HYDROLEA GROUP

IFRS for SMEs Consolidated Financial Statements and Independent Auditor's Report

31 December 2019

Contents

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Independent auditor's report

To the Participant of Hydrolea LLC

Opinion

We have audited the consolidated financial statements of Hydrolea LLC (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management for the consolidated financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

Other matter

The consolidated financial statements for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 3 September 2019.

Alexey Loza

On behalf of EY LLC

Tbilisi, Georgia

15 May 2020

HYDROLEA GROUP

Consolidated Statement of Financial Position

(Amounts expressed in thousands of Georgian Lari)

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	4	39,123	41,643
Intangible assets		16	18
Issued loans	6	20,082	1,508
Other non-current assets	5	380	402
Total non-current assets		**59,601**	**43,571**
Current assets			
Inventories		73	27
Trade receivables	7	759	1,457
Prepayments	8	597	579
Cash and cash equivalents	9	4,265	1,377
Restricted cash	18	244	226
Total current assets		**5,938**	**3,666**
Total assets		**65,539**	**47,237**
Shareholder's (deficit)/equity			
Charter capital	10	5,174	11,602
Other capital reserves	10	91	–
Accumulated deficit		(16,324)	(10,578)
(Deficit)/equity attributable to the Company's owner		**(11,059)**	**1,024**
Non-controlling interest	10	**–**	**162**
Total (deficit)/equity		**(11,059)**	**1,186**
Liabilities			
Non-current liabilities			
Borrowings	11	72,552	39,539
Total non-current liabilities		**72,552**	**39,539**
Current liabilities			
Borrowings	11	3,503	5,719
Trade and other payables	12	543	793
Total current liabilities		**4,046**	**6,512**
Total labilities		**76,598**	**46,051**
Total liabilities and equity		**65,539**	**47,237**

The consolidated financial statements for the year ended 31 December 2019 were approved on behalf of the management on 15 May 2020 by:

Zurab Gordeziani
Director

HYDROLEA GROUP

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Amounts expressed in thousands of Georgian Lari)

	Notes	2019	2018
Revenue	13	**9,508**	**8,976**
Other income	13	243	79
Depreciation and amortisation		(1,636)	(1,118)
Employee salaries and benefits expense		(1,141)	(924)
Water expenses		(155)	(268)
Raw materials, fuel and other consumables		(48)	(60)
Other operating expenses	15	(1,453)	(1,036)
Operating profit		**5,318**	**5,649**
Loss on sale of subsidiaries	14	–	(517)
Finance costs	16	(5,057)	(5,590)
Finance income		134	100
Foreign exchange loss, net	16	(4,199)	(1,605)
Loss before income tax		**(3,804)**	**(1,963)**
Income tax expense		–	–
Loss for the period		**(3,804)**	**(1,963)**
Other comprehensive income		91	–
Total comprehensive loss for the period		**(3,713)**	**(1,963)**
Attributable to:			
- Owner of the Company		(3,687)	(1,965)
- Non-controlling interest		(26)	2
Total comprehensive loss for the period		**(3,713)**	**(1,963)**

The accompanying notes on pages 8 to 20 are an integral part of these consolidated financial statements

Consolidated Statement of changes in equity

(Amounts expressed in thousands of Georgian Lari)

	Attributable to the Company's owner					
	Charter capital	**Accumulated deficit**	**Other capital reserves**	**Total**	**Non-controlling interest**	**Total equity**
31 December 2017	**11,602**	**(8,613)**	**–**	**2,989**	**160**	**3,149**
Comprehensive loss for the period	–	(1,965)	–	(1,965)	2	**(1,963)**
31 December 2018	**11,602**	**(10,578)**	**–**	**1,024**	**162**	**1,186**
Comprehensive loss for the period	–	(3,778)	–	(3,778)	(26)	**(3,804)**
Other comprehensive income	–	–	91	91	–	**91**
Total comprehensive loss for the period	**–**	**(3,710)**	**91**	**(3,687)**	**(26)**	**(3,713)**
Acquisition and other changes of non-controlling interest in subsidiary	2,191	(1,968)	–	223	(136)	**87**
Increase of charter capital (Note 10)	1,418	–	–	1,418	–	**1,418**
Decrease of charter capital (Note 10)	(10,037)	–	–	(10,037)	–	**(10,037)**
31 December 2019	**5,174**	**(16,324)**	**91**	**(11,059)**	–	**(11,059)**

Consolidated Statement of cash flows

(Amounts expressed in thousands of Georgian Lari)

	Notes	2019	2018
Cash flows from operating activities			
Loss before income tax		(3,804)	(1,963)
Adjustments for:			
Depreciation of property, plant and equipment	4	1,636	1,118
Finance costs	16	4,709	4,128
Finance income		(134)	(100)
Loss on disposal of subsidiaries	14	–	517
Foreign exchange loss, net	16	4,199	1,605
Operating cash flows before working capital changes		**6,606**	**5,305**
Working capital changes			
Decrease in trade and other receivables		680	90
Increase in inventories		(46)	(29)
(Decrease)/increase in trade and other payables		(250)	856
Operating cash flows after working capital changes		**6,990**	**6,222**
Interest paid		(6,245)	(3,283)
Interest received		–	71
Net cash from operating activities		**745**	**3,010**
Cash flows from investing activities			
Purchase of property, plant and equipment		–	(8,426)
Loans issued		(21,019)	(920)
Loan repayments received		4,276	2,308
Change in restricted cash	18	(18)	2,915
Proceeds from disposal of subsidiaries, net of disposed cash	14	–	(111)
Net cash used in investing activities		**(16,761)**	**(4,234)**
Cash flows from financing activities			
Proceeds from borrowings	11	76,474	33,538
Repayment of borrowings	11	(48,711)	(32,658)
Increase of non-controlling interest in subsidiary	10	87	–
Increase of charter capital	10	1,418	–
Decrease of charter capital	10	(10,037)	–
Net cash from financing activities		**19,231**	**880**
Net increase/(decrease) in cash and cash equivalents		**3,215**	**(344)**
Cash and cash equivalents at the beginning of the year	9	1,377	1,775
Effect of changes in foreign exchange rate on cash and cash equivalents		(327)	(54)
Cash and cash equivalents at the end of the year	9	**4,265**	**1,377**

The accompanying notes on pages 8 to 20 are an integral part of these consolidated financial statements

1. General Information

Hydrolea LLC (the "Company") was incorporated on 6 July 2012 and is domiciled in Georgia. The Company is a limited liability company, established in accordance with Georgian regulations and is registered by Tbilisi Tax Inspection with identification number: 406073029.

The Company has interests in the following material subsidiaries (together with the Company referred to as the "Group"):

	31 December 2019	31 December 2018
GeoEnergy LLC	100%	94%
Hydro Georgia LLC	100%	100%
Kasleti 2 LLC*	100%	97.5%
Hydro S LLC	100%	100%
Darchi LLC	100%	100%
Kasleti Energy LLC**	-	97.5%

* *Kasleti 2 LLC was a subsidiary of Kasleti Energy LLC as of 31 December 2018.*

***Kasleti Energy LLC merged with Hydrolea LLC in December 2019.*

Principal business activity of the Group is construction and operation of hydro power plants ("HPPs") and generation and sale of electric power in Georgia. All the subsidiaries are domiciled and operating in Georgia.

As at 31 December 2019, 100% of the Group was owned by Georgia Energy Holding LLC (the "Parent"), the ultimate parent of which is Georgia Capital PLC ("GCAP"), a UK-based entity listed on the London Stock Exchange. As of 31 December 2018, the Group's owners were Crosscountry Capital E.A.D. LLC, Bulgaria, owning 62.25% interest and Mr. Ioseb Natroshvili, a Georgian citizen, owning 37.75% interest. The Group was ultimately controlled by Mr. Radoslav Dudolenski, a Bulgarian citizen (Notes 10 and 14).

The Group's registered address is #34 Abuladze Street, Vake-Saburtalo district, Tbilisi, Georgia.

2. Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board and in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the periods presented, unless otherwise stated.

The consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

Basis of consolidation. Subsidiaries controlled by Group are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(Amounts expressed in thousands of Georgian Lari)

2. Summary of Significant Accounting Policies (continued)

Inter-company transactions, balances and unrealised gains on transactions between the Group and its subsidiaries are eliminated in full.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests. Transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposal to non-controlling interest are also recorded in equity.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Foreign currency translation. Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Georgian Lari (GEL).

Until 28 October 2019, the functional currency of the entities comprising the Group was Georgian Lari. At the date of the acquisition of the Group by Georgia Energy Holding LLC, the functional currency of the Company and its subsidiaries was reassessed and determined to be US Dollar (USD). In making that assessment, the management considered existence of long-term USD-denominated sales arrangement, USD denominated debt, as well as expectations of further increase in share of transactions denominated and settled in USD in the foreseeable future. Significant judgment was applied by the management in determination of appropriate functional currency and assessment of whether change in the underlying transactions, events and conditions warrant a change in the functional currency.

The Company's presentation currency is different from its functional currency. The Company considers that Georgian Lari as presentation currency is common among Georgian reporters and thus it provides more relevant and appropriate information to the users of the financial statements.

Change in functional currency was applied prospectively starting from 28 October 2019. At the date of change, the Company translated all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Official rate of the National Bank of Georgia of 1 GEL	USD	EUR
Exchange rate as at 31 December 2019	2.8677	3.2095
Exchange rate as at 31 December 2018	2.6766	3.0701

Cash and cash equivalents. Cash and cash equivalents include cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of financial position and the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Trade and other receivables. The most sales are made on the sales of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in profit or loss.

2. Summary of Significant Accounting Policies (continued)

Loans issued. Loans are unquoted non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. This calculation includes all fees paid or received by parties of the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss through the amortization process.

Inventories*.* Inventories are stated at the lower of cost and estimated selling price less costs to sell. Cost is determined using the weighted average cost method.

Property, plant and equipment. Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation on property, plant and equipment items is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Buildings	10-30 years
Plant and equipment	2-30 years
Vehicles and others	2-5 years

Construction in progress items are not depreciated until ready for use.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Intangible assets. Separately acquired licences (including software) and other intangible assets are shown at historical cost. Intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful lives, as follows:

Software and related licenses	1-4 years

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

Impairment of assets. At each reporting date, property, plant and equipment, intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

2. Summary of Significant Accounting Policies (continued)

Similarly, at each reporting date, inventories are assessed for potential write down by comparing the carrying amount of each item of inventory (or group of similar items) with its net realizable value. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and write down losses recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Trade and other payables. Trade and other payables are obligations on the basis of the normal credit terms and do not bear interest. Trade and other payables denominated in a foreign currency are translated into functional currency using the exchange rate at the reporting date.

Borrowings. Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the lender, including transaction costs). Borrowings are subsequently stated at amortised cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions. Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that a transfer of economic benefits will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Charter capital. The amount of Group's charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc) shall be made only based on the decision of the Company's owner. Excess or shortage of the stated charter capital to the value of the actual contribution is recorded as additional paid-in capital or unpaid capital, respectively. Also, all other cash or in-kind capital contributions, made by the Company's owners that were dedicated to increase the Company's capital but were not reflected in the Charter as at balance sheet date, are recognised as paid-in capital.

Revenue recognition. Revenue from electric power sales is recognised on the basis of metered electric power transferred and by application of the fixed price according to the agreement formed with customers. Customers are usually obliged to pay the respective balances by a following month end.

Sales of electric power are recognised when customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Interest income is recognised on a time-proportion basis using the effective interest method.

Income taxes. The annual profit earned by entities other than banks, insurance companies and microfinance organizations are not taxed in Georgia starting from 1 January 2017. Corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies is not subject to corporate income tax. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia.

2. Summary of Significant Accounting Policies (continued)

In addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

Value added tax. Output value added tax related to sales is payable to tax authorities on the on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the consolidated statement of financial position on a net basis. Self-generated electric power sales provided not to final customer, also export sales are exempt from VAT per Georgian tax legislation.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Payroll expenses and related contributions. Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Company. The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees.

Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

A lessee recognises its rights of use and obligations under finance leases as assets and liabilities in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognised as an asset. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the effective interest method.

A lessor recognises assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease. The net investment in a lease is the lessor's gross investment in the lease discounted at the interest rate implicit in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Dividend distribution. Dividend distribution to the Group's owners is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Group's owners.

Reclassifications. Certain prior year balances have been reclassified to conform to the current year presentation.

3. Information about Key Sources of Estimation, Uncertainty and Judgements

The preparation of consolidated financial statements in conformity with the IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Useful lives of property, plant and equipment*.** The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Going concern. These consolidated financial statements are prepared on a going concern basis. Evaluation of the appropriateness of going concern basis of preparation and existence of any material uncertainty in respect of the going concern assumption requires significant judgment in forecasting cash flows from operations, required capital expenditures, as well as in the assessment of Group's ability to service the existing debt as it falls due and maintain financial covenants required by the borrowing arrangements, or, if needed, refinance or prolong the existing borrowings or renegotiate the payment terms and terms of the financial covenants with the lenders. The Group's operations and financial liquidity will depend on availability of long-term financial resources. Management believes that such financial resources, inlcuding the shareholder funding, will be available enabling the Group to carry on its business without a significant curtailment of operations for the foreseeable future.

The Group incurred a net loss for the year ended 31 December 2019 of GEL 3,804 (2018: net loss of GEL 1,963) and, as at that date, its total liabilities exceeded its total assets by GEL 11,059 (2018: GEL 1,186). The Group is dependent on the Parent's support. The management has negotiated with the Parent to receive adequate funds, if nessecary, to enable the Group to continue normal operations on ongoing basis.The consolidated financial statements are prepared on the basis that the Group will continue to be a going concern.This basis of preparation presumes that the Group is going to repay its obligations within 12 months with the support of the Parent and the Parent has both, the financial ability and the intention to provide the financial support to the Group, if nessecary, that will allow the Group to realize its assets and discharge its liabilities in the ordinary course of business.

(Amounts expressed in thousands of Georgian Lari)

4. Property, Plant and Equipment

	Land	HPP buildings	Plant and equipment	Vehicles and others	CIP	Total
Cost						
At 1 January 2018	**339**	**18,743**	**7,113**	**730**	**11,058**	**37,983**
Additions	8	–	2	5	9,222	**9,237**
Disposals	(23)	–	(944)	(567)	–	**(1,534)**
Transfers	–	6,062	14,218	–	(20,280)	**–**
At 31 December 2018	**324**	**24,805**	**20,389**	**168**	–	**45,686**
Additions	–	–	10	–	181	**191**
Disposals	–	(14)	–	–	–	**(14)**
Translation	(9)	(666)	(547)	(4)		**(1,226)**
Transfers	–	–	–	–	–	**–**
At 31 December 2019	**315**	**24,125**	**19,852**	**164**	**181**	**44,637**
Accumulated depreciation						
At 1 January 2018	**–**	**(2,168)**	**(1,079)**	**(275)**	**–**	**(3,522)**
Depreciation charge	–	(962)	(58)	(96)	–	**(1,116)**
Disposals	–	–	377	218	–	**595**
At 31 December 2018	**–**	**(3,130)**	**(760)**	**(153)**	**–**	**(4,043)**
Depreciation charge	–	(857)	(749)	(30)	-	**(1,636))**
Translation	–	112	27	26	-	**165**
At 31 December 2019	**–**	**(3,875)**	**(1,482)**	**(157)**	**–**	**(5,514)**
Carrying amount						
At 1 January 2018	**339**	**16,575**	**6,034**	**455**	**11,058**	**34,461**
At 31 December 2018	**324**	**21,675**	**19,629**	**15**	**–**	**41,643**
At 31 December 2019	**315**	**20,250**	**18,370**	**7**	**181**	**39,123**

Property, plant and equipment have been pledged in favour of Bank of Georgia JSC and TBC Bank JSC as a guarantee for the borrowings (Note 18).

5. Other Non-Current Assets

	31 December 2019	31 December 2018
Prepayments for non-current assets	107	132
Receivables from owners for capital contribution	273	270
Total other non-current receivables	**380**	**402**

(Amounts expressed in thousands of Georgian Lari)

6. Issued Loans

	31 December 2019	31 December 2018
Issued loans to related parties under common control	–	1,508
Issued loans to the Parent	20,082	–
Total non-current issued loans	**20,082**	**1,508**

As at 31 December 2019, loans are issued to the Parent earned interest rate of 10.0% per annum with maturity of five years.

As at 31 December 2018, the loans are issued to related parties under common control and interest rates ranged from 7.6% to 8.9% per annum and from 10.8% to 11.4% per annum for loans issued in USD and Georgian Lari, respectively. The interests and principals were repaid during the acquisition of the Group.

7. Trade receivables

As at 31 December 2019, trade receivables comprised of GEL 759 (2018: GEL 1,457) receivables for sales of electric power. The Group recognised an allowance in amount of GEL 18 (2018: 0).

8. Prepayments

	31 December 2019	31 December 2018
Prepayments	102	280
Prepaid taxes	495	299
Total prepayments	**597**	**579**

9. Cash and Cash Equivalents

	31 December 2019	31 December 2018
Cash at bank in USD	4,112	1,374
Cash at bank in GEL	153	–
Cash on hand	–	3
Total cash and cash equivalents	**4,265**	**1,377**

10. Charter Capital

According to the Company's Charter, the charter capital was defined at GEL 2,983, comprising:

	31 December 2019	31 December 2018
Charter capital	9,706	11,862
Unpaid capital	(4,532)	(4,532)
Share contribution	–	4,272
Total charter capital	**5,174**	**11,602**

(Amounts expressed in thousands of Georgian Lari)

10. Charter Capital (continued)

On 14 April 2015, the charter capital of the Company was increased by GEL 8,804 thousand, as a result of exchange of shares between Geo Energy LLC and the Company in the amount of USD 1,905 thousand (GEL 4,272) and deferred consideration of USD 2,020 thousand (GEL 4,532) payable by Mr. Ioseb Natroshvili until 2023. Based upon these transactions, Mr. Ioseb Natroshvili obtained 37.75% ownership in the Company in exchange for his 30% ownership in GeoEnergy LLC and consideration payable. The Company assumed obligation in respect with unpaid capital contribution of Mr. Ioseb Natroshvili of GEL 767 thousand into GeoEnergy LLC. The unpaid portion of the Company's charter capital of GEL 4,532 is recorded as a deduction in the consolidated statement of changes in equity. As a result of this share exchange transaction, the difference of GEL 3,846 (resulting from an aggregate of purchase price of GEL 4,272 and unpaid portion of capital of GEL 767 and the carrying value of NCI of GEL 1,193), has been recorded as a deduction within the consolidated statement of changes in equity.

In November 2019, the charter capital increased by cash consideration of GEL 1,422. In December 2019, the charter capital of the Company was decreased by GEL 10,037, paid in cash.

On 8 November 2019, the Parent, that also directly owns 6% in GeoEnergy LLC, contributed cash consideration of GEL 87 into the capital of GeoEnergy LLC.

On 20 November 2019, the Parent, contributed 6% ownership in GeoEnergy LLC, 2,5% ownership in Kasleti Energy LLC and GEL 2,191 into the capital of the Company.

11. Borrowings

	31 December 2019	31 December 2018
Current		
Borrowings from banks	3,503	5,719
Total current borrowings	**3,503**	**5,719**
Non-current		
Borrowings from related parties	–	3,150
Borrowings from banks	72,552	36,389
Total non-current borrowings	**72,552**	**39,539**
Total borrowings	**76,055**	**45,258**

As of 31 December 2019, borrowings from banks comprised long-term loans of USD 26,600 thousand from Georgian banks bearing 6m LIBOR plus 5.5% per annum. The borrowings mature in December 2034.

As at 31 December 2018, interest rates on borrowings obtained from banks ranged from 9.15% to 13% per annum for borrowings in USD and 11% per annum in Georgian Lari. Borrowing from Bank of Georgia JSC bears floating interest rate, which range from 6 months LIBOR plus 6.1% to 6 months LIBOR plus 10%. Interest and principal payments are based on the agreed schedules, which vary from monthly to semi-annual payments.

As of 31 December 2018, interest rates on borrowings obtained from related parties, mainly from the owner, range from 7.9% to 24% per annum and from 11% to 20% per annum in USD and in Georgian Lari, respectively.

The interests and principals were early repaid in 2019 at the acquisition of the Group by the controlling shareholder of the Parent.

The Group is subject to certain financial and non-financial covenants related to its borrowings. The Group was in compliance with covenants as at 31 December 2019.

(Amounts expressed in thousands of Georgian Lari)

12. Trade and Other Payables

	31 December 2019	31 December 2018
Trade payables	64	418
Tax payables other than on income	479	375
Total trade and other payables	**543**	**793**

13. Revenue

	2019	2018
Revenue from electric power sales	9,508	8,976
Other income	243	79
Total revenue	**9,751**	**9,055**

14. Disposal of Subsidiaries

On 28 January 2018, the Company sold 100% ownership of it's subsidiary City LLC to Blackwood LLC, the entity under common control, for GEL 48. The Group recorded a loss of GEL 517 on disposal.

15. Other Operating Expenses

	2019	2018
Taxes other than on income	486	519
Professional services	50	136
Insurance expenses	131	83
Rehabilitation expenses	224	−
Fuel expense	21	19
Rent expense	71	12
Representative expenses	−	3
Infrastructure assets maintenance expenditure	9	−
Other expenses	461	264
Total other operating expenses	**1,453**	**1,036**

16. Finance Costs

	2019	2018
Interest expense on bank loans and guarantees	4,709	2,793
Interest expense on related party loans	−	1,334
Foreign exchange loss, net	4,199	1,605
Write off of advances paid to financial institutions	260	969
Bank charges	88	380
Foreign exchange trading losses less gains	−	114
Total finance costs	**9,256**	**7,195**

The Group written off the amounts paid to Proparco (2019: GEL 153; 2018: GEL 407) and European Bank for Reconstruction and development (“EBRD”) (2019: GEL 107; 2018: GEL 562) for upfront, front end and mobilisation fees for Kasleti 2 LLC and Hydrolea LLC loans.

(Amounts expressed in thousands of Georgian Lari)

17. Financial Instruments

	31 December 2019	31 December 2018
Financial assets		
Financial assets measured at amortised cost less impairment	25,332	4,568
Financial liabilities		
Financial liabilities measured at amortised cost	76,119	45,676

18. Contingencies and Commitments

Based on the Memorandum of Understanding ("MOU") signed with Government of Georgia, dated 23 August 2012, the Group has commitment to sell all the power generated by each of its HPP within the framework of this MOU during the months of December, January and February, exclusively for the use within Georgia. This commitment is for the period of ten years from the date of commencement of operations of each of the HPP constructed/operated by the Group.

Based on the Agreement with Government of Georgia, Energotrans LLC and JSC Electricity System Commercial Operator ("ESCO"), dated 17 February 2014, and further amended on 5 December 2014 and 21 October 2016, on construction of Kasleti 2 HPP with capacity of 8.1 MW, the Group is obligated to sell the full output of Kasleti 2 HPP in September, October, November, December, January, February, March and April of each year exclusively to ESCO at a tariff of 5.66 USD cents per 1kWh for 10 years from March 2015 (the date of commencement of operations of Kasleti 2 HPP).

Based on the Agreement with Government of Georgia, Energotrans LLC and ESCO, dated 15 November 2013 on construction of GeoEnergy LLC's HPP, the Group is obligated to sell the full output in September, October, November, December, January, February, March and April of each year exclusively to ESCO at a tariff of 5.54 USD cents per 1kWh for 8 years from November 2013.

Based on the Agreement with Government of Georgia, Energotrans LLC and ESCO, dated on 15 November 2013 on construction of Hydro Georgia LLC's HPP, the Group is obligated to sell the full output in September, October, November, December, January, February, March and April of each year exclusively to ESCO at a tariff of 5.54 USD cents per 1kWh for 8 years from November 2013.

Based on the Agreement with Government of Georgia, Energotrans LLC and ESCO, dated on 17 February 2014, and further amended on 21 October 2016, on construction of Darchi-Ormleti HPP with capacity of 16.91 MW, the Group is committed to:

- obtain construction permit no later than 1 June 2020;
- commence construction of Darchi-Ormleti HPP prior to 1 August 2020;
- complete construction and commencement of operations on Darchi-Ormleti HPP prior to 31 December 2022; and
- sell the full output of Darchi-Ormleti HPP in September, October, November, December, January, February, March and April of each year to exclusively to ESCO at a tariff of 5.66 USD cents per 1kWh for 10 years from the date of commencement of operations of Darchi-Ormleti HPP.

Tax legislation. The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the four subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are substantially more significant than in many other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these Consolidated Financial Statements, if the authorities were successful in enforcing their own interpretations, could be significant.

(Amounts expressed in thousands of Georgian Lari)

18 Contingencies and Commitments (continued)

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations.

Within normal course of the business, the contractors request guarantees from the Group issued by the financial institutions for participation in tenders, quality assurance and construction completion. The total guarantees issued by Bank of Georgia JSC compirsed GEL 252 as of 31 December 2019 (31 December 2018: GEL 2,548). The bank will make payments in the event that the Company cannot meet its obligations.

Pledged shareholdings in subsidiaries. The Company has pledged 100% shareholding in Hydro Georgia LLC, Kasleti 2 LLC and 94% of its shareholding in GeoEnergy LLC as a security to the loan from Georgian banks.

Assets pledged and restricted. The Group has the following assets pledged in favour of Georgian banks as a guarantee towards the issued loans and guarantees issued to Government of Georgia and for letter of credit issue to suppliers:

	Note	31 December 2019	31 December 2018
Property, plant and equipment	4	39,123	41,632
Inventories		73	27
Restricted cash		244	226
Total		**39,440**	**41,885**

Environmental matters. The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

19. Balances and Transactions with Related Parties

The outstanding balances with related parties were as follows:

	31 December 2019	31 December 2018
Issued loans to Parent company (Note 6)	20,082	–
Issued loans to related parties under common control (Note 6)	–	1,508
Borrowings from owner (Note 11)	–	3,150
Receivables from owners for capital contribution	273	270

The income and expense items with related parties were as follows:

	2019	2018
Interest expenses to owner (Note 11, 16)	–	(2,445)
Interest income from related party under common control	–	201
Foreign exchange losses less gains on owner’s borrowings	–	(65)

(Amounts expressed in thousands of Georgian Lari)

19. Balances and Transactions with Related Parties (continued)

Key management compensation. Key management includes directors of the Group. Compensation paid to key management for the services in full time executive management positions is made up of a contractual salary, performance bonus depending on financial performance of the Group and other compensation in form of reimbursement of rent, transportation, communication and other expenses. Total key management compensation is presented below:

	2019	**2018**
Salaries and benefits	414	414
Total key management compensation	**414**	**414**

20. Events after the Reporting Period

In March 2020, the World Health Organization confirmed the novel coronavirus (“COVID-19”) as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID-19 infection was confirmed by the National Center for Disease Control (“NCDC”) in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID-19, which have significant social and economic impact. The Group is monitoring impact of coronavirus (COVID-19) outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity. The further spread of COVID-19 in Georgia and globally, is expected to have a negative impact on the economy, however it is too early to fully understand the impact this may have on the Group’s business. The management of the Group considers coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event, but it is still assessing its impact on the financial position and performance of the Group.