of Russia. The new license borders the already-owned Gorbylyakh license, which is part of the Maly Patom exploration project, and covers the potential extension of the previously identified gold anomaly in the ground.

**OPERATIONAL OUTLOOK 2019**

In 2019, the Company will focus on marketing the Krasny project, with the aim of divesting the project under the right conditions. The overall objective is for the project to generate a return for the shareholders. In parallel with the sales process, the Company and GV Gold are evaluating the possibilities for Krasny to achieve the best results for both parties.

If the situation permits, the Company will continue with limited exploration in the Maly Patom project.

To increase the potential for exploration, the Company will continue to evaluate new exploration areas in Russia for potential acquisition. The focus

will be on land that is within the most geologically advantageous areas for significant bedrock discoveries with established alluvial production.

#### GOING CONCERN

Gold exploration is a capital-intensive activity and as disclosed elsewhere in these financial statements the Company does not yet recognize any revenue. The Board estimates that the Company has enough working capital for 2019. In December 2018, an agreement was signed to sell the wholly owned subsidiary LLC Taiga at a price corresponding to MUS\$ 6. The purchase consideration will be paid in several installments until December 31, 2021, mainly at the end of the

period. However, if the total consideration is paid by December 31, 2020, the total sales price will be reduced to MUS\$ 5. After several years of exploration on Krasny, the Company is now evaluating its options for exiting the project. Depending on the timing of this process, it cannot be excluded that further capitalization will be needed to finance the Company's operations and to maintain the 49-percent share in the Krasny project until it has been divested. The Board believes that share issues should be the primary source of funding, possibly supplemented by bridge financing. Given the estimated values of the Company's licenses, it is the Board's assessment that the Company can continue as a going concern.

#### PROPOSED APPROPRIATION OF PROFITS

At the disposal of the annual general meeting:

SEK

Share premium reserve	203,585,723
Fair value reserve	-6,974,317
Accumulated loss	-106,560,057
Net income	-21,803,539
<b>Total</b>	<b>68,247,811</b>

The Board proposes that this amount be carried forward 68,247,811.

#### MULTI-YEAR SUMMARY

	2018	2017	2016	2015	2014	2013	2012
Earnings per share, SEK	-0.52	-0.17	-0.08	-0.07	0.37	-2.27	-1.01
Equity/assets ratio, %	78.2	85.7	95.7	89.3	90.8	88.7	92.8
Investments in intangible assets, MSEK	2.5	2.3	1.9	2.7	1.9	19.4	36.6
Investments in joint ventures, MSEK	5.1	8.5	8.6	-	-	-	-
Market capitalization, MSEK	118.4	103.8	91.0	40.0	23.4	49.3	70.8



# CONSOLIDATED INCOME STATEMENT

KSEK	Note	2018	2017
Other operating income	6	796	3,093
<b>Total revenue</b>		<b>796</b>	<b>3,093</b>
Work performed by the company for its own use and capitalized		–	2,300
<b>Operating expenses</b>			
Other external costs	9	–6,763	–9,014
Personnel costs	10	–6,491	–6,619
Investments in associates and joint ventures	22	–7,453	–4,307
Divestment of subsidiaries	21	–20,394	–1,699
Depreciation and amortization of tangible and intangible assets	8	–209	–6
<b>Operating earnings</b>		<b>–40,514</b>	<b>–16,252</b>
<b>Earnings from financial items</b>			
Finance income	12	66	125
Finance costs	12	–3,313	–879
<b>Earnings before tax</b>		<b>–43,761</b>	<b>–17,006</b>
Tax on earnings for the year	13	–249	3,058
<b>Net income</b>		<b>–44,010</b>	<b>–13,948</b>
<i>Of which attributable to:</i>			
Parent company shareholders		–43,844	–13,948
Non-controlling interests		–166	–
		<b>–44,010</b>	<b>–13,948</b>
Earnings per share before and after dilution*	14	–0,52	–0,17
Average number of shares before and after dilution*		83,710,877	81,577,469

\*Earnings per share before and after dilution and Average number of shares before and after dilution were restated to reflect the share issues implemented in 2016 and 2018.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KSEK	2018	2017
Net income	–44,010	–13,948
<b>Items that may be reclassified to profit or loss</b>		
Translation differences on foreign operations	38,851	2,035
<b>Total comprehensive income</b>	<b>–5,159</b>	<b>–11,913</b>
<i>Of which attributable to:</i>		
Parent company shareholders	–4,993	–11,913
Non-controlling interests	–166	–
	<b>–5,159</b>	<b>–11,913</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

KSEK	Note	2018-12-31	2017-12-31
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration licenses and evaluation work	15	10,547	27,323
Buildings	16	836	1,041
Machinery and equipment	17	147	389
Investments in associates and joint ventures	22	96,708	92,283
Other financial assets	21	32,221	–
Deferred tax assets	13	44	56
<b>Total non-current assets</b>		<b>140,502</b>	<b>121,092</b>
<b>Current assets</b>			
Inventories	18	11	14
Trade receivables		94	604
Other receivables	19	832	319
Prepaid expenses and accrued income	20	214	357
Cash and cash equivalents		20,078	5,871
<b>Total current assets</b>		<b>21,229</b>	<b>7,165</b>
<b>TOTAL ASSETS</b>		<b>161,731</b>	<b>128,257</b>
<b>EQUITY</b>			
Share capital	23	39,477	30,367
Other paid-in capital		301,236	288,699
Translation reserve		7,710	–31,142
Retained earnings, incl. net income		–221,885	–178,041
<b>Equity attributable to Parent company shareholders</b>		<b>126,538</b>	<b>109,883</b>
Non-controlling interests		–166	–
<b>TOTAL EQUITY</b>		<b>126,371</b>	<b>109,883</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax	13	576	–
Non-current financial liabilities	24	15,000	15,000
<b>Total non-current liabilities</b>		<b>15,576</b>	<b>15,000</b>
<b>Current liabilities</b>			
Trade payables		305	187
Current tax liabilities		–13	169
Other current liabilities	24	15,701	456
Accrued expenses and deferred income	25	3,791	2,562
<b>Total current liabilities</b>		<b>19,784</b>	<b>3,374</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>161,731</b>	<b>128,257</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	Equity attributable to Parent company shareholders				Total	Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Translation reserve	Retained earnings, incl. net income			
<b>Equity, January 1, 2017</b>	<b>30,367</b>	<b>287,985</b>	<b>-33,177</b>	<b>-164,093</b>	<b>121,082</b>	<b>-</b>	<b>121,082</b>
Other comprehensive income			2,035		2,035		2,035
Net income				-13,948	-13,948		-13,948
Incentive program		714			714		714
<b>Equity, December 31, 2017</b>	<b>30,367</b>	<b>288,699</b>	<b>-31,142</b>	<b>-178,041</b>	<b>109,883</b>	<b>-</b>	<b>109,883</b>
Other comprehensive income			38,852		38,852		38,852
Net income				-43,844	-43,844	-166	-44,010
Incentive program		90			90		90
Share issue	9,110	16,048			25,158		25,158
Issue expenses		-3,601			-3,601		-3,601
<b>Equity, December 31, 2018</b>	<b>39,477</b>	<b>301,236</b>	<b>7,710</b>	<b>-221,885</b>	<b>126,538</b>	<b>-166</b>	<b>126,371</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

KSEK	Note	2018	2017
<b>Operating activities</b>			
Earnings before tax <sup>1)</sup>		-43,761	-17,006
Adjustment for non-cash items	26	30,311	6,792
Taxes paid		0	0
<b>Cash flow from operating activities before changes in working capital</b>		<b>-13,450</b>	<b>-10,214</b>
<b>Cash flow from changes in working capital:</b>			
Increase (-)/Decrease (+) in inventories		2	72
Increase (-)/Decrease (+) in operating receivables		-937	45
Increase (+)/Decrease (-) in operating liabilities		-1,445	996
<b>Cash flow from operating activities</b>		<b>-15,831</b>	<b>-9,101</b>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment		-	-169
Acquisition of intangible assets	15	-2,500	-2,414
Investment in joint ventures		-5,131	-8,541
Divestment of subsidiaries/licenses	27	1,078	1
<b>Cash flow from investing activities</b>		<b>-6,553</b>	<b>-11,122</b>
<b>Cash flow from financing activities</b>			
Share issue		25,158	-
Issue expenses		-3,601	-
Proceeds from warrants		50	397
Loans raised		15,000	15,000
<b>Cash flow from financing activities</b>		<b>36,607</b>	<b>15,397</b>
<b>Cash flow for the year</b>		<b>14,223</b>	<b>-4,826</b>
Cash and cash equivalents at start of year		5,871	10,708
Exchange gains/losses on cash and cash equivalents		-16	-11
Cash and cash equivalents at end of year		20,078	5,871
<b>Supplementary cash flow disclosures</b>			
<b>Cash and cash equivalents</b>			
The following subcomponents are included in cash and cash equivalents:			
Cash and bank balances		20,078	5,871

<sup>1)</sup> Amount includes interest received, SEK 5 (6) thousand, and interest paid, SEK 1,734 (75) thousand.

## INCOME STATEMENT, PARENT COMPANY

KSEK	Note	2018	2017
Revenue	7	3,141	3,420
<b>Total operating income</b>		<b>3,141</b>	<b>3,420</b>
Other external costs	9	-3,793	-3,099
Personnel costs	10	-3,679	-4,002
Depreciation and amortization of tangible and intangible assets	8	-6	-6
<b>Total operating expenses</b>		<b>-7,478</b>	<b>-7,107</b>
<b>Operating earnings</b>		<b>-4,337</b>	<b>-3,687</b>
Earnings from investments in Group companies	11	-14,914	-4,496
Earnings from other financial assets	7, 12	595	-4,389
Interest and similar income	7, 12	66	125
Interest and similar expenses	12	-3,214	-1,455
<b>Earnings from financial items</b>		<b>-17,467</b>	<b>-10,215</b>
<b>Earnings after financial items</b>		<b>-21,804</b>	<b>-13,902</b>
Appropriations		-	575
<b>Earnings before tax</b>		<b>-21,804</b>	<b>-13,327</b>
Income tax	13	-	-
<b>Net income</b>		<b>-21,804</b>	<b>-13,327</b>

## STATEMENT OF COMPREHENSIVE INCOME, PARENT COMPANY

KSEK	2018	2017
Net income	-21,804	-13,327
<b>Other comprehensive income</b>		
Translation differences	-91	-55
<b>Total comprehensive income</b>	<b>-21,895</b>	<b>-13,382</b>

# BALANCE SHEET, PARENT COMPANY

KSEK	Note	2018-12-31	2017-12-31
<b>ASSETS</b>			
<b>Non-current assets</b>			
Machinery and equipment	17	12	18
Investments in Group companies	11, 21	83,837	119,236
Other financial assets	11, 21	32,221	–
Receivables from Group companies	12	0	0
<b>Total non-current assets</b>		<b>116,070</b>	<b>119,254</b>
<b>Current assets</b>			
Receivables from Group companies		2,071	910
Other receivables	19	790	130
Prepaid expenses and accrued income	20	3,226	117
Cash and bank balances		19,938	5,455
<b>Total current assets</b>		<b>26,025</b>	<b>6,612</b>
<b>TOTAL ASSETS</b>		<b>142,095</b>	<b>125,866</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital	23	39,477	30,367
<b>Total restricted equity</b>		<b>39,477</b>	<b>30,367</b>
<i>Non-restricted equity</i>			
Share premium reserve		203,586	191,089
Fair value reserve		–6,974	–6,883
Retained earnings, incl. net income		–128,364	–106,560
<b>Total non-restricted equity</b>		<b>68,248</b>	<b>77,646</b>
<b>TOTAL EQUITY</b>		<b>107,724</b>	<b>108,014</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Liabilities to credit institutions	24	15,000	15,000
<b>Total non-current liabilities</b>		<b>15,000</b>	<b>15,000</b>
<b>Current liabilities</b>			
Trade payables		276	149
Other current liabilities		15,304	141
Accrued expenses and deferred income	25	3,791	2,562
<b>Total current liabilities</b>		<b>19,371</b>	<b>2,852</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>142,095</b>	<b>125,866</b>



## CHANGES IN EQUITY, PARENT COMPANY

KSEK	Share capital	Share premium reserve	Fair value reserve	Retained earnings, incl. net income	Total equity
<b>Equity, December 31, 2016</b>	<b>30,367</b>	<b>190,692</b>	<b>-6,828</b>	<b>-93,232</b>	<b>120,999</b>
Incentive program premiums		397			397
Other comprehensive income			-55		-55
Net income				-13,328	-13,328
<b>Equity, December 31, 2017</b>	<b>30,367</b>	<b>191,089</b>	<b>-6,883</b>	<b>-106,560</b>	<b>108,014</b>
Share issue	9,110	16,048			25,158
Issue expenses		-3,601			-3,601
Incentive program premiums		50			50
Other comprehensive income			-91		-91
Net income				-21,804	-21,804
<b>Equity, December 31, 2018</b>	<b>39,477</b>	<b>203,586</b>	<b>-6,974</b>	<b>-128,364</b>	<b>107,724</b>

The fair value reserve relates to exchange differences on foreign currency loans to subsidiaries.

## STATEMENT OF CASH FLOWS, PARENT COMPANY

KSEK	Note	2018	2017
<b>Cash flow from operating activities</b>			
Earnings before tax <sup>1)</sup>		-21,804	-13,327
Adjustment for non-cash items	26	13,309	5,417
<b>Cash flow from operating activities before changes in working capital</b>		<b>-8,495</b>	<b>-7,910</b>
<b>Cash flow from changes in working capital:</b>			
Increase (-)/Decrease (+) in operating receivables		-1,789	369
Increase (+)/Decrease (-) in operating liabilities		-662	-391
<b>Cash flow from operating activities</b>		<b>-10,946</b>	<b>-7,932</b>
<b>Cash flow from investing activities</b>			
Shareholder contributions		-9,757	-200
Divestment of subsidiaries, net liquidity effect	27	1,078	1
Loans to Group companies		-2,252	-5,265
<b>Cash flow from investing activities</b>		<b>-10,931</b>	<b>-5,464</b>
<b>Cash flow from financing activities</b>			
Share issue		25,158	-
Issue expenses		-3,601	-
Proceeds from warrants		50	397
Loans raised		15,000	15,000
Repaid loans		-247	-7,124
<b>Cash flow from financing activities</b>		<b>36,360</b>	<b>8,273</b>
<b>Cash flow for the year</b>		<b>14,483</b>	<b>5,123</b>
Cash and cash equivalents at start of year		5,455	10,578
Cash and cash equivalents at end of year		19,938	5,455
<b>Supplementary cash flow disclosures</b>			
<b>Cash and cash equivalents</b>			
The following subcomponents are included in cash and cash equivalents:			
Cash and bank balances		19,938	5,455

<sup>1)</sup> Amount includes interest received, SEK 5 (6) thousand, and interest paid, SEK 1,734 (1,492) thousand.

# NOTES

## Company information

Kopy Goldfields AB (publ) is a Swedish limited liability company domiciled and headquartered at Skeppargatan 27 in Stockholm, Sweden (Corp. ID 556723-6335). The Group's operations are focused on exploring for gold in the Bodaibo district of the Irkutsk region of Russia. The Parent Company's functional and presentation currency is SEK. The annual report for Kopy Goldfields AB (publ) for the year ended December 31, 2018 was approved for publication by the Board of Directors on May 7, 2019 and will be presented to the Annual General Meeting for adoption on May 29, 2019.

## Accounting principles

The most significant accounting principles that have been applied when preparing the consolidated financial statements are described below. These principles are unchanged for all years presented, unless otherwise stated.

## Basis of presentation

The consolidated financial statements are prepared on a historical cost basis and in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee, as adopted by the EU, and in accordance with the Annual Accounts Act and the Swedish Accounting Standards Council's recommendation RFR 1, Supplementary Accounting Rules for Groups.

The Parent Company has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554), and RFR 2, Accounting for legal entities. In accordance with RFR 2, the Parent Company is required to apply all IFRSs adopted by the EU to the extent possible within the framework of the Annual Accounts Act, considering the relationship between accounting and taxation. The recommendation specifies the exemptions from and additions to IFRS that are to be applied.

Shares in subsidiaries are carried at cost unless otherwise indicated.

The consolidated financial statements have been prepared in accordance with the acquisition method and include the Parent Company, its subsidiaries and participations in joint ventures.

## Accounting in accordance with IFRS

Preparation of financial statements in accordance with IFRS requires the use of certain significant estimates for accounting purposes. It also requires management to make certain assessments in the application of the Group's accounting principles. The areas that include a high degree of assessment, that are complex or areas where assumptions and estimates are essential to the consolidated accounts are set out below in Note 5 – Significant estimates and assessments for accounting purposes.

## Application of new or amended standards

### a) New and amended standards applied by the Group

Several new and amended IFRSs came into effect in the 2018 financial year.

IFRS 9 Financial Instruments is effective from January 1, 2018 and replaces IAS 39 Financial Instruments: Recognition and Measurement. The new standard deals with the classification and measurement of financial assets and liabilities, impairment and hedge accounting. For classification and measurement, IFRS 9 requires all financial instruments to be evaluated based on a combination of the entity's business model for managing the instrument and the characteristics of the instrument's cash flows. The classification and measurement categories in IAS 39 have been replaced by Fair value through profit or loss (FVTPL), Fair value through other comprehensive income (FVTOCI) and Amortized cost. The standard introduces a new model for impairment of financial assets based on expected losses, rather than incurred losses under the previous model.

The new classification and measurement categories have not had any material impact on the consolidated balance sheet. Most of the Group's financial assets and liabilities consist of bank balances, trade payables and loans, which are measured at amortized cost as the intention is to comply with the contractual terms. The standard's new impairment model for customer losses is not expected to have any effect, as the Company does not have any trade receivables. The standard has resulted in changes to disclosure requirements, which affect the disclosures that will be provided in the future.

IFRS 15 Revenue from Contracts with Customers is a new revenue standard with associated disclosure requirements, which replaces IAS 18, IAS 11 and IFRIC 13. The standard, effective from January 1, 2018, regulates commercial agreements (contracts) with customers, and categorizes the provision of goods/services into distinct performance obligations that are recognized independently. The transition to IFRS 15 has not had any effect on revenue recognition. The Company has chosen the modified retrospective transition approach, which means that comparative periods have not been restated under the new standard. IFRS 15 involves changes to disclosure requirements, which affect the disclosures that will be provided in the future.

### b) New or amended standards effective after 2018

IFRS 16 Leases. The standard introduces a change to recognition of leases and requires all leases to be reported in the balance sheet. The Company has operating leases for office premises, which will affect financial position and key ratios on transition. The Company has chosen to apply the simplified transition approach, recognizing the cumulative effect of initially applying the standard at the date of initial application, January 1, 2019. Comparatives will not therefore be restated and will continue to be reported in accordance with IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Company has chosen to exclude leases where the underlying asset is of low value. In 2019, lease costs for previous operating leases will be replaced by depreciation of right-of-use assets and financial interest expenses on the lease liabilities. Right-of-use assets will be measured at an amount equal to the lease liabilities at the transition date. The Group has only a small number of leases. Based on existing leases at January 1, 2019, the Group's lease liabilities and right-of-use assets are expected to increase total assets by KSEK 449, or 0.3 percent, without any impact on equity.

Other new and amended IFRSs with future adoption dates are not expected to have any material effect on the Company's financial statements.

## NOTE 1 BASIS OF CONSOLIDATION

### Subsidiaries

Subsidiaries are all companies (including special purpose entities) where the Group is exposed, or has rights, to variable returns from its involvement with the entity and can use its influence to affect its returns. This usually follows from a shareholding that exceeds 50 percent of the shares' or participations' voting rights or where the Group, by agreement, exercises sole control. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

When a business combination constitutes acquisition of exploration licenses that are not part of a business, the purchase price is allocated to the separate identifiable assets and liabilities based on their relative acquisition-date fair values. Deferred tax is not accounted for in asset acquisitions.

The Company uses the acquisition method when accounting for acquisition of subsidiaries. The cost of acquisition is the fair value of assets given as consideration, issued equity instruments and liabilities assumed at the date of acquisition. Identifiable acquired assets and assumed liabilities and contingent liabilities in a business combination are initially measured at their acquisition-date fair values, regardless of any non-controlling interest. Any excess in the cost of the acquisition over the fair value of identifiable acquired assets, assumed liabilities and contingent liabilities is recognized as goodwill. If the cost of acquisition is less than the fair value of identifiable acquired assets, assumed liabilities and contingent liabilities, the difference is recognized immediately in the income statement.

Intra-Group transactions, balance sheet items and unrealized profits on transactions between Group companies are eliminated. Unrealized losses are also eliminated, but any losses are considered an indication of impairment. The accounting principles for subsidiaries have been adjusted as necessary in order to guarantee consistent application of the Group's accounting principles.

### Joint ventures

A joint venture is a form of joint arrangement that arises when two or more parties have joint control and rights to the net assets in an arrangement. Since



August 2014, the Company has been party to a cooperation agreement regarding one of the Company's licenses. The Company owns 49 percent and after evaluating the terms of the agreement, the assessment was that there is joint control and that the joint arrangement is a joint venture, which is recognized using the equity method. This means that the carrying amounts for interests in the joint venture correspond to the Group's share of recognized equity in the joint venture, any goodwill and any other remaining fair value adjustments recognized at the acquisition date.

When subsidiaries are divested to joint ventures, the previously held interest in the subsidiary is adjusted to its acquisition-date fair value. Any profit or loss is recognized in the income statement.

The item shares of earnings in joint ventures, recognized in the income statements, comprises the Group's share of joint ventures' earnings after tax, adjusted for amortization, depreciation and impairment, and any other remaining adjustments to the recognized acquisition-date fair values.

Joint ventures are recognized in the Parent Company according to the cost method.

#### Associates

All companies in which the Group has significant influence but not control, normally shareholdings of 20-50 percent of the votes, are accounted for as associates. Investments in associates are recognized using the equity method and are initially measured at cost. The Group does not currently have any associates.

#### Segment reporting

Operating segments are reported in a way that corresponds to the internal reporting that is submitted to the chief operating decision-maker. The chief operating decision-maker is responsible for allocation of resources and assessment of the earnings of the operating segment. Within the Group this function has been identified as the chief executive officer (CEO).

As all Kopy Goldfields' exploration activities are exposed to similar risks and possibilities and are conducted entirely within Russia, the Company's operations are recognized within one operating segment.

#### Foreign currency translation

The functional currency for each entity within the Group is determined taking into consideration the economic environment where the entity operates, and generally corresponds to the local currency of the relevant country. Monetary assets and liabilities in foreign currencies are translated at the exchange rate that is applicable at the end of the reporting period. All differences are recorded in the income statement except for those differences related to loans in foreign currency that are a hedge of the net investment in a foreign operation, as well as claims on subsidiaries for which settlement is not planned or is not likely in the foreseeable future. These differences are recognized as other comprehensive income in the consolidated statement of comprehensive income.

The following exchange rates have been used in the Group:

Currency	2018		2017	
	Closing rate	Average rate	Closing rate	Average rate
RUB	0.1291	0.1388	0.1429	0.1464
USD	8.9710	8.6921	8.2296	8.5380
EUR	10.2753	10.2567	9.8393	9.6326

#### Group companies

Earnings and financial position for all Group companies (none of which has a hyperinflation currency as its functional currency) with a functional currency that is different from the presentation currency are translated to the Group's presentation currency as follows:

- Assets and liabilities for each of the balance sheets are translated at the closing rate
- Revenue and expenses for each of the income statements are translated at the average exchange rate
- All resulting exchange differences are recognized in other comprehensive income

On consolidation, exchange differences arising from translation of the net investment in the Russian operations are recognized in equity. On divestment of a foreign operation, in whole or in part, the exchange differences that were recognized in equity are transferred to the income statement and recognized as a portion of the capital gain/loss. Fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

#### Cash flow statement

The cash flow statement is prepared according to the indirect method. The recognized cash flow only includes transactions that are payments to or from the Group. The item Cash and cash equivalents in the cash flow statement corresponds to the definition of cash and cash equivalents in the balance sheet.

#### Revenue

##### Revenue recognition

Kopy Goldfields does not have any gold sales, as the Company has not yet reached the production phase. Existing revenue includes sale of subsidiaries, inventory and certain equipment. Revenue is recognized exclusive of value added tax, returns and discounts and after elimination of intra-Group sales.

#### Intangible assets

Intangible assets in Kopy Goldfields consist of:

##### Exploration licenses

The Company's licenses for exploration are initially recognized at cost. Such licenses are normally acquired at open public auctions in Russia, whereby the winning auction price and related overheads correspond to cost.

##### Exploration work

The next step is exploration work. Exploration work can vary in nature to include various types of drilling, geochemical and magnetic surveys, and laboratory analyses. Exploration work also includes payroll expenses for the personnel who perform the work. Exploration work is generally performed for two main reasons: as a pure exploration activity aimed at finding new ores to mine or as an evaluation activity aimed at obtaining a better determination of the financial potential for extraction from an already proven mineral deposit.

Expenditure on pure exploration activity is recognized in the period in which it is incurred, while expenditure on evaluation work is recognized until the point in time when the Company has decided to extract ore from a deposit or considers it likely that such a decision will be made. Alternatively, assessment may refer to the possibility of selling the deposit in the future at a profit. From that moment, expenditures are capitalized as exploration licenses and depreciated according to generally accepted principles as described below.

In several cases, auctioned licenses have been explored to a varying extent during the Soviet era. This normally means that a mineralization has already been determined in the license area and that additional exploration efforts will be focused on better evaluating the object's financial potential. However, the issuance of a Russian mineral license does not guarantee the existence of economically mineable minerals in the license area. Kopy Goldfields made the assessment that part of the work on the main license was economically mineable while other parts were not. The latter have been expensed.

If the assessment of the economic potential of the capitalized exploration expenditures changes, they are written down immediately. All capitalized exploration expenditures are subject to annual impairment testing if circumstances indicate impairment.

The production licenses are amortized on commencement of production.

#### Property, plant and equipment

All items of property, plant and equipment are stated at cost less depreciation. Cost includes expenditure directly attributable to acquisition of the asset.

Subsequent costs are added to the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized on replacement. All other forms of repair and maintenance are recognized as costs in the income statement in the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of an asset down to its residual value, over the estimated useful life as follows:

Type of asset	Useful life (years)
Buildings	5–30
Plant	5–30
Machinery	2–15
Computers	2–5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the income statement under other operating income and other operating expenses.

#### Impairment of non-financial assets

Assets with indefinite useful lives and capitalized development expenses for assets not yet available for use are not depreciated but are tested annually for impairment. Assets that are depreciated are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets and assets other than goodwill for which an impairment loss was previously recognized are reviewed for possible reversal of the impairment at the end of each reporting period.

#### Leases

Non-current assets held under leases are classified in accordance with the economic substance of the lease. Assets held under finance leases are recognized as non-current assets and future lease payments as interest-bearing liabilities. For leased items classified as operating leases, lease payments are recognized as operating expenses in the income statement. Leases of non-current assets, where the Group has essentially all the financial risks and rewards of ownership, are classified as finance leases. Finance leases are recognized at the beginning of the lease term at the lower of fair value and present value of the minimum lease payments of the asset. Other leases are classified as operating leases. Payments made during the lease term (net of any incentives from the lessor) are expensed in the income statement on a straight-line basis over the lease term. Apart from two office premises held under operating leases, the Group does not hold any assets under leases.

#### Financial instruments

Purchases and sales of financial instruments are recognized on the transaction date, that is, the date on which the Company undertakes to buy or sell the asset. Financial instruments recognized under assets in the balance sheet include cash and cash equivalents, loan receivables, trade receivables and other financial assets. Liabilities include trade payables and loan liabilities. A financial asset or liability is recognized in the balance sheet when the Company becomes a party to the instrument's contractual terms. Trade receivables are recognized in the balance sheet when an invoice has been sent. Trade payables are recognized on receipt of the invoice. A financial asset is derecognized when the rights to receive benefits have been realized or have expired. The same applies to part of a financial asset. A financial liability is derecognized when the contractual obligation has been discharged or extinguished in some other way. The same applies to part of a financial liability.

#### Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of assets is impaired. Objective evidence consists of observable events that have occurred and adversely affect the ability to recover the cost of the asset. The Company classifies trade receivables as doubtful when it is considered unlikely that they will be paid. A financial asset and a financial liability may be offset when there is a legally enforceable right to offset the amounts.

#### Classification and measurement

Non-derivative financial instruments are initially recognized at cost, which corresponds to fair value plus transaction costs. This applies to all financial instruments apart from financial assets in the category at FVTPL, which are recognized at fair value, net of transaction costs. A financial instrument is initially classified according to the purpose for which it was acquired. The categories determine how a financial instrument is measured subsequent to initial recognition, as described below. Cash and cash equivalents consist of cash and demand deposits with banks and similar institutions.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost. Amortized cost is determined using the effective interest rate calculated on the acquisition date. Receivables are recognized at the amounts expected to be received, i.e., less an allowance for doubtful receivables.

#### Other financial liabilities

Loans and other financial liabilities, e.g., trade payables, are included in this category. These liabilities are measured at amortized cost.

#### Trade payables

Trade payables are initially recognized at fair value and subsequently at amortized cost.

#### Inventories

Inventories are recognized at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method (FIFO). The cost of finished goods and work in progress consists of design costs, raw materials, direct labor, other direct costs and related indirect manufacturing costs (based on normal manufacturing capacity). Borrowing costs are not included. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### Cash and cash equivalents

Cash and cash equivalents in the balance sheet include cash and bank balances. Cash and cash equivalents in the cash flow statement also include cash and bank balances.

#### Borrowings

Borrowings are initially recognized at fair value, net of transaction costs. Borrowings are subsequently recognized at amortized cost and any difference between amounts received (net of transaction costs) and amounts to be repaid is recognized in the income statement, allocated over the loan period using the effective interest method. Borrowing costs are charged to profit/loss for the period to which they relate. Borrowings are classified as current liabilities unless the Group has an unconditional right to postpone payment of the debt for at least 12 months after the end of the reporting period.

#### Income taxes

Recognized income taxes include tax to be paid or received for the current year, adjusted for current and deferred tax in prior years. All tax liabilities and receivables are measured at nominal amounts and in accordance with tax rules and rates that have been enacted or substantively enacted.

Tax effects of items recognized in the income statement are also recognized in the income statement. Tax effects of items recognized in other comprehensive income or directly in equity are also recognized in other comprehensive income or directly in equity. Deferred tax is determined using the balance sheet liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax assets related to loss carryforwards or other future tax deductions are recognized to the extent that it is probable that the deduction can be offset against future profits. As management cannot assess when possible taxable profit will arise, Kopy Goldfields has chosen not to recognize any deferred tax assets.

**Employee benefits****Pensions**

The Group does not have any pension costs in Russia. In Sweden, the Group pays defined contribution pension costs for one employee.

**Termination benefits**

Termination benefits are paid when an employee is terminated by Kopy Goldfields and the employee accepts a voluntary termination in exchange for such benefits. Kopy Goldfields recognizes termination benefits when the Group is demonstrably committed to either terminating the employment of employees according to a detailed formal plan, without the possibility of revocation, or providing termination benefits as a result of an offer made to encourage voluntary termination. Benefits due more than 12 months after the end of the reporting period are discounted to present value.

**Provisions**

Provisions, primarily for guarantees but also for legal requirements when they arise, are recognized when the Group has a legal or constructive obligation resulting from past events, it is probable that an outflow of resources is required to settle the obligation, and the amount can be reliably estimated. No provisions are made for future operating losses.

**Earnings per share**

Earnings per share is calculated based on consolidated earnings for the period (total net earnings from continuing and discontinued operations) attributable to the Parent Company shareholders and based on the weighted average number of outstanding shares during the period. When calculating earnings per share after dilution, net earnings and average number of shares are adjusted to reflect effects of potential dilutive ordinary shares, which constitute shares and options issued during the period. Dilution from options occurs only when the exercise price is lower than the fair value of the shares and is greater the larger the difference is between the exercise price and the fair value. Convertible loans and options are not considered dilutive if the earnings per share from continuing operations would be better (higher profit or lower loss) after dilution than before dilution.

**NOTE 2 PARENT COMPANY ACCOUNTING PRINCIPLES**

The Parent Company essentially applies the same accounting principles as the Group. The Parent Company also applies RFR 2 Accounting for Legal Entities.

**Differences between the Group's and the Parent Company's accounting principles**

Differences between the Group's and the Parent Company's accounting principles are shown below. The following accounting principles have been applied consistently to all periods presented in the Parent Company's financial statements.

**Subsidiaries**

Investments in subsidiaries are recognized in the Parent Company according to the cost method.

**Group contributions and shareholder contributions**

Shareholder contributions are capitalized as investments in subsidiaries in the Parent Company's balance sheet and are subject to impairment testing. Group contributions paid are recognized as investments in subsidiaries in accordance with RFR 2.

**Income statement and balance sheet presentation**

The Parent Company follows the Swedish Annual Accounts Act's presentation format for income statements and balance sheets, which among other things means that the format for equity is different and that provisions have their own heading in the balance sheet.

**NOTE 3 RELATED PARTY TRANSACTIONS**

Apart from the new share issue during the year (see notes 14 and 23), no transactions were conducted with the Company's owners during the year. See Note 10 Personnel for information on remuneration of the Board of Directors and management.

**NOTE 4 FINANCIAL RISK FACTORS**

In 2018, financial risk was managed according to Kopy Goldfields' finance policy. Kopy Goldfields classifies financial risk as:

Currency risk  
Interest rate risk  
Credit risk  
Liquidity risk and refinancing risk

See the Directors' Report starting on page 30 for more information.

**Currency risk**

Kopy Goldfields has considerable costs, assets and liabilities in Russian rubles (RUB), euros (EUR) and US dollars (USD), which leads to currency exposure in the income statement, balance sheet and cash flow statement. In dealing with currency risks, Kopy Goldfields distinguishes between two types of exposure: transaction exposure  
translation exposure

**Transaction exposure**

Transactions in Russian subsidiaries are predominantly in RUB, their functional currency. Transaction exposure arises when the Parent Company loans money to the subsidiaries, normally in USD. Since the loans and credit periods are relatively long-term, there is an exposure risk in the Parent Company and the subsidiaries.

**Translation exposure**

Net earnings from the Russian Group companies and the value of the net investment are affected by exchange rate fluctuations, which in turn affects the consolidated balance sheet and income statement when translated to SEK. The year's translation effect on net income in the income statement and statement of financial position was KSEK -318 (-188).

The Group's revenue and earnings have the following currency distribution (KSEK):

Currency	Capitalization/Revenue	Earnings
SEK		-23,234
RUB	796	-20,776
USD	-	-
EUR	-	-
<b>Total</b>	<b>796</b>	<b>-44,010</b>

The Group's assets and liabilities have the following currency distribution:

Currency	Assets	Liabilities
SEK	19,837	34,371
RUB	4,620	989
USD	32,531	-
EUR	104,743	-
<b>Total</b>	<b>161,731</b>	<b>35,360</b>

The Group has chosen not to hedge any of the above translation exposures at present.

**Interest rate risk**

Kopy Goldfields is exposed to interest rate risk, as the Company is partly financed through debt. Net debt was MSEK -9.9 (-9.1) at the end of the year, consisting of cash and cash equivalents of MSEK 20.1 (5.9) and interest-bearing liabilities of MSEK -30.0 (-15.0).

**Credit risk**

Credit risk is primarily linked to financial credit risk as the Company does not have any commercial trade or similar receivables.

**Financial credit risk**

Investments in financial instruments imply a risk that the counterparty will not fulfill its obligations. This exposure arises from investments of cash and cash equivalents and other financial instruments with positive unrealized earnings with banks and other counterparties. Kopy Goldfields limits these risks by



placing excess liquidity with counterparties that have good credit ratings, currently one of the major commercial banks, in accordance with the financial policy.

#### Liquidity risk

As mentioned earlier, the Company's operations are highly capital-intensive in nature and the Company will require significant capital to enable it to continue and develop its operations and meet future obligations. The Company must therefore have access to capital. The Board believes that future financing should primarily be through equity combined with loans or sales of assets over the next few years.

#### Refinancing risk

Refinancing risk is the risk of Kopy Goldfields being unable to refinance its outstanding liabilities on acceptable terms, or at all, at any given time.

The loans outstanding on the reporting date had the following structure, interest and maturity profile.

#### 2018

Loan	Interest (%)	Within 1 year	2-5 years	After 5 years	Total	Fair value
Other loans	11.5	15,000	-	-	15,000	15,000
Other loans	11.75	-	15,000	-	15,000	15,000
<b>Total</b>		<b>15,000</b>	<b>15,000</b>	<b>-</b>	<b>30,000</b>	<b>30,000</b>

#### 2017

Loan	Interest (%)	Within 1 year	2-5 years	After 5 years	Total	Fair value
Other loans	11.5	-	15,000	-	15,000	15,000
<b>Total</b>		<b>-</b>	<b>15,000</b>	<b>-</b>	<b>15,000</b>	<b>15,000</b>

In March 2019, the Company's two long-term loans of MSEK 15 each were renegotiated and extended. The loans were merged into one loan of MSEK 30, with a new repayment date of March 4, 2021. The new loan has an annual interest rate of 11.75 percent and no arrangement fees.

#### NOTE 5 SIGNIFICANT ESTIMATES AND ASSESSMENTS FOR ACCOUNTING PURPOSES

The Group makes estimates and assumptions about the future. The estimates for accounting purposes that result from them will, by definition, rarely correspond to the actual outcome. The estimates and assumptions that entail a substantial risk for material adjustments in the carrying amounts of assets and liabilities in the next financial year are described below.

#### Extractable deposit

Exploration expenditures on pure exploration activities are expensed while expenditures on evaluation work are capitalized from the time the Company has determined or assessed that it is probable that a decision will be made to extract gold from a deposit. Alternatively, assessment may refer to the possibility of selling the deposit in the future at a profit. The above are assessments that highly affect the Company's balance sheet and income statement.

#### Classification of acquisitions of subsidiaries

Upon acquisition, an analysis must be made regarding whether the acquisition is to be regarded as a business combination or an asset acquisition. It is common that exploration licenses are acquired via the acquisition of a subsidiary. In such cases an analysis is conducted to determine whether the acquisition meets the criteria for a business combination.

The criterion that Kopy Goldfields reviews is the purpose of the acquisition, that is, whether the purpose is to acquire a business or an asset. If the acquisition of a company does not meet the criteria for a business combination it is recognized as an asset acquisition. Companies containing only an exploration license without the associated management/administration are normally classified as asset acquisitions.

#### Useful lives of intangible assets and property, plant and equipment

Management determines the estimated useful lives and any associated depreciation/amortization of the Group's intangible assets and property, plant and equipment. These estimations are based on historical knowledge about the useful lives of equivalent assets. Useful life and estimated residual values are tested at the end of each reporting period and adjusted as needed. See Notes 15-17 for carrying amounts of each reporting period's intangible assets and property, plant and equipment.

#### Impairment testing of exploration licenses and evaluation work

The Group tests exploration licenses for impairment annually or more frequently in accordance with the accounting principle described under "Impairment of non-financial assets". The recoverable amount for cash generating units is the higher of the asset's fair value less costs to sell and its value in use. When assessing the value in use, certain estimates must be made concerning the discount rate, price of gold, reserves, etc.

In 2018, it was determined that no impairment existed.

#### Measurement of loss carryforwards

Each year the Group reviews whether there is any need for capitalization regarding deferred tax assets related to tax loss carryforwards. As management cannot assess when possible taxable profit will arise, the Company has chosen not to capitalize any losses.

#### Going concern

Gold exploration is a capital-intensive activity and as disclosed elsewhere in these financial statements the Company does not yet recognize any revenue. The Board estimates that the Company has enough working capital for 2019. In December 2018, an agreement was signed to sell the wholly owned subsidiary LLC Taiga at a price corresponding to MUSD 6. The purchase consideration will be paid in several installments until December 31, 2021, mainly at the end of the period. However, if the total consideration is paid by December 31, 2020, the total sales price will be reduced to MUSD 5. After several years of exploration on Krasny, the Company is now evaluating its options for exiting the project. Depending on the timing of this process, it cannot be excluded that further capitalization will be needed to finance the Company's operations and to maintain the 49-percent share in the Krasny project until it has been divested. The Board believes that share issues should be the primary source of funding, possibly supplemented by bridge financing. Given the estimated values of the Company's licenses, it is the Board's assessment that the Company can continue as a going concern.

#### NOTE 6 OTHER OPERATING INCOME

	Group	
KSEK	2018	2017
Sale of services to joint venture	407	2,524
Other	389	569
<b>Total</b>	<b>796</b>	<b>3,093</b>

#### NOTE 7 INTRA-GROUP PURCHASES AND SALES

Of the Parent Company's net revenue, 100 (100) percent or KSEK 3,141 (3,420) is related to sales to other Group companies. Of the Parent Company's interest income, 86 (91) percent or KSEK 416 (286) is related to other Group companies.

#### NOTE 8 DEPRECIATION

	Group		Parent Company	
KSEK	2018	2017	2018	2017
Buildings	111	118	-	-
Machinery and equipment	98	241	6	6
<b>Total depreciation</b>	<b>209</b>	<b>359</b>	<b>6</b>	<b>6</b>

Of the amounts above for the Group, KSEK 0 (353) was carried over to intangible assets.

**NOTE 9 AUDIT FEES**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
<i>Ernst &amp; Young</i>				
Audit engagement	247	246	247	246
Audit activities other than audit engagement	-	-	-	-
Tax consultancy	-	-	-	-
Other services	-	-	-	-
<b>Total</b>	<b>247</b>	<b>246</b>	<b>247</b>	<b>246</b>
<i>Other audit firms</i>				
Audit engagement	110	122	-	-
Audit activities other than audit engagement	-	-	-	-
Tax consultancy	-	-	-	-
Other services	-	-	-	-
<b>Total</b>	<b>110</b>	<b>122</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>357</b>	<b>368</b>	<b>247</b>	<b>246</b>

Audit engagements include reviewing the financial statements and accounting records along with the administration of the Company by the Board and CEO, other tasks that the Company's auditor is required to perform and consulting. Audit activities other than audit engagement mainly concerns consultations and reviews regarding the preparation of prospectuses and issuance of auditors' certificates. Other services relate to consultancy regarding sales of businesses.

**NOTE 10 PERSONNEL**

Average number of employees

	2018		2017	
	Total	Women	Total	Women
<i>Parent Company</i>				
Sweden	2	0	2	0
<i>Group companies</i>				
Russia	7	2	5	1
<b>Group total</b>	<b>9</b>	<b>2</b>	<b>7</b>	<b>1</b>

As of December 31, 2018, there were 5 full-time permanent employees (5) in the Group. During the year, the Company also uses temporary employees for exploration work, which explains the higher average number of employees.

Remuneration of the Board and senior management during the financial year (KSEK):

	Basic salary/fee	Variable	Other benefits	Pension costs	Incentive program <sup>1)</sup>	Total
Chairman of the Board, Kjell Carlsson	260	0	0	0	0	260
Board member, Johan Österling	100	0	0	0	0	100
Board member, Andreas Forssell	100	0	0	0	0	100
CEO, Mikhail Damrin	1,334	51	0	0	20	1,405
Deputy CEO, Tim Carlsson	938	174	0	131	18	1,260
Other management (2 persons)	906	352	0	0	20	1,278
<b>Total Board and management</b>	<b>3,638</b>	<b>577</b>	<b>0</b>	<b>131</b>	<b>58</b>	<b>4,403</b>

<sup>1)</sup> Recognized cost of 2018/2021 incentive programs

Gender distribution in the Group (incl. subsidiaries) of Board members and other senior management positions.

	2018		2017	
	Number as of December 31	Of whom women	Number as of December 31	Of whom women
Board members	3	0	3	0
CEO and other senior executives	4	0	4	0
<b>Group total</b>	<b>7</b>	<b>0</b>	<b>7</b>	<b>0</b>

Salaries, remuneration and social security contributions

	2018	2017
<i>Group</i>		
Board, CEO and management (of which variable)	4,273 (635)	4,121 (994)
Other employees	788	568
<b>Total</b>	<b>5,061</b>	<b>4,689</b>
Social security costs (of which pension costs)	1,458 (131)	1,417 (115)
<b>Total</b>	<b>6,519</b>	<b>6,106</b>
<i>Moderbolaget</i>		
Board, CEO and management (of which variable)	2,995 (263)	3,132 (605)
Other employees	0	0
<b>Total</b>	<b>2,995</b>	<b>3,132</b>
Social security costs (of which pension costs)	1,010 (131)	1,073 (115)
<b>Total</b>	<b>4,005</b>	<b>4,205</b>

## Benefits to senior management

### Principles

Remuneration of the Board, including the chairman, is set by the shareholders at the annual general meeting and is valid until the next annual general meeting.

### The Board's remuneration and benefits

The Board's total remuneration for the 2018 financial year amounted to KSEK 460 (460), of which KSEK 260 (260) was to the Chairman. For remuneration of other Board members, see the table above.

### Incentive Programs 2018/2021

The 2018 AGM adopted two incentive programs 2018/2021: one for management and one for the Board of Directors. Up to 1,700,000 warrants can be issued under the programs. The warrants were transferred without consideration to the management participants at terms adapted to local conditions, while Board members acquired the warrants at market prices. After recalculation in accordance with the warrants' terms following the share issue, each warrant entitles the holder to subscribe for 1.02 new shares in the Company and the warrants may be used for share subscription during the period June 1, 2019 to December 31, 2021 at an exercise price of SEK 1.67 per share. The number of issued warrants is 1,700,000. See Note 30.

Distribution of warrants at December 31, 2018:

Board	Number of warrants
Kjell Carlsson (Chairman)	375,000
Andreas Forssell	190,000
Johan Österling	190,000
<b>Total</b>	<b>755,000</b>
Management	Number of warrants
CEO	375,000
Other management (3 positions)	570,000
<b>Total</b>	<b>945,000</b>

### Incentive programs 2017/2020

The 2017 AGM adopted two incentive programs 2017/2020: one for management and one for the Board of Directors. A total of 3,400,000 warrants were issued under the programs. The warrants were transferred without consideration to the management participants at terms adapted to local conditions, while Board members acquired the warrants at market prices. After recalculation in accordance with the warrants' terms following the share issue, each warrant entitles the holder to subscribe for 1.02 new shares in the Company and the warrants may be used for share subscription during the period June 1, 2018 to December 31, 2020 at an exercise price of SEK 1.77 per share. See Note 30.

Distribution of warrants at December 31, 2018:

Board	Number of warrants
Kjell Carlsson (Chairman)	750,000
Andreas Forssell	380,000
Johan Österling	380,000
<b>Total</b>	<b>1,510,000</b>
Management	Number of warrants
CEO	750,000
Other management (3 positions)	1,140,000
<b>Total</b>	<b>1,890,000</b>

### The CEO's remuneration and benefits

The CEO's remuneration amounted to KSEK 1,405 (1,500) for 2018. The remuneration consists of a fixed salary and a variable salary based on annual targets. The CEO has a fixed annual salary of KUSD 138 (138) net of tax. The variable salary amounts to a maximum of 20 percent of the fixed salary and is based on both

soft and hard targets. The CEO has been covered by the Group's long-term incentive program. The Company has no pension commitments to the CEO.

### Pension plans

The Parent Company pays defined contribution pension premiums to the deputy CEO. The Group does not have any other pension obligations in the subsidiaries or the Parent Company.

### Notice period and termination benefits

The CEO and the Company have a mutual notice period of six months, and for other senior management positions the period is three months. There are no termination benefit agreements in place.

## NOTE 11 EARNINGS FROM INVESTMENTS IN GROUP COMPANIES

KSEK	Parent Company	
	2018	2017
Capital gain/loss on sale of shares	-10,301	-
Impairment	-4,613	-4,496
<b>Total</b>	<b>-14,914</b>	<b>-4,496</b>

In December 2018, the Company sold 100% of the subsidiary LLC Taiga. The buyer represents a group of Russian private investors. The total sales price is MUSD 6 (corresponding to MSEK 54.3), of which MRUB 8 (corresponding to MSEK 1.1) was paid in December 2018. The remainder will be paid in several installments until December 31, 2021. However, if the payments are accelerated and completed by December 31, 2020, the total price will be reduced by MUSD 1 to MUSD 5. As of December 31, 2018, MUSD 5 (corresponding to MSEK 45.2) has been discounted and recognized in the income statement. The receivable in the balance sheet amounts to MSEK 32.2, net of transaction costs. As a result of this transaction, the Parent Company reports earnings from divestment of subsidiaries of MSEK -10.3.

Impairment for the year refers to the Russian subsidiaries LLC Vostochny, LLC Patom Gold and LLC Taiga, and corresponds to the sum of shareholder contributions paid for the year.

## NOTE 12 FINANCE INCOME AND COSTS

KSEK	Group		Parent Company	
	2018	2017	2018	2017
<i>Finance income</i>				
Interest income	66	29	66	29
Interest income, Group companies	-	-	416	286
Exchange differences	-	96	-	96
<b>Total finance income</b>	<b>66</b>	<b>125</b>	<b>482</b>	<b>411</b>
<i>Finance costs</i>				
Impairment	-	-	179	-4,675
Interest expenses	-3,110	-879	-3,110	-879
Interest expenses, Group companies	-	-	-	-576
Exchange differences	-203	-	-104	-
<b>Total finance costs</b>	<b>-3,313</b>	<b>-879</b>	<b>-3,035</b>	<b>-6,130</b>
<b>Total finance income and costs</b>	<b>-3,247</b>	<b>-754</b>	<b>2,553</b>	<b>-5,719</b>

Impairment for the year refers to reversal of impairment on intra-Group receivables from the Russian subsidiaries.



**NOTE 13 TAX**

KSEK	Group	
	2018	2017
Current tax	-	-
Deferred tax	-249	3,058
<b>Total</b>	<b>-249</b>	<b>3,058</b>

Reconciliation of the Group's weighted average tax and the Group's actual tax:

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Earnings before tax	-43,761	-17,006	-21,804	-13,327
Tax at current tax rate	9,627	3,741	4,797	2,932
Difference in tax rate in foreign operations	-296	-132	-	-
<i>Tax effects from:</i>				
Earnings from joint ventures	-1,640	-948	-	-
Sales of subsidiaries	-4,515	-	-2,163	-
Non-deductible items	-10	-1,408	-1,025	-2,023
Non-taxable items	39	-	39	-
Loss carryforwards for which deferred tax is not recognized	-3,455	1,805	-1,648	-909
<b>Recognized tax</b>	<b>-249</b>	<b>3,058</b>	<b>0</b>	<b>0</b>

Tax rates are 22 percent in Sweden and 20 percent in Russia.

As of December 31, 2018, the Group had tax losses of approximately MSEK 89. Deferred tax assets attributable to tax losses are recognized only to the extent that it is probable that they will be utilized. As it is uncertain whether it will be possible for the Company to utilize any loss carryforwards, no deferred tax asset was recognized. The value of the tax losses is approximately MSEK 19.5, with MSEK 18.2 related to the Parent Company and subsidiaries in Sweden and MSEK 1.3 to Russian subsidiaries. Tax loss carryforwards can be utilized indefinitely in Sweden, while they can be utilized over a period of 10 years in Russia.

Deferred tax liabilities and assets are attributable to the following:

	2018-12-31	2017-12-31
<i>Deferred tax liabilities</i>		
Intangible assets	-576	-
<b>Total deferred tax liabilities</b>	<b>-576</b>	<b>-</b>
<i>Deferred tax assets</i>		
Other	44	56
<b>Total deferred tax liabilities</b>	<b>44</b>	<b>56</b>

**NOTE 14 EARNINGS PER SHARE**

	2018	2017
Change in number of shares		
Shares outstanding at start of period	79,866,054	79,866,054
Share issue, October—November	23,959,815	-
<b>Shares outstanding at end of period</b>	<b>103,825,869</b>	<b>79,866,054</b>

On October 9, 2018, using the authorization granted by the AGM, the Board adopted an issue of new shares with preferential rights for existing shareholders. A total of 23,959,815 new shares were subscribed for and the issue was registered in November 2018.

	2018	2017
Earnings per share before and after dilution		
Net income, KSEK, attributable to parent company shareholders	-43,844	-13,948
Average number of shares before and after dilution	83,710,877	81,577,469
<b>Earnings per share before and after dilution (SEK)</b>	<b>-0.52</b>	<b>-0.17</b>

Earnings per share before dilution is calculated by dividing the earnings attributable to Parent Company shareholders by the weighted average number of ordinary shares outstanding during the period exclusive of repurchased treasury shares held by the Parent Company.

With the result for 2018 being negative, potential dilution from outstanding warrants is not taken into consideration, as earnings per share would improve if the dilutive effects were taken into consideration.

**NOTE 15 EXPLORATION LICENSES AND EVALUATION WORK**

	Group	
Opening cost	74,468	75,827
Investments	2,543	2,291
Divestments	-65,415	-
Translation difference for the year	-1,049	-3,650
Closing cost	10,547	74,468
	<b>10 547</b>	<b>74 468</b>
Opening accumulated impairment	-47,145	-49,491
Divestments	47,145	-
Translation difference for the year	0	2,346
Closing accumulated impairment	0	-47,145
	<b>0</b>	<b>-47 145</b>
<b>Net carrying amount</b>	<b>10,547</b>	<b>27,323</b>
<b>Netto bokfört värde</b>	<b>10 547</b>	<b>27 323</b>

Approximately MSEK 1.5 of the 'Exploration licenses and evaluation work' item represents acquired licenses and the remaining approximately MSEK 9 represents capitalized exploration and evaluation work.

In December 2018, the Company sold the wholly owned subsidiary LLC Taiga, which in turn holds the four gold licenses Kopylovskoye, Vostochnaya Ploshad, Pravovesenny and Takhtykan.

To test exploration licenses and evaluation work for impairment, the carrying amount is compared with the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. No impairment has been identified.

**NOTE 16 BUILDINGS**

KSEK	Group	
	2018	2017
Opening cost	1,373	1,442
Investments	-	-
Divestments/retirements	-	-
Translation difference for the year	-132	-68
<b>Closing cost</b>	<b>1,241</b>	<b>1,373</b>
Opening accumulated depreciation	-333	-229
Depreciation for the year	-111	-118
Divestments/retirements	-	-
Translation difference for the year	40	14
<b>Closing accumulated depreciation</b>	<b>-404</b>	<b>-333</b>
<b>Net carrying amount</b>	<b>836</b>	<b>1,041</b>

**NOTE 17 MACHINERY AND EQUIPMENT**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Opening cost	884	754	30	30
Investments	6	169	-	-
Divestments/retirements	-440	-	-	-
Translation difference for the year	-52	-38	-	-
<b>Closing cost</b>	<b>398</b>	<b>884</b>	<b>30</b>	<b>30</b>
Opening accumulated depreciation	-474	-251	-12	-6
Depreciation for the year	-474	-251	-12	-6
Divestments/retirements	290	-	-	-
<b>Translation difference for the year</b>	<b>31</b>	<b>17</b>	<b>-</b>	<b>-</b>
<b>Closing accumulated depreciation</b>	<b>-251</b>	<b>-474</b>	<b>-18</b>	<b>-12</b>
Opening accumulated impairment	-21	-	-	-
Impairment for the year	-	-21	-	-
Divestments/retirements	21	-	-	-
<b>Translation differences for the year</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Closing accumulated impairment</b>	<b>0</b>	<b>-21</b>	<b>-</b>	<b>-</b>
<b>Net carrying amount</b>	<b>147</b>	<b>389</b>	<b>12</b>	<b>18</b>

**NOTE 18 INVENTORIES**

KSEK	Group	
	2018	2017
Raw materials and consumables	11	14
<b>Net carrying amount</b>	<b>11</b>	<b>14</b>

**NOTE 19 OTHER RECEIVABLES**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Value added tax	739	253	698	111
Other	93	66	92	19
<b>Total</b>	<b>832</b>	<b>319</b>	<b>790</b>	<b>130</b>

All other current receivables are measured at cost, and as they have short maturities, the fair value is deemed to correspond with the carrying amount.

**NOTE 20 PREPAID EXPENSES**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Prepaid rent	26	26	26	26
Prepaid exploration	-	104	-	-
Accrued income, subsidiaries	-	-	3,141	-
Other	188	227	59	91
<b>Total</b>	<b>214</b>	<b>357</b>	<b>3,226</b>	<b>117</b>

**NOTE 21 SHARES IN SUBSIDIARIES**

KSEK	Parent Company	
	2018	2017
At start of year	119,236	119,237
Shareholder contributions	11,664	4,496
Sales	-42,451	-1
Impairment	-4,613	-4,496
<b>Carrying amount at end of year</b>	<b>83,837</b>	<b>119,236</b>

The table below specifies the subsidiaries of the Group as of December 31, 2018.

	Corp. ID	Domicile	Equity, %	Carrying amount in Parent Company
AB Krasny Gold Fields	556955-9726	Stockholm, Sweden	100	81,618
Kopy Development AB	556858-1747	Stockholm, Sweden	100	2,218
LLC Nirungda Gold	1163850097663	Bodaibo, Russia	100	0
LLC Patom Gold	1123802000519	Bodaibo, Russia	100	0
LLC Vostochny	1103802000389	Bodaibo, Russia	100	0
LLC Stanovoy	1162801054184	Blagoveshchensk, Russia	50.95	0
LLC Zolt	1172801008071	Blagoveshchensk, Russia	51	0
LLC Enerkom	1092722007290	Blagoveshchensk, Russia	51	0

In December 2018, the Company sold the wholly owned subsidiary LLC Taiga, which in turn holds the four gold licenses Kopylovskoye, Vostochnaya Ploshad, Pravovesenny and Takhtykan. The total sales price is MUSD 6 (corresponding to MSEK 54.3), of which MRUB 8 (corresponding to MSEK 1.1) was paid in December 2018 and is reported under cash flow from investing activities. The remainder will be paid in several installments until December 31, 2021. However, if the payments are accelerated and completed by December 31, 2020, the total price will be reduced by MUSD 1 to MUSD 5.

As of December 31, 2018, the sales amount of MUSD 5 has been discounted and recognized in the income statement. The receivable in the balance sheet amounts to MSEK 32.2, net of transaction costs. In accordance with IFRS 10,

historical exchange differences of MSEK 33.1 attributable to the Kopylovskoye project have been recognized as an expense in the income statement, resulting in an accounting loss of MSEK 20.4 from sales of subsidiaries for the Company.

In June 2018, a new alluvial gold exploration project began in the Amur region of Russia after the Company's acquisition of 51% of the three Russian companies LLC Stanovoy, LLC Zolt and LLC Enerkom. The acquisition took place through the wholly owned subsidiary Kopy Development. The Company did not pay a consideration for the licenses, but instead receives a share of the project under an earn-in arrangement based on investments in exploration activities. As a first step, Kopy Goldfields received a controlling interest of 51% in the project in return for future investments in exploration.

## NOTE 22 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Since August 2014, the Company has been party to a cooperation agreement regarding one of the Company's licenses. The Company owns 49 percent and after evaluating the terms of the agreement, the assessment was that there is joint control and that the joint arrangement is a joint venture, which is recognized using the equity method. This means that the carrying amounts for interests in the joint venture correspond to the Group's share of recognized equity in the joint venture, any goodwill and any other remaining fair value adjustments recognized at the acquisition date.

In summer 2018, the parties agreed to invest MUSD 2.3 in the Krasny project. The capital contribution was split 51/49 between Kopy Goldfields and GV Gold based on participating interest and was paid in two tranches. Kopy Goldfields' first installment, which amounted to MUSD 559 (corresponding to MSEK 5.1) was paid on November 30, 2018 and was recognized in cash flow from investing activities. Kopy Goldfields' second installment of KUSD 553 is due for payment in July 2019. GV Gold has already paid both its installments and GV Gold has provided Kopy Goldfields with the second installment as a loan to the joint venture company until July 2019.

In the balance sheet, investments in joint ventures amounted to MSEK 96.7 (92.3) at year-end. In the income statement, earnings from joint ventures amounted to MSEK -7.5 (-4.3), the decline being mainly attributable to translation differences.

	Group	
KSEK	2018	2017
At start of year	92,283	86,184
Investment in joint venture	5,131	8,541
Net income	-7,453	-4,307
Translation differences	6,747	1,864
<b>Carrying amount at end of year</b>	<b>96,708</b>	<b>92,283</b>

Investments in joint ventures include the following companies with the following financial information in summary, based on 100 percent of the respective IFRS financial statements:

	Bodaibo Holding Ltd	LLC Krasny
Corp. ID	HE 318777	1103802000048
Domicile	Limassol, Cyprus	Bodaibo, Russia
Other income	4,921	-
Interest income	4,898	-
Interest expenses	-121	-4,920
Depreciation	-	-
Other expenses	-145	-25,101
Tax expense	-	5,234
<b>Net income</b>	<b>-9,554</b>	<b>-24,787</b>
Current assets	8,626	190
<i>Of which cash, bank balances and equivalents</i>	<i>8,069</i>	<i>69</i>
Non-current assets	210,235	107,408
<b>Total assets</b>	<b>218,861</b>	<b>107,598</b>
Current liabilities	101	98
<i>Of which current financial liabilities</i>	<i>-</i>	<i>-</i>
Non-current liabilities	5,086	123,814
<i>Of which non-current financial liabilities</i>	<i>5,086</i>	<i>122,912</i>
<b>Total liabilities</b>	<b>5,187</b>	<b>123,911</b>
<b>Net assets</b>	<b>213,674</b>	<b>-16,314</b>
Share of equity	49%	49%
<b>Carrying amount at end of year</b>	<b>104,700</b>	<b>-7994</b>

**NOTE 23 CHANGES IN SHARE CAPITAL**

Year	Event	Change in shared capital, SEK	Capitalization excl issue expenses	Change in no. of shares	Quota value, SEK	Total share capital	Total shares
2007	Company formation	100,000	100,000	10,000	10.00	100,000	10,000
2007	Share issue	1,250,100	35,002,800	125,010	10.00	1,350,100	135,010
2007	Share issue	7,400,000	106,638,200	740,000	10.00	8,750,100	875,010
2007	Share issue	1,249,900	34,997,200	124,990	10.00	10,000,000	1,000,000
2008	Split 1:849	-	-	848,000,000	0.01	10,000,000	849,000,000
2009	Reverse split 1:100	-	-	-840,510,000	1.1779	10,000,000	8,490,000
2009	Share capital reduction	-9,500,000	-	-	0.0589	500,000	8,490,000
2009	Preferential rights issue	11,500,000	19,527,000	195,270,000	0.0589	12,000,000	203,760,000
2009	Private placement	402,500	683,445	6,834,450	0.0589	12,402,500	210,594,450
2010	Preferential rights issue	4,971,000	24,478,198	84,407,580	0.0589	17,373,500	295,002,030
2010	Share issue (exercised warrants)	4,308,678	23,411,630	73,161,345	0.0589	21,682,178	368,163,375
2010	Reverse split 1:100	-	-	-364,481,742	5.89	21,682,178	3,681,633
2010	Preferential rights issue	17,345,728	64,796,688	2,945,304	5.89	39,027,905	6,626,937
2011	Share issue (exercised warrants)	1,508	6,400	256	5.89	39,029,413	6,627,193
2011	Private placement	10,011,780	17,000,000	1,700,000	5.89	49,041,193	8,327,193
2011	Private placement	5,889,283	12,000,000	1,000,000	5.89	54,930,476	9,327,193
2012	Share capital reduction	-22,500,000	-	-	3.48	32,430,476	9,327,193
2012	Preferential rights issue	24,322,855	26,582,497	6,995,394	3.48	56,753,331	16,322,587
2012	Preferential rights issue	22,701,330	24,810,329	6,529,034	3.48	79,454,661	22,851,621
2013	Share capital reduction	-59,454,661	-	-	0.88	20,000,000	22,851,621
2013	Preferential rights issue	6,471,870	11,091,954	7,394,636	0.88	26,471,870	30,246,257
2013	Bonus issue	53,028,130	-	-	2.63	79,500,000	30,246,257
2013	Share capital reduction	-59,500,000	-	-	0.66	20,000,000	30,246,257
2014	Share issue (exercised warrants)	637	3,852	963	0.66	20,000,637	30,247,220
2015	Share capital reduction	-8,500,000	-	-	0.38	11,500,637	30,247,220
2015	Preferential rights issue	9,200,509	10,888,999	24,197,776	0.38	20,701,146	54,444,996
2016	Share issue (conversion of loan)	2,073,934	3,000,000	5,454,545	0.38	22,775,080	59,899,541
2016	Preferential rights issue	7,591,693	19,966,513	19,966,513	0.38	30,366,773	79,866,054
2018	Preferential rights issue	9,110,032	25,157,806	23,959,815	0.38	39,476,805	103,825,869



**NOTE 24 LOANS PAYABLE**

At December 31, 2018, gross loans payable, including accrued interest, amounted to KSEK 32,181 (15,841). The following table shows a breakdown of financial liabilities. For information on interest rate risk, see Note 4.

KSEK	Group		Parent Company	
	2018	2017	2018	2017
<i>Current financial liabilities</i>				
Maturing within one year	15,000	-	15,000	-
<b>Total current financial liabilities</b>	<b>15,000</b>	<b>-</b>	<b>15,000</b>	<b>-</b>
<i>Non-current financial liabilities</i>				
Other non-current loans with maturity >1 year <5 years	15,000	15,000	15,000	15,000
<b>Total non-current financial liabilities</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>
<b>Total financial liabilities</b>	<b>30,000</b>	<b>15,000</b>	<b>30,000</b>	<b>15,000</b>

The fair value of financial liabilities is deemed to correspond with the carrying amount. The interest rate on current financial liabilities is in line with market rates as the liabilities have a short fixed-interest term.

In March 2019, the Company's two long-term loans of MSEK 15 each were renegotiated and extended, while the accumulated accrued interest was paid. The loans were merged into one loan of MSEK 30, with a new repayment date of March 4, 2021.

**NOTE 25 ACCRUED EXPENSES**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Interest	2,180	841	2,180	841
Board fees	268	117	268	117
Social security contributions	357	381	357	381
Other personnel-related items	790	864	790	864
Other	195	359	195	359
<b>Total</b>	<b>3,791</b>	<b>2,562</b>	<b>3,791</b>	<b>2,562</b>

**NOTE 26 ADJUSTMENTS FOR NON-CASH ITEMS, ETC.**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Depreciation, amortization and impairment	209	6	4,440	9,177
Long-term incentive programs	40	317	-	-
Accrued interest	2,180	-	1,765	290
Investments in joint ventures	7,453	4,307	-	-
Gains on sale of property, plant and equipment	6	-	-	-
Unpaid Group contributions	-	-	-	-575
Gains on sale of subsidiaries	20,394	1,699	10,300	-
Exchange differences	8	-36	-91	-55
Capitalization of intangible assets	-	497	-	-
Other non-cash items	21	2	-3,105	-3,420
<b>Total</b>	<b>30,311</b>	<b>6,792</b>	<b>13,309</b>	<b>5,417</b>

**NOTE 27 DIVESTMENT OF SUBSIDIARIES/LICENSES**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Sale of Taiga	1,078	-	1,078	-
Discontinuation of Kopylovskoye	-	1	-	1
<b>Total</b>	<b>1,078</b>	<b>1</b>	<b>1,078</b>	<b>1</b>

**NOTE 28 PLEDGED ASSETS AND CONTINGENT LIABILITIES**

KSEK	Group		Parent Company	
	2018	2017	2018	2017
Chattel mortgages to credit institutions	96,708	92,283	81,618	76,735
<b>Total</b>	<b>96,708</b>	<b>92,283</b>	<b>81,618</b>	<b>76,735</b>

There were no known ongoing disputes at the end of the reporting period.

**NOTE 29 LEASES**

The Group's leases for which the risks and rewards associated with ownership pertain to the Group are classified as finance leases. The Group does not currently hold any assets under leases.

**NOTE 30 OUTSTANDING WARRANTS**

KSEK	Incentive programs
	2018/2021
Exercise price, SEK	1.67
Redemption of shares from	6/1/2019
Last exercise date	12/31/2021
Number of warrants issued during the year	1,700,000
Exercised	-
Forfeited	-
At end of year	1,700,000
Of which fully vested December 31, 2018 <sup>1)</sup>	1,700,000
Theoretical value, SEK <sup>2)</sup>	90,270
Theoretical value per warrant on allotment, <sup>2)</sup> SEK	0.05
Theoretical value per warrant at December 31, 2018, SEK	0.02
Theoretical dilution	1.64%

1) The 2018 AGM decided to establish two incentive programs 2018/2021: one for management and one for the Company's Board. Up to 1,700,000 warrants can be issued under the programs. The warrants were transferred without consideration to the management participants at terms adapted to local conditions, while Board members acquired the warrants at market prices. After recalculation in accordance with the warrants' terms following the preferential rights issue in 2018, each warrant entitles the holder to subscribe for 1.02 shares in the Company and the warrants may be used for share subscription during the period June 1, 2019 to December 31, 2021 at an exercise price of SEK 1.67 per share. The number of warrants issued is 1,700,000, which means that share capital may be increased by up to SEK 659,304.

2) The theoretical value of issued warrants has been determined according to the accepted pricing model (Black & Scholes) at the time of issue. Volatility of 18.5 percent, a risk-free rate of -0.54 percent and an expected life of 3.7 years have been used. The value of the share has been determined based on the closing price on April 30, 2018 and amounted to SEK 1.28.

KSEK	Incentive programs 2017/2020
Exercise price, SEK	1.77
Redemption of shares from	6/1/2018
Last exercise date	12/31/2020
Number of warrants issued at start of year	3,400,000
Exercised	-
Forfeited	-
At end of year	3,400,000
Of which fully vested December 31, 2018 <sup>1)</sup>	3,400,000
Theoretical value, 2)	714,000
Theoretical value per warrant on allotment, 2) SEK	0.21
Theoretical value per warrant on December 31, 2018, SEK	0.007
Theoretical dilution	3.23%

1) The 2017 AGM decided to establish two incentive programs 2017/2020: one for management and one for the Company's Board. Up to 3,400,000 warrants can be issued under the programs. The warrants were transferred without consideration to the management participants at terms adapted to local conditions, while Board members acquired the warrants at market prices. After recalculation in accordance with the warrants' terms following the preferential rights issue in 2018, each warrant entitles the holder to subscribe for 1.02 new shares in the Company and the warrants may be used for share subscription during the period June 1, 2018 to December 31, 2020 at an exercise price of SEK 1.77 per share. The number of warrants issued is 3,400,000, which means that the share capital may be increased by a maximum of SEK 1,318,607.

2) The theoretical value of issued warrants has been determined according to the accepted pricing model (Black & Scholes) at the time of issue. Volatility of 39 percent, a risk-free rate of 1.48 percent and an expected life of 3.5 years have been used. The value of the share has been determined based on the closing price on May 2, 2017 and amounted to SEK 1.30.

### NOTE 31 FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments recognized at amortized cost (trade receivables, other current receivables, cash and cash equivalents, trade payables and other current non-interest-bearing liabilities) are the same as their fair values. The fair values of other current and non-current liabilities and assets are not considered to differ materially from their carrying amount. The Parent Company recognizes its financial instruments at amortized cost.

As of December 31, 2017, the Group's financial assets and liabilities were reported under IAS 39. The transition to IFRS 9 has not had any effect on measurement of the Group's financial instruments and has not therefore affected opening equity on January 1, 2018. As of December 31, 2018, the Group's financial assets and liabilities are reported under IFRS 9.

KSEK	Financial assets at amortized cost	Financial liabilities at amortized cost	Total carrying amount	Fair value
12/31/2018				
<b>Assets in the balance sheet</b>				
Trade and other receivables	926	-	926	926
Purchase consideration receivable	32,221	-	32,221	32,221
Cash and cash equivalents	20,078	-	20,078	20,078
<b>Total financial assets</b>	<b>53,225</b>	<b>-</b>	<b>53,225</b>	<b>53,225</b>
<b>Liabilities in the balance sheet</b>				
Loan payables	-	30,000	30,000	30,000
Trade payables	-	305	305	305
Other current liabilities	-	665	665	665
<b>Total financial liabilities</b>	<b>-</b>	<b>30,970</b>	<b>30,970</b>	<b>30,970</b>
12/31/2017				
<b>Assets in the balance sheet</b>				
Trade and other receivables	923	-	923	923
Cash and cash equivalents	5,871	-	5,871	5,871
<b>Total financial assets</b>	<b>6,794</b>	<b>-</b>	<b>6,794</b>	<b>6,794</b>
<b>Liabilities in the balance sheet</b>				
Loan payables	-	15,000	15,000	15,000
Trade payables	-	187	187	187
Other current liabilities	-	323	323	323
<b>Total financial liabilities</b>	<b>-</b>	<b>15,510</b>	<b>15,510</b>	<b>15,510</b>

**NOTE 32 EVENTS AFTER THE REPORTING DATE**

In March 2019, the Company's two long-term loans of MSEK 15 each, granted by Scandinavian Credit Fund I AB, originally due for repayment on July 7, 2019 and March 3, 2020, were renegotiated and extended. The loans were merged into one loan of MSEK 30, with a new repayment date of March 4, 2021. The new loan has an annual interest rate of 11.75 percent and no arrangement fees.

In April 2019, the acquisition of a new exploration license was announced, which gives the right to investigation and exploration in the bedrock for seven years. The license, called Polovinka, covers 88 sq. km and is in the Bodaibo area of the Irkutsk region of Russia. The new license borders the already-owned Gorbylyakh license, which is part of the Maly Patom exploration project, and covers the potential extension of the previously identified gold anomaly in the ground.

**NOTE 33 APPROPRIATION OF PROFITS**

At the disposal of the annual general meeting:

SEK	
Share premium reserve	203,585,723
Fair value reserve	-6,974,317
Accumulated loss	-106,560,057
Net income	-21,803,539
<b>Total</b>	<b>68,247,811</b>
The Board proposes that this amount be carried forward	
	68,247,811

The Board of Directors and CEO confirm that the consolidated accounts were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and that they provide a fair presentation of the Group's financial position and earnings. The annual report was prepared in accordance with generally accepted accounting principles and provides a fair presentation of the Parent Company's financial position and earnings.

The Directors' report for the Group and the Parent Company provides a fair overview of the development of the Group's and the Parent Company's operations, financial position and earnings, and describes significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

The consolidated income statement and consolidated statement of financial position, and the Parent Company's income statement and balance sheet will be presented for adoption at the Annual General Meeting on May 29, 2019.

Stockholm, May 7, 2019

Kjell Carlsson  
Chairman

Mikhail Damrin  
CEO

Johan Österling

Andreas Forssell

Our Auditor's Report was issued on May 7, 2019

Ernst & Young AB

Björn Ohlsson  
Authorized Public Accountant



# AUDITOR'S REPORT

To the general meeting of the shareholders of Kopy Goldfields AB (publ), corporate identity number 556723-6335  
Report on the annual accounts and consolidated accounts

## Opinions

We have audited the annual accounts and consolidated accounts of Kopy Goldfields AB for the financial year 2018-01-01-2018-12-31. The annual accounts and consolidated accounts of the company are included on pages x-yy in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

## Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

## Other Information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information presented on pages 3-29 and 60-62

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with

the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

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

- identifierar och bedömer vi riskerna för väsentliga felaktigheter  
Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors [and the Managing Director].
- Conclude on the appropriateness of the Board of Directors' [and the Managing Director's] use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated

accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

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

Vi måste informera styrelsen om bland annat revisionens planerade omfattning och inriktning samt tidpunkten för den. Vi måste också informera om betydelsefulla iakttagelser under revisionen, däribland de eventuella betydande brister i den interna kontrollen som vi identifierat.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Kopy Goldfields AB for the financial year 2018-01-01-2018-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the

ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm 7 May 2019

Ernst & Young AB

Björn Ohlsson

Authorized Public Accountant

# BOARD OF DIRECTORS

## Organization

The Parent Company is responsible for the Group's strategy and manages the subsidiaries, while also performing Group-wide functions such as financing, external information, financial reporting and the management of certain agreements.

The Parent Company and the Swedish subsidiaries are domiciled and headquartered in Stockholm and the Parent Company also has a representative office in Moscow, Russia. The Russian subsidiaries have offices in Bodaibo, Russia, where the Company's geologists and exploration teams work. The average number of full-time employees between January 1, 2018 and December 31, 2018 was nine, including seasonal workers.

## Corporate governance

The Swedish Corporate Governance Code ("the Code") applies to Swedish limited liability companies whose shares are listed for trading on a regulated market in Sweden. Kopy Goldfields is listed on Nasdaq First North, which is not a regulated market, and the Company is

therefore not obliged to comply with the Code. The Company does not apply the Code at present but intends to do so eventually.

## Board of Directors

### Responsibilities of the Board of Directors

The Board is responsible for determining the Company's long-term strategy and setting goals, approving budget and business plans, examining and approving costs, and making decisions about investments and major changes within the Group. The Board also appoints the Parent Company's CEO and determines the salary and other benefits for the CEO.

### Composition of the Board of Directors

Kopy Goldfields' Board consists of three members as presented below, of which Kjell Carlsson is the chairman. All Board members are elected at the annual general meeting for the period until the next annual general meeting. All shareholdings include family and privately held companies.



### KJELL CARLSSON

Chairman of the Board and Board member since 2010.

Born: 1951, Swedish citizen.

Education: MSc mechanical engineering. Work experience: Senior management positions with Sandvik, Atlas Copco and ABB.

Other activities: Board member, Appalto AB; Board member, Kopy Development AB; Board member, AB Krasny Gold Fields; Board member, EuroMaint Rail AB; Board member, Bruzaholms Bruk AB. Relinquished activities over the last five years: Partner at Ingenjörssfirma C.J. Carlsson HB.

Shareholding in Kopy Goldfields: 400,000 Warrants: 1,125,000



### ANDREAS FORSSELL

Board member since 2011.

Born: 1971, Swedish citizen.

Education: M.Sc. Economics, MBA

Work experience: CEO Crown Energy AB; CEO, Tomsk Refining AB.

Other activities: Board member Andreas Forssell AB; Board member AB Krasny Gold Fields; Board member Crown Energy Iraq AB; Board member Amicoh Resources Ltd; Board member Crown Energy Ventures Corporation; Board member Simbo Petroleum No.2 Limited MCC AB; Board member DIYTI AB.

Relinquished activities over the last five years: Board member Crown Energy AB Shareholding in Kopy Goldfields: 218,400 Warrants: 570,000



### JOHAN ÖSTERLING

Board member since 2011.

Born: 1946, Swedish citizen.

Education: Swedish LLM (Master in Law) and BA (business administration).

Work experience: Lawyer (Member Swedish Bar Association), Partner of Foyen law firm until 2011.

Other activities: Board member, AB Krasny Gold Fields; Board member, Bodaibo Holding Ltd; Board member, Dragon Mining Sverige AB; Board chairman, Kilimanjaro Gold AB; Board member, AB Surditet; Board chairman, Fahlia AB; Board chairman, Penclic AB Österling chairman, ByggBag AB; Board chairman, JE publ; Board chairman, Hydropulsor AB (publ)

Relinquished activities over the last five years: Board chairman, Göthes AB; Nomor AB (publ); Bofors Bruk AB; Hedera Group AB (publ); ByggBag AB; Fahlia AB. Shareholding in Kopy Goldfields: 910,000 Warrants: 570,000

## AUDITOR

Ernst & Young, Chief Auditor Björn Ohlsson, Authorized Public Accountant

## SENIOR MANAGEMENT

Kopy Goldfields' Board consists of three members as presented below, of which Mikhail Damrin is the CEO. All shareholdings include family and privately held companies.



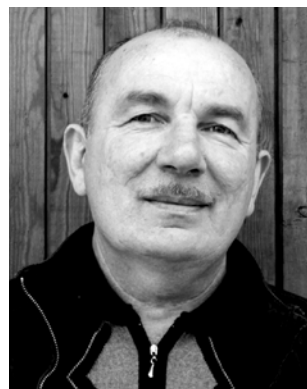
### MIKHAIL DAMRIN

CEO since 2009.  
Born: 1970, Russian citizen.  
Education: MSc mechanical engineering, Moscow Technical University; Bachelor's degree in mining technology, Tomsk Poly-technical University; Bachelor's degree in international finance, Russian Academy of Foreign Trade; MBA, Cranfield University, Bachelor's degree in open pit mining from the Moscow Mining University.  
Work experience: Business development and M&A manager of Central Asia Gold; CFO and Commercial Director at West Siberian Resources and Vostok Nafta Investment Ltd; Management position at Vostok Nafta Investment Ltd.  
Other activities: Board member, LLC Krasny; Board member, Kopy Development AB  
Relinquished activities over the last five years: –  
Shareholding in Kopy Goldfields: 301,577  
Warrants: 1,125,000



### TIM CARLSSON

CFO since 2011, Deputy CEO since 2012.  
Born: 1979, Swedish citizen.  
Education: Master of Business, Linköping University, Sweden. Russian Studies, Herzen University, St. Petersburg, Russia, Economics Studies Eberhard Karls Universität Tübingen, Germany.  
Work experience: Authorized Public Accountant, KPMG.  
Other activities: Board member, LLC Krasny; Board member, Kopy Development AB  
Relinquished activities over the last five years: Board member, Brf Oxen Mindre 22  
Shareholding in Kopy Goldfields: 1,040,000  
Warrants: 570,000



### ALEXANDER VAMBOLDT

CEO of the Russian subsidiaries, based in Bodaibo since 2010.  
Born: 1957, Russian citizen.  
Education: Geologist and degree in Mining engineering, Krasnoyarsk Institute of Non-Ferrous Metals. Master level.  
Work experience: Working Board member for GUAM S.a.r.l. in Guinea with responsibility for placer gold prospecting and exploration; director of Minusinsk Exploration Expedition with responsibility for placer gold production at the Beika deposit in the Republic of Khakassia; manager of MAVAX S.a.r.l. in Guinea, with responsibility for bedrock gold exploration planning and development; director of OOO Tardan Gold with responsibility for construction and management of an open pit gold mine and processing plant.  
Other activities: Expert at Russian Statutory Committee on Reserves (TKZ) in Krasnoyarsk.  
Relinquished activities over the last five years: –  
Shareholding in Kopy Goldfields: –  
Warrants: 570,000



### DR. EVGENY BOZHKO

Chief geologist since 2011, employed at Kopy Goldfields since 2010.  
Born: 1968, Russian citizen.  
Education: PhD in geological and mineralogical science. Master in Prospecting and Exploration Geology from Voronej State University, Russia.  
Work experience: 1990-2000, geologist at various projects in Yajutia, Russia, and lecturer at Voronej State University; 2000-2010, many senior positions as chief geologist for exploration and mining companies operating in Africa.  
Other activities: –  
Relinquished activities over the last five years: –  
Shareholding in Kopy Goldfields: –  
Warrants: 570,000



# GLOSSARY

## Alluvial gold

Mineralization in river beds at ground level.

## Enrichment

Concentration of a constituent of a mixture to be processed.

## Enrichment plant

Plant for processing.

## Inferred mineral resource

The part of a mineral resource measured to a lesser degree and reliability, compared to measured and indicated mineral resources. Inferred mineral resources may not be added up with measured and indicated mineral resources and may not constitute a basis for financial assessments.

## Chips

Fine-grained drill cutting samples (chips) of bedrock that are obtained from RC drilling.

## Cut-off

The lowest grade at which a deposit is economically mineable.

## Open pit

Type of mine where superficial deposits are mined above ground.

## Diamond drilling

Exploration method where rock cores are bored, also known as core drilling.

## Doré bars

Unrefined gold bullion containing mostly silver and gold.

## ETF

Exchange-traded fund, usually focused on gold investments.

## Flotation

Part of the enrichment process in which chemicals are used to significantly increase the concentration of valuable minerals.

## Gravimetric separation

Separation method by which different types of minerals are separated based on their weight.

## Indicated mineral resource

The part of a mineral resource measured to a lesser degree and reliability than measured mineral resources but measured to a higher degree and reliability than inferred mineral resources.

## JORC

Approved standard set by the Australian Joint Ore Reserve Committee (JORC) for the calculation and reporting of mineral resources and ore reserves.

## Quartz

A mineral consisting of silica, SiO<sub>2</sub>, with a white or transparent color.

## Measured mineral resources

The part of a mineral resource measured at the highest degree and with the highest reliability.

## Core drilling

Drilling method used to explore bedrock.

## Lena Goldfields

An area between the Vitim and Lena Rivers in the Irkutsk region, overlapping the northern part of the Bodaibo area, with a history of over 150 years of gold production.

## Ore reserve

The economically mineable part of a mineral resource.

## Mineral

Combination of elements in the earth's crust.

## Mineralization

Natural concentration of mineral in the bedrock or the earth's crust that is thought to be economically mineable in terms of quantity, grade, shape and physical characteristics.

## RAB drilling

Rotary air blast drilling, which is a drilling technology used in exploration.

## RC drilling

Reverse circulation drilling, which is a drilling method used for sampling drill cuttings, used on certain types of deposits and often at an earlier stage compared with diamond drilling.

## GKZ

The Russian State Commission on Mineral Reserves. The state authority responsible for the registration and approval of mineral resource and ore reserve estimates.

## Troy ounce (oz)

31.104 grams. Weight measure for gold.

## Recovery

The percentage of a mineral in a material that can be extracted in the enrichment process.



