Gold, copper and silver production in Azerbaijan

Anglo Asian Mining PLC

Annual report and accounts 2016

Anglo Asian Mining PLC is listed on AIM and has a portfolio of gold, copper and silver production and exploration assets in Azerbaijan.

The Company's extensive portfolio is located on the Tethyan Tectonic Belt, one of the world's most significant gold and copper bearing trends, which extends from Pakistan to the Balkans passing through Iran, Azerbaijan, Georgia and Turkey.

The Company's key operations span three contract areas in Azerbaijan covering 1,062 square kilometres. Three additional contract areas covering 900 square kilometres are held in territories occupied by Armenia which it hopes to develop once access is obtained.

The properties are held under a Production Sharing Agreement with the Government of Azerbaijan.

Contents

Anglo Asian Mining PLC
1 Highlights
2 Anglo Asian Mining
4 Strategy and exploration

Chairman's statement
5 Chairman's statement

Strategic report
7 Strategic report
14 Sustainability and cost reduction

Financial review
15 Financial review

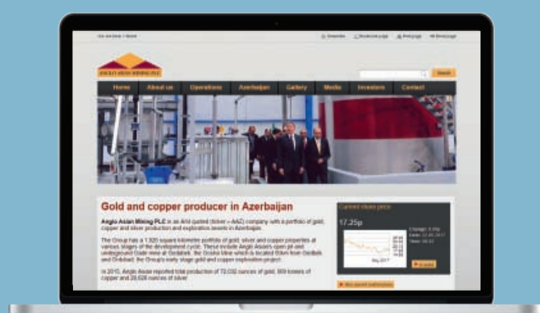
Corporate governance
18 Board of directors
19 Corporate governance
20 Directors' report
24 Report on directors' remuneration
26 Statement of directors' responsibilities

Group financial statements
27 Independent auditor's report
28 Group income statement
28 Group statement of comprehensive income
29 Group statement of financial position
30 Group cash flow statement
31 Group statement of changes in equity
32 Notes to the Group financial statements

Company financial statements
57 Company statement of financial position
58 Company statement of changes in equity
59 Notes to the Company financial statements

Annual general meeting
62 Letter to shareholders
63 Notice of annual general meeting of shareholders

Company information
65 Company information



Discover more online

For the latest news and investor information, visit the Company's website at www.angloasianmining.com

Cover photo: Panoramic view of the Ugur gold deposit showing the exploration area. The boundaries of the new open pit mine will be approximately the same as the current exploration area.

Highlights

year ended 31 December 2016

Financial highlights

Revenue

$79.2m

(2015: $78.1m)

All in sustaining cost ("AISC")* per ounce

$616 per oz

(2015: $858 per oz)

Profit before taxation

$6.8m

(2015: loss of $8.9m)

Operating cash flow before movements in working capital

$33.9m

(2015: $18.6m)

Net debt calculated as aggregate of loans and borrowings

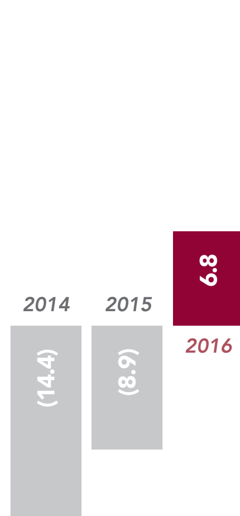
$34.6m

(2015: $49.0m)

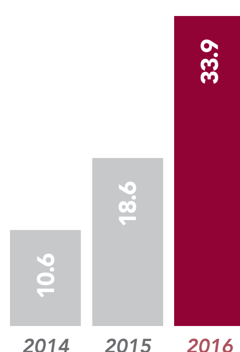
Operational highlights

- Total gold production for 2016 of 65,394 ounces, a 9 per cent. decrease compared to 72,032 ounces produced in 2015
- Gold sales in 2016 of 53,281 ounces (2015: 63,924 ounces) completed at an average of $1,253 per ounce (2015: $1,161 per ounce)
- Gold produced in 2016 at an all in sustaining cost* net of by-product credits of $616 per ounce (2015: $858 per ounce). Lower cash operating cost due to increase in flotation production and cost reduction initiatives
- Copper production for 2016 was 1,941 tonnes, a 100 per cent. increase compared to 969 tonnes produced in 2015
- Silver production for 2016 totalled 165,131 ounces, a 5.8 times increase over 2015 production of 28,626 ounces
- First full year of production from flotation plant – 6,339 dry metric tonnes of concentrate containing 1,121 tonnes of copper, 4,430 ounces of gold and 122,965 ounces of silver were produced in 2016
- Gedabek site connected to the Azerbaijan national power grid
- Extensive exploration programme carried out with the discovery of the Ugur gold deposit
- Total production target of between 64,000 and 72,000 gold equivalent ounces for full year 2017 compared to 72,304 gold equivalent ounces in 2016

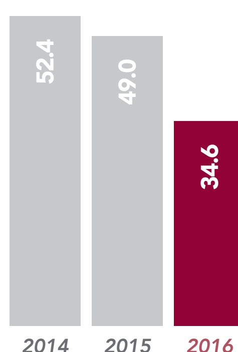
Profit/(loss) before taxation ($m)



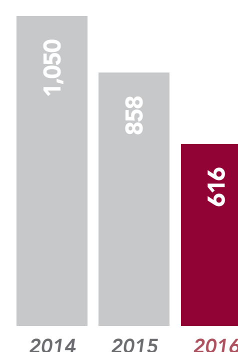
Operating cash flow before movements in working capital ($m)



Net debt ($m)



AISC* ($ per ounce)



*see definition on page 13.

Anglo Asian Mining

A profitable mining business combining mature assets and a pipeline of highly prospective new mining targets.

- **Established** – produced first gold in 2009
- **Profitable** – profit before taxation of $6.8 million for 2016
- **Low cost of production** – all in sustaining cost of $616 per ounce of gold for 2016
- **Stable financial position** – 29 per cent. reduction in net debt achieved in 2016
- **Exploration** – extensive exploration programme underway
- **Experienced** – highly qualified board and management team who are aligned with the Company's shareholders to deliver value and growth

View of the processing facilities and the main open pit from the Ugur gold deposit.

Azerbaijan

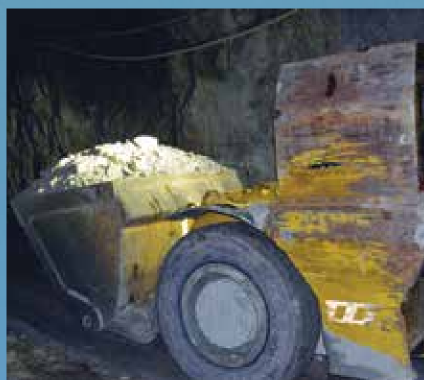
Azerbaijan is situated in south-western Asia, bordering the Caspian Sea between Iran and Russia, with a small European portion north of the Caucasus range.

Azerbaijan borders Armenia, Georgia, Iran, Russia and Turkey and is split into two parts by Armenia; the smaller part is called the Autonomous Republic of Nakhchivan.

The country has an established democratic government, which is fully supportive of international investment initiatives. Infrastructure is reasonably extensive. Low cost labour is also available.

Gedabek contract area

- 300 square kilometre contract area
- Mining and exploration rights until March 2022
- 65,394 ounces of gold and 1,941 tonnes of copper produced in 2016
- Gadir underground mine situated 700 metres from the existing main open pit mine
- All processing of ore carried out at Gedabek



Gosha contract area

- 300 square kilometre contract area
- Currently the location of a small, high grade, underground mine
- Ore mined at Gosha is transported to Gedabek for processing
- Non-JORC resource of about 40,000 ounces of gold

Ordubad contract area

- 462 square kilometre contract area
- Notice of discovery disclosed for one project area comprising several targets
- Exploration underway

Russia
Georgia
Azerbaijan
Armenia
Turkey
Nakhchivan
Caspian Sea
Iran

Contract area locations

Gosha
Gedabek
Ordubad

Occupied territories (grey area)

Gyzilbulakh
Soutely
Vejnali

Strategy and exploration

Anglo Asian plans to carry out extensive exploration and production optimisation in 2017 with the aim of creating future flexibility and growth.

- **Ugur discovery.** Ore body will be brought into production in 2017.
- **Ore stockpiles to be processed.** Approximately one million tonnes of ore stockpiles will be processed during the remainder of 2017.
- **Mining from the open pit will be temporarily suspended in Q2 2017.** Exploration and ore delineation will be carried out until the end of 2017. Ore production will be resumed in Q1 2018.
- **Ore production is temporarily suspended at the Gadir underground mine.** Extensive underground exploration and ore delineation programme is underway.

Ugur gold deposit

Ugur is a significant gold ore deposit located only three kilometres from the main processing facilities at Gedabek. A JORC resource for the deposit is currently being prepared and will be available in Q3 2017. Open pit mining is expected to start in Q4 2017.

View of the Ugur deposit showing the exploration area. The boundaries of the new open pit mine will be approximately the same as the current exploration area. Production will commence in Q4 2017.

Gadir underground mine

Ore production from the Gadir underground mine has ceased but mining is continuing during an exploration phase. Any ore extracted during this period will be stockpiled for future processing. Extensive drilling is being carried out underground to delineate the ore body for future mining.

Over one million tonnes

of ore stockpiles available for processing in the remainder of 2017

Core drilling taking place in the Gadir mine.

Core drill samples from the Gadir mine.

Chairman's statement

Khosrow Zamani

> **"It gives me great pleasure to report the return of Anglo Asian to profitability."**

It gives me great pleasure to report the return of Anglo Asian to profitability. I commented in my statement last year that 2015 was an important year in turning around your Company. The profit recorded for 2016 shows that this optimism was justified and we will continue to put in place the foundations for sustainable profitability and cash generation. A major contributor to the success in 2016 is the continuing evolution of Anglo Asian into a company for which copper is increasingly a significant proportion of its production. Copper production doubled to 1,941 tonnes due to a full year of production from the flotation plant. This increased copper production offset the lower level of gold production of 65,394 ounces. The Company is also increasingly focusing on the long term future development of Gedabek and in 2016 started a major programme of geological exploration. This is already delivering results and we were pleased to announce the discovery of Ugur, an important new gold ore deposit in October 2016. The start of mining from a new open pit at Ugur in late 2017, together with the other exploration and production optimisation initiatives currently underway, will act to further advance the delivery of long-term value to shareholders.

Review of 2016 and 2017 to date

Anglo Asian produced a total of 65,394 ounces of gold in 2016, a 9 per cent. decrease over production of 72,032 ounces in 2015; copper production in 2016 was 1,941 tonnes, a 100 per cent. increase over the 2015 total of 969 tonnes. Production of silver totalled 165,131 ounces for 2016, which was almost a six times increase over 2015 of 28,628 ounces. The reduced gold production resulted from decreased gold ore grades in the fourth quarter of 2016, whilst copper and silver production increased significantly due to a full year of production from the flotation plant in 2016. The Company benefited from increased precious metal prices and the average gold price in 2016 was $1,253 per ounce, which was 8 per cent. higher than in 2015.

The increase in copper and silver production, together with improved precious metal prices, beneficially impacted our financial results for the year and as a result revenues increased slightly in 2016 to $79.2 million from $78.1 million in 2015.

The Company's all in sustaining cost ("AISC") per ounce of gold produced reduced to $616 in 2016 compared to $858 in 2015. This resulted in an operating profit of $11.7 million in 2016 compared to an operating loss of $3.2 million in 2015. The Company has decided to report its cash cost as an AISC calculated in accordance with the World Gold Council's guidance. This is a standardised metric in the industry and will aid comparability with other gold producers.

Cash provided by operating activities increased in the year to $29.6 million from $23.0 million in 2015. We serviced our debts on time and net debt reduced from $49.0 million at the end of 2015 to $34.6 million at the end of 2016.

The Company's new flotation plant operated throughout 2016, processing tailings from the agitation leaching plant. Commissioning encountered a few teething problems, which are not unusual for such projects, but these were quickly overcome. The plant produced 6,331 dry metric tonnes of concentrate in 2016 containing 1,121 tonnes of copper and 4,430 and 122,965 ounces of gold and silver respectively. Since early February 2017, the flotation and agitation leaching plants have been reconfigured with ore now initially being treated by flotation. This reconfiguration was carried out due to the increasing copper content of the ore feedstock. A second semi-autogenous ("SAG") mill was installed in the agitation leaching plant in 2016 which has increased the capacity of the agitation leaching and flotation plants and enables the plants to treat harder ore.

In order to reduce costs and improve the sustainability of Anglo Asian, the Company undertook a number of major initiatives in 2016. The key achievement was the connection of the Gedabek site to the Azerbaijan national power grid in November 2016. This involved the construction of an electrical substation and the installation of approximately 12 kilometres of overhead power cable.

Newly installed tanks at the water treatment plant.

Chairman's statement continued

Review of 2016 and 2017 to date continued

The connection of the Gedabek site to the power grid will substantially reduce the cost of electrical power and the amount of diesel consumed. The expansion of the site will also no longer be constrained by the lack of availability of electrical power. Additionally, a water purification plant is being constructed at Gedabek which is expected to be operational in the third quarter of 2017. This plant will produce potable (drinking quality) water for discharge into the environment. Water evaporation equipment is now operational at the tailings dam to improve the water balance at Gedabek.

The Gadir underground mine which commenced production in 2015 continued in operation throughout 2016. During the year, 123,732 tonnes of ore grading 5.40 grammes per tonne of gold were extracted and processed. This ore is very amenable to leaching by our agitation leaching plant and is therefore prolonging the useful life of the plant. Mining from Gadir was temporarily suspended in February 2017 and extensive underground exploration and development tunnelling is now currently being undertaken. Any ore extracted during this period is being stockpiled for future processing. It is expected that approximately 5,000 metres of drilling will be carried out during this exploration programme and mining from Gadir is expected to recommence in the first quarter of 2018.

The Company embarked on a significant programme of exploration at prospective targets within the Gedabek contract area in 2016. Several initiatives were undertaken including surface and geological mapping of various prospective areas. Drilling of several prospective areas was also undertaken. As a result of this work, the Company was very pleased to announce in October 2016, the discovery of the Ugur gold deposit located three kilometres north-west from its agitation leaching plant and heap leach facilities at Gedabek. The Company also undertook exploration work at the Bittibulag mineral occurrence. These new deposits, which are potentially rich sources of ore, are important to the future sustainable operation of Anglo Asian. Further details regarding these deposits can be found on page 4 and in the strategic report.

In early 2017, the Company completed a wide-ranging strategic review of Gedabek in response to the discovery of the Ugur gold deposit and the decreasing gold grade of ore mined in the main open pit. As a result of this strategic review, Anglo Asian is now implementing several initiatives to ensure sustainable long-term production at Gedabek. These include temporarily suspending ore production from both the main open pit and Gadir underground mines, where exploration, ore zone definition and production optimisation are now being carried out. Any ancillary ore mined will be stockpiled for later processing. The Ugur deposit will be developed so that mining can commence from an open pit before the end of 2017. Whilst mining is suspended, the Company will process its extensive stockpiles of ore and the flotation and agitation leaching plants have been reconfigured to treat the high copper content of the stockpiled ore to maintain production.

Outlook

It is with continued optimism that I look forward to 2017 and beyond. During the course of 2016, we have demonstrated that we can operate the Group profitably. This return to profitability, together with the initiatives currently underway, provide a strong platform for sustained growth in production and development. These initiatives will inevitably result in a temporary reduction of the level of gold production in 2017 compared to the past two years, which has been reflected in our gold production target for the year. However, this will be offset by increased production of copper.

The Group has a production target for 2017 of between 52,000 ounces and 58,000 ounces of gold and 2,000 tonnes and 2,400 tonnes of copper. Given the increasing proportion of copper in its production, the Group will from now on also present its total production target in gold equivalent ounces ("GEOs"). The total production target in GEOs for 2017 is between 64,000 ounces and 72,000 ounces compared to 72,304 ounces in 2016. I look forward to updating our shareholders on our progress over the remainder of 2017.

Appreciation

I would like to take this opportunity to thank our Anglo Asian employees, our partners, the Government of Azerbaijan, advisers and fellow directors for their continued support as we continue to build the Company into a leading and profitable gold, copper and silver producer in Azerbaijan and Caucasia. I would also like to especially thank our shareholders for their invaluable support as we look forward to a successful 2017.

Khosrow Zamani
Non-executive chairman
24 May 2017

Core drilling at Ugur.

Strategic report

"The total production target for the year to 31 December 2017 expressed as gold equivalent ounces ("GEOs") is between 64,000 GEOs and 72,000 GEOs compared to total production for the year to 31 December 2016 of 72,304 GEOs."

The directors present their strategic report for the year ended 31 December 2016.

Principal activities

The principal activity of Anglo Asian Mining PLC (the "Company") is that of a holding company and a provider of support and management services to its main operating subsidiary R.V. Investment Group Services LLC. The Company, together with its subsidiaries (the "Group"), owns and operates gold, silver and copper producing properties in the Republic of Azerbaijan ("Azerbaijan"). It also explores for and develops other potential gold and copper deposits in Azerbaijan.

The Group has a 1,962 square kilometre portfolio of gold, silver and copper properties in western Azerbaijan and territories occupied by Armenia, at various stages of the development cycle.

The Group's primary operating site is Gedabek, which is the location of the Group's main gold, silver and copper open pit mine and Gadir, an underground mine. The Group's processing facilities to produce gold doré and copper, silver and gold concentrates are also located at Gedabek. The Group announced in 2016 the discovery of Ugur, a gold deposit also located at Gedabek. Gosha, the Group's second underground gold and silver mine, is located 50 kilometres away from Gedabek. Ordubad, the Group's early stage gold and copper exploration project is located in the Nakhchivan region of Azerbaijan.

During the period under review, the Group's main focus has been on several key areas to increase its gold, copper and silver production and ensure the future success of its operations as follows:

- continued optimisation of the agitation leaching and flotation plants to ensure maximum production at lowest possible cost;
- increasing the efficiency of our mining operations and pursuing initiatives to reduce costs and increase the sustainability of the Group's operations; and
- exploration of our Gedabek site to both increase the production of our existing open pit and underground mines and to discover new ore deposits.

The Group has a production target for the year to 31 December 2017 of 52,000 ounces to 58,000 ounces of gold and 2,000 tonnes to 2,400 tonnes of copper. The total production target for the year to 31 December 2017 expressed as gold equivalent ounces ("GEOs") is between 64,000 GEOs and 72,000 GEOs compared to total production for the year to 31 December 2016 of 72,304 GEOs.

Inside view of the flotation plant showing the flotation cells to the right. The plant achieved its first full year of production in 2016.

Strategic report continued

Gedabek

Introduction

The Gedabek mining operation is located in a 300 square kilometre contract area in the Lower Caucasus mountains in western Azerbaijan on the Tethyan Tectonic Belt, one of the world's most significant copper and gold-bearing geological structures. Gedabek is the location of the Group's main open pit and underground mines and its processing facilities.

Gold was first poured from ore mined from the open pit mine and processed by heap leaching in May 2009. Copper and precious metal concentrate production began in 2010 when the Sulphidisation, Acidification, Recycling and Thickening plant was commissioned. The Group's agitation leaching plant commenced production in 2013 and its flotation plant in 2015. Underground extraction of ore at Gedabek started in June 2015 when the Gadir mine was opened. During 2016, the Group discovered Ugur, a new gold deposit, three kilometres north-west of its agitation leaching plant.

Core drill samples obtained from the Ugur gold deposit.

Mineral resources

Key to the future development of the Gedabek site is our knowledge of the mineral resources and ore reserves within the contract area. The Group's latest ore reserve estimate was carried out as of 1 September 2014. This ore reserve estimate showed an increase of approximately 3.9 million tonnes of ore, after allowing for depletion due to mining since the previous estimate. It also showed a significantly higher copper content than the previous estimate. Table 1 shows the ore reserve estimate as at 1 September 2014.

Mining operations

The principal mining operation at Gedabek is conventional open cast mining from several contiguous open pits. Ore is first drilled and blasted and then transported either to a processing facility or to a stockpile for storage. The major mining activities of drilling and blasting and subsequent transportation of ore are carried out by contractors. Table 2 summarises the ore mined from the open pit at Gedabek for the year ended 31 December 2016.

Ore is also mined from the Gadir underground mine which is situated approximately one kilometre from the main open pit at the Gedabek site. The mine started producing ore in June 2015. Table 3 summarises the ore mined from the Gadir underground mine for the year ended 31 December 2016.

Table 1 – ore reserve estimate as at 1 September 2014

		Ore reserve								
		In situ grades			Contained metal			Recoverable metal		
Reserve category	In situ (tonnes)	Au (g/t)	Cu (per cent.)	Ag (g/t)	Au (ounces)	Cu (tonnes)	Ag (ounces)	Au (ounces)	Cu (tonnes)	Ag (ounces)
Proven	16,733,000	1.12	0.61	7.63	603,000	87,000	4,105,000	447,000	65,000	1,346,000
Probable	3,761,000	0.68	0.40	6.12	82,000	15,000	740,000	58,000	11,000	268,000
Total	**20,494,000**	**1.03**	**0.50**	**7.35**	**685,000**	**102,000**	**4,845,000**	**505,000**	**76,000**	**1,614,000**

Table 2 – ore mined from the open pit at Gedabek for the year ended 31 December 2016

	Ore mined (tonnes)				Waste mined (tonnes)
Quarter ended	High grade	Low grade	Sulphide	Total	
31 March 2016	93,839	224,641	25,691	344,171	1,316,490
30 June 2016	87,597	402,903	709	491,209	1,357,896
30 September 2016	99,280	302,958	7,333	409,571	1,375,983
31 December 2016	116,923	181,778	—	298,701	1,454,752
Total for the year	**397,639**	**1,112,280**	**33,733**	**1,543,652**	**5,505,121**

Processing operations

Ore is processed at Gedabek to produce either gold doré (an alloy of gold and silver with small amounts of impurities) or a copper and precious metal concentrate.

Gold doré is produced by cyanide leaching. Initial processing is to leach (i.e. dissolve) the precious metal (and some copper) in a cyanide solution. This is done by various methods:

1. **Heap leaching of crushed ore.** Crushed ore is heaped into permeable "pads" onto which is sprayed a solution of cyanide. The solution dissolves the metals as it percolates through the ore by gravity and it is then collected.
2. **Heap leaching of run of mine ("ROM") ore.** The process is similar to heap leaching for crushed ore except the ore is not crushed and is heaped into pads as received from the mine (ROM) without further treatment or crushing.
3. **Agitation leaching.** Prior to the construction of the flotation plant, ore was crushed and then processed through a grinding circuit. The finely ground ore is then placed in stirred tanks containing a cyanide solution and the contained metal is dissolved in the solution. Subsequent to the construction of the flotation plant, a further option is available to treat ore in the agitation leaching plant. This is to process the finely ground ore through the flotation plant prior to treatment by the agitation leaching plant.

Slurries produced by the above processes with dissolved metal in solution are then transferred to a resin in pulp ("RIP") plant. A synthetic resin, in the form of small spherical plastic beads designed to absorb gold selectively over copper and silver, is placed in contact with the leach slurry or "pulp". After separation from the pulp, the gold-loaded resin is treated with a second solution, which "strips" (i.e. desorbs) the gold, plus the small amounts of absorbed copper and silver, transferring the metals from the resin back into solution. The gold and silver dissolved in this final solution are recovered by electrolysis and are then smelted to produce the doré metal, containing gold and silver.

Copper and precious metal concentrates are produced by two processes, SART processing and flotation.

1. **Sulphidisation, Acidification, Recycling and Thickening ("SART").** The cyanide solution after gold absorption by resin in pulp processing is transferred to the SART plant. The pH of the solution is then changed by the addition of reagents. This recovers the copper from the solution in the form of a precipitated copper sulphide concentrate containing silver and minor amounts of gold. The process also recovers cyanide from the solution which is recycled back to leaching.
2. **Flotation.** Flotation is carried out in a separate flotation plant. Feedstock, which can be either tailings from the agitation leaching plant or freshly crushed and milled ore, is mixed with water to produce a slurry called "pulp" and other reagents are then added. This pulp is processed in flotation cells (tanks). The flotation cells are agitated and air introduced as small bubbles. The sulphide minerals attach to the air bubbles and float to the surface where they form a froth which is collected. This froth is dewatered to form a concentrate containing copper, gold and silver.

Initially, gold doré was produced at Gedabek only by heap leaching crushed ore. Heap leaching is a low capital cost method of production traditionally used by mines when they first move into production. However, heap leaching has limitations with regards to the minimum size of the ore being leached limited to around 25 millimetres. This limitation results in only approximately 60 per cent. to 70 per cent. of the gold within the ore being recovered with leaching cycles typically extending up to one year, depending on the detailed composition of the ore.

To increase gold recoveries and production, in 2013 the Group constructed an agitation leaching plant. Compared to heap leaching, agitation leaching can deliver higher recoveries of gold without long leaching cycles. Heap leach pads also require considerable space for their construction and due to the topology of the Gedabek site, this was a constraint. The capacity of the agitation leaching plant was increased in 2016 by the installation of a second semi-autogenous grinding ("SAG") mill.

The ore at Gedabek is polymetallic containing significant amounts of copper. Initially, the SART processing plant was constructed to recover some of the copper as a copper and precious metal concentrate. However, to further exploit the high copper content of the Group's ore reserves, the Group constructed a flotation plant whose function is primarily to produce copper concentrate containing gold and silver as by-products. The flotation plant commenced production in November 2015. It operated throughout 2016 processing tailings from the agitation leaching plant. In February 2017, it was reconfigured to treat freshly crushed and milled ore.

The flotation plant has the flexibility to be configured for various methods of operation. It is able to process the Company's stockpiles of high copper content ore. It can also treat ore feed to, or tailings from, the agitation leaching plant. In such configurations, the plant will be an integral part of the agitation leaching plant.

Table 3 – ore mined from the Gadir underground mine for the year ended 31 December 2016

Quarter ended	Ore mined (tonnes)	Average gold grade (g/t)
31 March 2016	17,756	5.04
30 June 2016	37,732	6.43
30 September 2016	27,581	5.13
31 December 2016	40,663	4.79
Total for the year	**123,732**	**5.40**

Reverse circulation drilling at the Ugur deposit.

Gedabek continued

Production and sales

For the year ended 31 December 2016, total gold production as doré bars and as a constituent of the copper and precious metal concentrate totalled 65,394 ounces, which was a decrease of 6,638 ounces in comparison to the production of 72,032 ounces for the year ended 31 December 2015.

Table 4 summarises the amount of ore and its gold grade processed by heap and agitation leaching for the year ended 31 December 2016.

Table 5 summarises the gold and silver bullion produced as doré bars and sales of gold bullion for the year ended 31 December 2016.

Table 6 summarises the total copper, gold and silver produced as concentrate by both SART processing and flotation processing for the year ended 31 December 2016.

Table 7 summarises the total copper and precious metal concentrate production and sales from both SART processing and flotation processing for the year ended 31 December 2016.

Tailings (waste) storage

The Company is very mindful of the importance of proper storage of tailings both for efficient operation of its processing plants and to fulfil its environmental responsibilities. The Company stores its tailings in a purpose built dam approximately seven kilometres from its processing operations. The tailings dam currently has a capacity of approximately 3.2 million cubic metres. Immediately downstream of the tailings dam is a reed bed biological treatment system to process any seepage from the dam. This will purify any seepage from the dam before discharge into the Shamkir river. The pipes from the agitation leaching plant to the tailings dam are located in a fully lined trench designed to capture any spillage should any pipe rupture.

Sustainability and cost control

The Group embarked on several initiatives during 2016 to improve sustainability and which also have the benefit of lowering costs.

Electricity supply

During 2016, the Gedabek site was connected to the Azerbaijan national power grid. The following were constructed:

- seven kilometres of 35 kilovolt overhead power cable and five kilometres of 6.3 kilovolt overhead distribution line;

Table 4 – amount of ore and its gold grade processed at Gedabek for the year ended 31 December 2016

	Amount of ore processed (tonnes)			Gold grade of ore processed (g/t)		
Quarter ended	Heap leach pad (crushed ore)	Heap leach pad (ROM ore)	Agitation leaching plant	Heap leach pad (crushed ore)	Heap leach pad (ROM ore)	Agitation leaching plant
31 March 2016	91,450	114,508	138,873	1.46	0.87	2.94
30 June 2016	110,202	263,432	156,846	1.32	0.76	3.59
30 September 2016	92,437	190,185	164,492	1.21	0.81	2.45
31 December 2016	74,978	90,310	192,508	1.21	0.85	2.26
Total for the year	**369,067**	**658,435**	**652,719**	**1.32**	**0.80**	**2.78**

Table 5 – gold and silver produced as doré bars and sales of gold bullion for the year ended 31 December 2016

Quarter ended	Gold produced* (ounces)	Silver produced (ounces)	Gold sales** (ounces)	Gold sales price ($ per ounce)
31 March 2016	13,383	1,958	12,058	1,184
30 June 2016	17,926	2,983	15,661	1,265
30 September 2016	15,407	2,502	12,567	1,332
31 December 2016	14,221	2,845	12,995	1,227
Total for the year	**60,937**	**10,288**	**53,281**	**1,253**

* Including Government of Azerbaijan's share.

** Excluding Government of Azerbaijan's share.

- two main and five auxiliary electricity transformers; and
- an electrical power house comprising two sets of 6.3 and 35 kilovolt electrical panels and ancillary measuring equipment.

The total cost of the installation was $2.1 million. As a result of the connection to the grid, the Gedabek site will no longer consume around 11 million litres of diesel fuel per annum to generate electrical power. This will result in considerable cost savings and the capital cost of the installation will be recovered in around one year. The reduction in fuel usage substantially reduces fuel management at the site and the consequent environmental risk. The Company's nine existing diesel generators are not now used but kept as a standby power supply.

Water management

Due to the high rainfall in the Gedabek region, there is a positive water balance over the mine property, which accumulates water at a rate of about 300,000 cubic metres per year. In 2016, two water management projects were undertaken, the construction of a water treatment plant and the purchase of wastewater evaporation equipment. These projects will reduce the amount of water that needs to be stored in the tailings dam, thereby reducing the capacity required.

In April 2016, the Group contracted with Nanoretech Systems (Pty) Limited for the construction of a reverse osmosis water treatment plant to treat process water. The plant will produce water of sufficient purity that can be discharged into the nearby Shamkir river. The plant was built in South Africa and is expected to be operational in the third quarter of 2017. The plant has the capacity to treat 50 cubic metres of water per hour and will also produce a concentrate solution which can be further processed to recover the contained metals. The cost of the plant was $1.4 million.

In August 2016, the Group contracted for the purchase of wastewater evaporation equipment for the tailings dam. This is mobile, skid mounted equipment into which water is pumped without treatment direct from the tailings dam. The equipment then evaporates the water by jetting it into the atmosphere as a fine spray. It can evaporate approximately 25 litres per second of water depending upon climatic conditions. The equipment is expected to be operational by the end of the third quarter of 2017. The cost of the equipment was approximately $300,000. As an interim measure until the equipment is operational, water is being evaporated via a sprinkler system.

Health, safety and environmental

The health and safety of our employees and the protection of the environment in and around our mine properties are prime concerns for the Company's board and senior management team. The health, safety and environmental ("HSE") department at Gedabek has a qualified HSE manager, who is assisted by three HSE officers. The recruitment of additional HSE officers is planned given the increasing size and complexity of the operation. Overall strategy for HSE matters in the Company is overseen by the HSE and technical committee, which is chaired by a board director, Professor John Monhemius. The HSE and technical committee meets twice a year at the Gedabek site.

During 2016, there were 58 (2015: 78) reportable safety incidents, of which five (2015: ten) were lost time incidents ("LTI"), where the casualty had to take time off work. All people injured with the exception of one employee made a full recovery.

Several initiatives were undertaken to improve health and safety at the Gedabek site in 2016. A comprehensive strategic plan for safety of the Gedabek site was completed and approved. Health screening of over 500 employees was carried out by external medical consultants. Employees identified with health issues, such as high blood pressure or poor vision, were provided follow-up treatment for their condition. This health screening will be carried out biannually. Firefighting and ancillary safety equipment such as breathing apparatus is being procured for the site. The Company's growing experience of underground mining is resulting in increased safety underground with fewer incidents occurring.

Table 6 – total copper and precious metal production as concentrate for the year ended 31 December 2016

	Copper (tonnes)			Gold (ounces)			Silver (ounces)		
Quarter ended	SART	Flotation	Total	SART	Flotation	Total	SART	Flotation	Total
31 March 2016	181	200	381	12	607	619	7,789	19,055	26,844
30 June 2016	195	302	497	4	1,445	1,449	10,047	39,184	49,231
30 September 2016	225	260	485	4	1,123	1,127	7,291	24,106	31,397
31 December 2016	219	359	578	7	1,255	1,262	6,751	40,620	47,371
Total for the year	**820**	**1,121**	**1,941**	**27**	**4,430**	**4,457**	**31,878**	**122,965**	**154,843**

Table 7 – total copper concentrate production and sales during the year ended 31 December 2016

Quarter ended	Concentrate production* (dmt)	Copper content* (tonnes)	Gold content* (ounces)	Silver content* (ounces)	Concentrate sales** (dmt)	Concentrate sales** ($000)
31 March 2016	1,821	381	619	26,844	1,319	2,043
30 June 2016	2,361	497	1,449	49,231	1,582	3,019
30 September 2016	1,844	485	1,127	31,397	1,782	3,577
31 December 2016	2,504	578	1,262	47,371	2,147	3,615
Total for the year	**8,830**	**1,941**	**4,457**	**154,843**	**6,830**	**12,254**

* Including Government of Azerbaijan's share.

** Excluding Government of Azerbaijan's share.

Gedabek continued

Exploration at Gedabek site

The Group embarked on a significant programme of exploration at the Gedabek site in 2016 which has continued into 2017.

Area adjacent to the current operational mine

In 2016, geological mapping was carried out over 0.7 square kilometres from which 290 outcrop samples were taken and 20 metres of follow-up trenching was carried out. In addition, two drill holes with a total of 530 metres of diamond drilling were completed.

Gadir underground mine

In 2016 and 2017 to date, efforts were focused on underground mapping and channel sampling. Mineral resource delineation core drilling continued with the aim of assessing the down dip and lateral extensions of the known ore bodies. These drill holes were designed to confirm and extend mineralisation at Gadir. Additional drill holes (BQ size core) were drilled to define ore zone geometry.

Ugur discovery

Ugur is a significant gold ore deposit which was discovered by the Group in 2016. It is located only three kilometres from the processing facilities at the main Gedabek site which highlights the clear strategic value of the deposit. The Ugur deposit area is a significant surface alteration rock assemblage with the presence of barite, barite-haematite and limonite in gossan-style zones along with vuggy silica in brecciated volcanic rocks. Initial exploration comprised stream sediment sampling, soil geochemistry, geological mapping and outcrop sampling and trenching and shallow pits.

55 vertical reverse circulation drill holes totalling 1,842 metres and 39 core drill holes totalling 5,472 metres have now been drilled at Ugur to the end of April 2017 which completed the core drilling of the central area of the Ugur deposit. The area covered by this drilling and proposed open pit outline is 350 metres (east-north-east) by 250 metres (north-north-west).

The assay results of the 39 core drill holes resulted in confirmation of an oxide gold-rich zone to a depth varying between 50 and 60 metres. On receipt of the assays from the final four core drill holes, a sectional resource and reserve estimate will be made by the Company for the Government of Azerbaijan. Independent check assaying of 515 samples and full multi-element analysis are underway by external consultants and it is planned that an independent JORC resource estimate and reserve calculation will be compiled which will be available in the third quarter of 2017.

Reverse circulation drill samples obtained from the Ugur gold deposit.

Work has started to commercially develop the deposit. The design of the haul road has been finalised following completion of a detailed topographic survey of the area between the Ugur gold deposit and the Gedabek processing facilities. Independent geotechnical studies to assess rock mass strength and structural geology relationships for mine design parameters have been completed. Independent environmental impact assessments have been completed and hydrogeological baseline monitoring is being established.

The Bittibulag mineral occurrence

In 2016, a surface mapping exercise was completed covering an area of 1.1 square kilometres that included taking 190 outcrop samples for analysis. Preparation and analysis of 648 samples is ongoing from the soil geochemistry sampling programme conducted earlier in 2016. A total of 40 metres of trenches were excavated and mapped from which 54 samples were taken.

Gosha

The Group's second mining project, the 300 square kilometre Gosha contract area, is located in western Azerbaijan, 50 kilometres north-west of Gedabek. Gosha is being operated as a small, high grade, underground gold mine.

A total of 10,627 tonnes of ore of average gold grade 5.10 grammes per tonne were mined at Gosha in the year ended 31 December 2016.

Ordubad

Our 462 square kilometre Ordubad contract area is located in the Nakhchivan region of Azerbaijan and contains numerous targets including Shakardara, Piyazbashi, Misdag, Agyurt, Shalala and Diakchay, which are all located within a 5 kilometre radius of each other. Development at Ordubad forms part of the Group's longer-term development portfolio as a mid-tier gold, copper and silver mining company.

Sale of the Group's products

Important to the Group's success is the ability to transport its products to market and sell them without disruption.

The Group ships all of its gold doré to MKS Finance SA in Switzerland. The logistics of transport and sale are well established and gold doré shipped from Gedabek arrives in Switzerland within three to five days. The proceeds of the estimated 90 per cent. of the gold content of the doré is settled within one to two days of receipt of the doré. The Group has not experienced any disruptions to its sale of metal due to logistics or delays in customs clearance. MKS Finance SA both refines and then purchases our precious metal; all assays and a full accounting of all metal are agreed with them.

The Gedabek mine site has good road transportation links and our copper and precious metal concentrate is collected from the Gedabek site by the purchaser. The Group was pleased to announce in May 2014 that it had signed an exclusive three year contract with Industrial Minerals SA, a Swiss-based integrated

trading, mining and logistics group, for the sale of its SART copper concentrate. The Group has again experienced no delays in the sale of its copper concentrate in the period under review. In March 2016, the Group signed an additional contract with Industrial Minerals SA for the sale of the concentrate produced by its flotation plant which had improved terms. The second contract is valid for the period to 31 December 2018. Prior to March 2016, sales of concentrate produced by the flotation plant were made under the original contract.

Principal risks and uncertainties

Country risk in Azerbaijan

The Group currently operates solely in Azerbaijan and is therefore naturally at risk of adverse changes to the regulatory or fiscal regime within the country. However, Azerbaijan is outward looking and desirous of attracting direct foreign investment and the Company believes the country will be sensitive to the adverse effect of any proposed changes in the future. In addition, Azerbaijan has historically had a stable operating environment and the Company maintains very close links with all relevant authorities.

Operational risk

The Company currently produces all its products for sale at Gedabek. Planned production may not be achieved as a result of unforeseen operational problems, machinery malfunction or other disruptions. Operating costs and profits for commercial production therefore remain subject to variation. The Group monitors production on a daily basis and has robust procedures in place to effectively manage these risks.

Commodity price risk

The Group's revenues are exposed to fluctuations in the price of gold, silver and copper and all fluctuations have a direct impact on the operating profit and cash flow of the Group. Whilst the Group has no control over the selling price of its commodities, it has very robust cost controls to minimise costs to ensure it can withstand any prolonged period of commodity price weakness.

The Group actively monitors all changes in commodity prices to understand the impact on the business. The Group hedges future sales of gold bullion when the directors believe it is beneficial to the Company. The directors periodically review the requirement for hedging.

Foreign currency risk

The Group reports in United States Dollars and a large proportion of its costs are incurred in United States Dollars. It also conducts business in Australian Dollars, Azerbaijan Manats and United Kingdom Sterling. The Group does not currently hedge its exposure to other currencies, although it will review this periodically if the volume of non-United States Dollar transactions increases significantly. Also, the fact that both revenue of the Group and the Group's interest-bearing debt are settled in United States Dollars is a key mitigating factor that helps to avoid significant exposure to foreign currency risk. Information on the carrying value of monetary assets and liabilities denominated in foreign currency and the sensitivity analysis of foreign currency is disclosed in note 22 to the financial statements.

Liquidity and interest rate risk

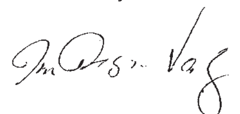
Interest rates on current loans are fixed except for three month LIBOR embedded in the terms of the Amsterdam Trade Bank loan. Part of the bank loan from Amsterdam Trade Bank was transferred to Gazprombank (Switzerland) Ltd in 2017, see note 27 – "Post balance sheet event" on page 56. The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2016, but this requirement is reviewed on a periodic basis. Information on the exposure to changing interest rates is disclosed in note 22 to the financial statements. The approval of the board of directors is required for all new borrowing facilities. At the year end, the Group's only interest rate exposure was on the interest rate charged on the Amsterdam Trade Bank loan.

The levels of deposits held by the Group have also been low, therefore, any impact of changing rates on interest receivable is minimal.

Key performance indicators

The Group has adopted certain key performance indicators ("KPIs") which enable it to measure its financial performance. These KPIs are as follows:

1. **Profit before taxation.** This is the key performance indicator used by the Group. It gives insight into cost management, production growth and performance efficiency.
2. **Net cash provided by operating activities.** This is a complementary measure to profit before taxation and demonstrates conversion of underlying earnings into cash. It provides additional insight into how we are managing costs and increasing efficiency and productivity across the business in order to deliver increasing returns.
3. **All in sustaining cost ("AISC") per ounce.** AISC is a widely used, standardised industry metric and is a measure of how our operation compares to other producers in the industry. AISC is calculated in accordance with the World Gold Council's Guidance Note on Non-GAAP Metrics dated 27 June 2013. The AISC calculation includes a credit for the revenue generated from the sale of copper and silver which are classified by the Group as by-products. There are no royalty costs included in the Company's AISC calculation as the Production Sharing Agreement with the Government of Azerbaijan is structured as a revenue sharing arrangement. Therefore, the Company's AISC is calculated using a cost of sales which is the cost of producing 100 per cent. of the gold and such costs are allocated to total gold production including the Government of Azerbaijan's share.



Reza Vaziri
President and chief executive
24 May 2017

Sustainability and cost reduction

Anglo Asian has been focused during 2016 on initiatives to reduce cost and ensure the sustainability of its operations to enhance the Group's long term production.

Connection of the Gedabek site to the Azerbaijan national power grid

The Gedabek site was connected to the national power grid in November 2016. It is anticipated that this will result in cost savings of approximately $1.8 million to $2.0 million per annum. Diesel generators will no longer be required to generate electrical power.

Anticipated approximate cost savings per annum as a result of connection to national power grid

$1.8–$2.0 million

The new electrical power house and the two main electricity transformers.

Seven kilometres of 35 kilovolt overhead power cable were constructed.

Waste water disposal

A reverse osmosis water purification plant is nearing completion at Gedabek. This plant will improve the water balance at the Gedabek site and reduce the required capacity of the tailings dam. It is expected to be operational in the third quarter of 2017. It will also enable the partial recovery of metal currently present in the contents of the tailings dam.

The new water treatment plant. The water filtration equipment is in the containers and the water tanks (yellow) can be seen. The gantry for the pipes between the water and processing plants can also be seen.

Installation of second semi-autogenous ("SAG") mill

A second SAG mill was installed in 2016. This ensures sustainable production from the agitation leaching and flotation plants. It can be redeployed in an expanded flotation plant.

The second SAG mill in operation at the plant.

Financial review

Reza Vaziri and William Morgan

"The Group recorded a profit before taxation in 2016 of $6,779k. This was due to a lower all in sustaining cost ("AISC") of production of $616 per ounce in 2016 compared to $858 per ounce in 2015."

The directors present their financial review for the year ended 31 December 2016. This financial review forms part of the strategic report on pages 7 to 13.

Group income statement

The Group generated revenues of $79,184k (2015: $78,057k) from sales of gold and silver bullion and copper and precious metal concentrate.

$66,930k of the revenues (2015: $74,279k) were generated from sales of gold and silver bullion from the Group's share of the production of doré bars in 2016. Bullion sales in 2016 were 53,281 ounces of gold and 9,512 ounces of silver (2015: 63,924 ounces of gold and 3,754 ounces of silver) at an average price of $1,253 per ounce and $17 per ounce respectively (2015: $1,161 per ounce and $15 per ounce respectively). In addition, the Group generated revenue from the sale of copper and precious metal concentrate of $12,254k (2015: $3,778k).

The Group hedged future gold bullion sales for the first time in 2016. On 29 June 2016, the Group entered into a series of net zero cost options with a lower (PUT option) sales price of $1,200 per ounce and an upper (CALL option) sales price of $1,426 per ounce. The pairs of options matured in lots of 1,500 ounces of gold every two weeks from the transaction date with the final lot maturing on 13 December 2016. The final two lots of PUT options expired in November and December and on both expiry dates the spot price of gold was below the PUT option price of $1,200 per ounce. These options were exercised generating additional revenue of $80,400. There were no options outstanding at 31 December 2016.

The Group incurred cost of sales of $62,770k (2015: $75,234k). The cash cost of mining and processing in 2016 decreased by $8,749k from $55,323k in 2015 to $46,574k in 2016. This was due to improving operational efficiency, cost control and the devaluation of the Azerbaijan Manat against the United States Dollar.

Depreciation and amortisation in 2016 was marginally higher at $21,964k compared to $21,857k in 2015. Accumulated mine development costs within producing mines are depreciated and amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight line method is applied. The unit of account for run of mine ("ROM") costs and for post-ROM costs is recoverable ounces of gold.

The Group had other income in 2016 of $1,375k (2015: $714k) which was interest receivable on a loan to a former employee, consultancy income, release of provisions and foreign currency exchange gains. The Group incurred administration expenses in 2016 of $4,931k (2015: $5,415k) and finance costs of $4,935k (2015: $5,721k). The Group's administration expenses comprise the cost of the administrative staff and associated costs at the Gedabek mine site, the Baku office and maintaining the Group's listing on AIM. The Group's administration costs reduced in 2016 compared to 2015 due to the devaluation of the Azerbaijan Manat and cost reduction measures. The finance costs for the year comprise interest on the credit facilities and loans, interest on letters of credit and accretion expenses on the rehabilitation provision.

The Group recorded a profit before taxation in 2016 of $6,779k compared to a loss before taxation of $8,910k in 2015. This was due to a lower all in sustaining cost ("AISC") of production of $616 per ounce in 2016 compared to $858 per ounce in 2015 and also finance costs reduced by $786k due to lower levels of borrowing.

The Group had a taxation charge for the year of $2,795k (2015: credit of $1,529k). This comprised a current income tax charge of $nil and a deferred tax charge of $2,795k (2015: taxation credit of $1,529k comprising a current income taxation charge of $nil and a deferred taxation credit of $1,529k). The Group had no current taxation charge in 2016 as the taxable profits incurred by its main operating company were offset against taxable losses brought forward from previous years. The deferred taxation charge in 2016 arose primarily due the utilisation of tax losses in 2016 brought forward from previous years.

Cash cost of total gold production

The Group produced gold at an all in sustaining cost ("AISC") per ounce of $616 in 2016 compared to $858 in 2015. The Group decided in 2016 to report its cash cost as an AISC calculated in accordance with the World Gold Council's guidance. This is a standardised metric in the industry. The reason for the decrease in 2016 compared to 2015 was due to the decrease in cash operating costs and the increase in production from the flotation plant which has a higher margin than production from agitation leaching.

Group statement of financial position

Non-current assets decreased from $129,464k at the end of 2015 to $116,408k at the end of 2016. The main reasons for the decrease were intangible assets lower by $1,525k and property, plant and equipment lower by $9,952k. These decreases were mainly driven by depreciation and amortisation in the year. There was no non-current inventory at the end of 2016 as all ore stockpiles at 31 December 2016 are forecast to be processed within 12 months of the balance sheet date.

There were net current assets of $3,649k at the end of 2016 compared to net current liabilities of $4,243k at the end of 2015. The main reason for the increase in current assets was an increase in current inventories of $7,821k in 2016. Current liabilities comprising trade and other payables and current portion of borrowings remained approximately level, increasing from $46,820k at end of 2015 to $47,998k at the end of 2016. The Group's cash balances at 31 December 2016 were $1,379k (2015: $249k).

Net assets of the Group were $82,646k (2015: $78,644k). The increase was due to the profit earned in 2016 as there were no shares issued in the year.

The Group is financed by a mixture of equity and debt. The Group's total debt at 31 December 2016 was $35,930k as shown in note 20 to the financial statements on pages 50 and 51. The significant changes to the Group's debt financing for the year ended 31 December 2016 and to date are as follows:

- $9.8m was repaid to the Amsterdam Trade Bank ("ATB") in accordance with the loan agreement and the effective interest rate payable on the loan in the year was 9.01 per cent. The Group met the required debt service coverage ratio ("DSCR") covenant of 1:1.25 for the six months ended 30 June 2016 but for the year ended 31 December 2016 the DSCR was 1:1.07. A waiver of the DSCR covenant for the year ended 31 December 2016 was obtained from ATB. In February 2017, 50 per cent. of the balance of the loan being $8.6m, was transferred to Gazprombank (Switzerland) Ltd ("GPBS"). The terms of the loan and security remained unchanged with ATB acting as agent to administer the loan on behalf of ATB and GPBS.
- $4.8m was repaid to the International Bank of Azerbaijan ("IBA") in accordance with the loan notes to finance the construction of the agitation leaching plant. The credit facility outstanding of $1.5m at 1 January 2016 was repaid in 2016. The Group entered into two further credit facilities in 2016 with IBA for AZN1m and $1m with interest rates respectively of 18 and 12 per cent. The loans are repayable on a reducing balance basis over periods of one and two years respectively. The Group also entered into a letter of credit facility with IBA of $1.4m to finance the purchase of its water treatment facility.
- The Group entered into credit facilities totalling $5.9m from Pasha Bank in 2016. These were for the purchase of consumables and capital equipment. The loans for consumables purchase were short term loans of two months maturity and totalled $2.5m at 31 December 2016 with interest rates of 14 and 18 per cent. The loans for the purchase of capital equipment totalled $2.4m at 31 December 2016 and carried interest rates of between 7 and 9 per cent. with maturities of 12 to 24 months. The letter of credit facility with $4.6m outstanding at 1 January 2016 for the purchase of the flotation plant was repaid in 2016.
- The Group entered into short term credit facilities with Yapi Credit Bank and Kapital Bank in 2016. The facilities are all denominated in United States Dollars with interest rates of between 7 and 11 per cent. The facilities are all for one year and interest is repayable either on a reducing balance basis or by equal quarterly instalments. The total of these loans outstanding at 31 December 2016 was $1.6m.
- The $3.9m loan from a director was not repaid during 2016 and was extended until 8 January 2018. The loan carries interest at 10 per cent. and $nil of interest was paid in respect of the loan in 2016.

The Group had a deferred taxation liability at 31 December 2016 of $18,230k (2015: $15,435k).

Group cash flow statement

Operating cash inflow before movements in working capital was $33,911k (2015: $18,581k). The main source of operating cash flow was the profit before taxation, after adding back finance costs and amortisation and depreciation which totalled $33,678k (2015: $18,668k).

Working capital movements absorbed cash of $4,332k (2015: generation of $4,382k) due to an increase in inventories of $5,278k (2015: decrease of $6,285k) mainly driven by an increase in ore stockpiles of $2,606k and spare parts and consumables of $2,953k and an increase in trade and other receivables of $2,805k (2015: $1,110k). This was partially offset by an increase in trade and other payables of $3,751k (2015: decrease of $793k).

Income tax paid was $nil (2015: $nil). The Group generated taxable profits for 2016 due to its return to profitability but these were relieved by taxable losses brought forward from previous years.

Net cash provided by operating activities in 2016 was $29,579k compared to $22,963k in 2015. This higher cash generation from operating activities in the year was due to the turnaround of the Group from loss to profit partially offset by cash absorbed by working capital.

Expenditure on property, plant and equipment and mine development was $10,679k (2015: $14,279k). The main items of expenditure in 2016 were capitalisation of deferred stripping costs of $4,091k, underground mining equipment of $1,323k, the new SAG mill of $1,500k and the cost of the new electricity substation and related equipment and power lines of $2,098k.

Exploration and evaluation expenditure of $359k (2015: $377k) was incurred and capitalised. This arose on exploration at the Gedabek and Ordubad mining properties.

Production Sharing Agreement ("PSA")

Under the terms of the PSA in place with the Government of Azerbaijan, the Group and the Government of Azerbaijan share commercial products of each mine. Until the time the Group has recovered all its carried forward, unrecovered costs, the Government of Azerbaijan effectively takes 12.75 per cent. of commercial products of each mine, with the Group taking 87.25 per cent. (being 75 per cent. for capital and operating costs plus 49 per cent. of the remaining 25 per cent. balance). The Group will not have recovered all its costs incurred by the end of 2016 and the ratio of sharing commercial products for the Gedabek mine of 87.25 per cent. for the Group and 12.75 per cent. for the Government of Azerbaijan will continue throughout 2017.

Once all prior year costs are recovered, the Group can continue with cost recovery of up to 75 per cent. of the value of commercial products, before the remaining product revenues are shared between the Company and the Government of Azerbaijan in a 49 per cent. to 51 per cent. ratio. The Group can recover the following costs:

- all direct operating expenses of the Gedabek mine;
- all exploration expenses incurred on the Gedabek contract area;
- all capital expenditure incurred on the Gedabek mine;
- an allocation of corporate overheads – currently, overheads are apportioned to Gedabek according to the ratio of direct capital and operating expenditure at the Gedabek contract area compared with direct capital and operational expenditure at the Gosha and Ordubad contract areas; and
- an imputed interest rate of United States Dollar LIBOR + 4 per cent. per annum on any unrecovered costs.

Going concern

The directors have prepared the Group financial statements on a going concern basis after reviewing the Group's forecast cash position for the period to 30 June 2018 and satisfying themselves that the Group will have sufficient funds on hand to realise its assets and meet its obligations as and when they fall due.

In making this assessment, the directors have acknowledged the challenging and uncertain market conditions in which the Group is operating. In 2016, the price of gold averaged $1,253 per ounce with a high of $1,366 per ounce and a low of $1,077 per ounce. The Group has substantially reduced its net debt during 2016 from $49.0 million at 1 January to $34.6 million at 31 December. However, total production is forecast to be lower in 2017 compared to 2016.

The Group commenced making payments on the principal of its debt in 2015. Until the date of this annual report, the Group has made all payments of interest and principal on time other than by advance agreement with certain banks to defer payment.

Key to achieving the Group's forecast cash position, and therefore its going concern assumption are the following:

- achieving the forecast production of gold doré from its heap and agitation leaching facilities.
- achieving its forecast production of precious metal concentrates from its SART and flotation processing.
- its metal (principally gold and copper) price assumptions being met or bettered.

The Group's cash flow forecasts assume that the newly discovered Ugur gold deposit will commence production as an open pit mine in the fourth quarter of 2017. If the start-up of the mine is delayed, the cash flow forecast will be adversely affected in the absence of any further actions being taken. In the event of a production delay from Ugur, the Group has several options to maintain production to cover any cash flow deficit including recommencing mining in the main open pit, further processing of stockpiled ores and processing underground ores from the Gadir underground mine which have been extracted ancillary to the current exploration programme.

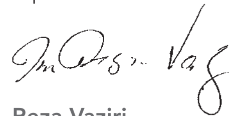
The Group's loan agreement with the Amsterdam Trade Bank ("ATB") and Gazprombank (Switzerland) Ltd ("GPBS") contains a debt service cover ratio ("DSCR") covenant of at least 1.25. This ratio is calculated twice a year from the Group's published financial statements. The Group has received waivers of the DSCR covenant from ATB for the full year to 31 December 2016 and from ATB and GPBS for the half year to 30 June 2017. Based on current forecasts, the directors believe that the Group will be compliant with the DSCR covenant for the full year to 31 December 2017.

Should there be a moderate and sustained decrease in either the production or metal price assumptions, significant doubt would be cast over the Group's short term cash position. Under this circumstance, the Group would look to defer all non-essential capital expenditure and administrative costs in order to preserve cash. The Group also has access to local sources of short term finance to meet any shortfalls.

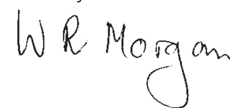
The Group's assumptions are neither overly aggressive or overly conservative and appropriate rigour and diligence has been performed by the directors in approving the assumptions. The directors believe all assumptions are prepared on a realistic basis using the best available information.

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found in the Group's annual report and accounts within the chairman's statement on pages 5 and 6 and within the strategic report on pages 7 to 13. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review. In addition, note 22 to the Group financial statements includes the Group's objectives, details of its financial instrument exposures to credit risk and liquidity risk.

After making due enquiry, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the annual report and financial statements.



Reza Vaziri
President and chief executive
24 May 2017



William Morgan
Chief financial officer
24 May 2017

Board of directors

Mr Khosrow Zamani*

Non-executive chairman, age 74

Khosrow Zamani was director of the southern Europe and central Asia department of the International Finance Corporation ("IFC"), the private sector lending arm of the World Bank, from March 2000 to July 2005. He was responsible for the IFC investment programme and strategy in 15 countries across the region. Whilst a director at IFC, Khosrow was instrumental in building the IFC investment portfolio in the region with several new initiatives, particularly in central Asia and Caucasia. He oversaw the IFC portfolio of more than $2 billion, diversified across the financial, oil and gas, mining and manufacturing sectors. Khosrow has over 30 years of experience in investment and project finance and banking in emerging markets. He holds an MSc in Engineering from the United States of America and a master of business operations and management from the United Kingdom. He is currently a non-executive board member and chairman of the corporate governance committee of Sekerbank A.S., a publicly listed commercial bank in Turkey, a non-executive board member and chairman of the compensation committee of Komercijalna Bank, Serbia and a non-executive board member of Borusan Makina in Turkey.

Mr Richard Round*

Non-executive director, age 59

Richard Round has held senior finance and leadership roles in a range of quoted and private companies. Richard now maintains a portfolio of non-executive director and board advisory positions in the energy, mining and technology development sectors. Most recently, Richard led the strategy and ultimate sale of hydro developer Green Highland Renewables prior to which he successfully secured around £70 million of funding for the development of the Oyster wave power technology for Aquamarine Power. Prior to joining Aquamarine Power, Richard was acting chief executive at the quoted group, Novera Energy plc where he led the sale of the landfill gas, wind and hydro group. Richard has also held a number of finance director roles in the renewable, oil and gas service, coal and mining sectors with companies including Mining Scotland, Consolidated Supply Management and Cambrian Mining plc. Richard was also finance director of Anglo Asian Mining PLC where he stepped down in July 2008 and was appointed a non-executive director.

Professor John Monhemius*

Non-executive director, age 74

Emeritus professor John Monhemius held the Roy Wright Chair in mineral and environmental engineering at the Royal School of Mines, Imperial College, London until 2004, when he retired from full-time academic work. From 2000 to 2004, he was dean of the Royal School of Mines. He has more than 40 years of experience of academic and industrial research and development in hydrometallurgy and environmental control in mining and metallurgical processes, particularly in the management of toxic wastes and effluents, and he has acted as a consultant to many large mining and chemical companies. John has published over 130 papers of scientific literature and he has supervised more than 30 PhD students. From 1986–96, he was a co-founder and director of Consort Research Ltd, a consultancy specialising in gold and base metal ore processing, and he is a former director of Obtala Resources plc.

* Independent non-executive director.

Mr Reza Vaziri

President and chief executive, age 64

Reza Vaziri has been actively involved in business in the Republic of Azerbaijan since just after its independence. Since R.V. Investment Group Services LLC, now Anglo Asian's subsidiary, signed a Production Sharing Agreement with the Government of the Republic of Azerbaijan, Reza has been focused on developing Anglo Asian Mining PLC into a significant gold producer in the Caucasia and central Asia region. Prior to his business career, Reza held a number of high-ranking positions in the pre-revolutionary Iranian government. He was the head of the Foreign Relations Office at the Ministry of the Imperial Court of Iran. At the time of the revolution, he was chief of the office of political and international affairs. Reza holds a law degree from the national university of Iran. As founder and co-chairman for life of the board of directors of the US–Azerbaijan Chamber of Commerce with James A Baker IV, Reza dedicates much of his time furthering business relations between the two countries. Reza serves alongside such directors as James Baker III, Zbigniew Brzezinski, Governor John Sununu and Henry Kissinger. Reza resides in Baku, London and Washington, DC.

Governor John Sununu

Non-executive director, age 77

Governor John Sununu received a PhD from Massachusetts Institute of Technology and taught engineering at Tufts University for 16 years. He served three terms as the Governor of New Hampshire before President George H W Bush appointed him chief of staff in 1989, a position that he held until March 1992. After his tenure as chief of staff, he co-hosted CNN's Crossfire, ran an engineering firm and then, in 2004, served as the visiting Roy M and Barbara Goodman family professor of practice in public service at the Kennedy School of Government at Harvard University. John is a former partner in Trinity International Partners, a private financial firm, and currently serves as president of JHS Associates Ltd.

Corporate governance

Introduction
Although the rules of AIM do not require the Company to comply with the United Kingdom Corporate Governance Code (the "Code"), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given both the size and resources available to the Company. The principal constituents of the Group's corporate governance are detailed below. However, this is not a statement of compliance with the Code.

The board of directors
The board of directors (the "Board") currently comprises one executive director and four non-executive directors, one of whom is the chairman. The roles of chairman and chief executive are split in line with the recommended policy.

The Board meets regularly throughout the year and receives a board pack comprising individual reports from the executive director together with any other material deemed necessary for the Board to discharge its duties. The Board also conducts telephone board meetings as issues arise which require board attention. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets and major items of expenditure. The Board sets the Group's objectives and policies and monitors the implementation by the executive team.

The Board considers two of the non-executive directors other than the chairman to be independent.

Audit committee
The Board has an audit committee which comprises Richard Round and John Sununu and is scheduled to meet at least twice a year. The external auditor attends the meetings and the chief executive and the chief financial officer are invited. It is the audit committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group.

Remuneration committee
The Board has a remuneration committee which comprises Khosrow Zamani and John Sununu and meets as required. It is the remuneration committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual directors.

Nomination committee
The Board has a nomination committee which comprises Khosrow Zamani and John Sununu. It is the role of the nomination committee to review and consider the Board structure and composition and it meets as required to consider and make recommendations on the appointment of directors to the Board.

Health, safety, environment and technology committee
The Board has a health, safety, environment and technology committee which comprises John Monhemius and Reza Vaziri and meets as required. The committee's primary function is to assist the Board in fulfilling its oversight responsibilities in the following areas:

- health, safety, environmental and technological issues relating to the Company;
- the Company's compliance with corporate policies that provide processes, procedures and standards to follow in accomplishing the Company's goals and objectives relating to health, safety and environmental issues, to ensure that the Company's operations and work practices comply as far as is practicable with the best international standards; and
- the management of risk related to health, safety, environmental and technological issues.

Shareholder relations
The Company meets with its shareholders and analysts as appropriate and encourages communication with private shareholders via the annual general meeting. In addition, the Company uses the annual report and financial statements, the interim statements and its website (www.angloasianmining.com) to provide further information to shareholders.

Internal control and risk management
The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. For each year, on behalf of the Board, the audit committee reviews the effectiveness of these systems. This is achieved primarily by considering the risks potentially affecting the Group and discussions with the external auditor.

The Group does not currently have an internal audit function due to the small size of the Group and limited resources available.

A comprehensive budgeting process is completed once a year and is reviewed by the Board and where appropriate revised forecasts are prepared and also reviewed by the Board. The Group's results, as compared against budget, are reported to the Board on a monthly basis and discussed in detail at each meeting of the Board.

The Group maintains appropriate insurance cover in respect of legal actions against the directors as well as against material loss or claims against the Group and the Board reviews the adequacy of the cover regularly.

Directors' report

year ended 31 December 2016

Annual report and financial statements

The directors present their annual report together with the audited Group financial statements on pages 28 to 56.

Principal activities

The Group's principal activity during the year was the production of gold and silver doré and precious metal concentrate from the Gedabek and Gosha mines in western Azerbaijan.

Business review and future prospects

A review of the activities of the business throughout the year and up to 24 May 2017 is set out in the chairman's statement on pages 5 and 6 and the strategic report on pages 7 to 13 which includes information on the Group's risks, uncertainties and key performance indicators. These sections are incorporated in this directors' report by reference.

Dividends

The directors do not recommend a dividend for the year (2015: $nil).

Capital structure

Details of the Company's authorised and issued share capital, together with the movements for the years ended 31 December 2015 and 2016 are disclosed in note 23 – 'Equity' to the Group financial statements. The Company has one class of ordinary share and they carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. All issued ordinary shares are fully paid.

There are no specific restrictions on the size of a holding or on the transfer of the ordinary shares, which are both governed by the general provisions of the articles of association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's ordinary shares that may result in restrictions on the transfer of securities or on voting rights.

Certain directors own ordinary shares in the Company and certain parties own 3 per cent. or more of the ordinary shares in the Company. These holdings are set out in the 'Directors' interests' and 'Substantial shareholders' sections of this directors' report. No person has any special rights of control over the Company's share capital.

There is no scheme in place for employees to acquire ordinary shares in the Company. Certain employees and directors have been granted options to acquire ordinary shares. Details of the share options granted are disclosed in note 24 – 'Share-based payment' to the Group financial statements.

With regard to the appointment and replacement of directors, the Company is governed by its articles of association, the Companies Act 2006 and related legislation. It also complies with the United Kingdom Corporate Governance Code as far as practicable. The articles of association themselves may be amended by special resolution of the shareholders. The powers of the directors are described in the corporate governance report on page 19.

Under its articles of association, the Company has authority to issue 600 million ordinary shares.

There are no agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. There are also no agreements to which the Company is a party which provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors

The directors who served throughout the year and up to 24 May 2017 are set out on page 18.

Khosrow Zamani retires by rotation at the next annual general meeting and, being eligible, offers himself for re-election.

Secretary

Fisher Secretaries Limited
Acre House
11/15 William Road
London NW1 3ER
United Kingdom

Registered office

7 Devonshire Square
Cutlers Gardens
London EC2M 4YH
United Kingdom

Registration of the Company

The Company is registered in England and Wales. Its registered number is 5227012.

Directors' interests

The beneficial interests of the directors who held office at 31 December 2016 and their connected parties in the share capital of the Company at 31 December were as follows:

	2016 Number of ordinary shares	2015 Number of ordinary shares
John Monhemius	**341,890**	341,890
Richard Round	**306,759**	306,759
John Sununu	**10,734,540**	10,734,540
Reza Vaziri	**32,796,830**	32,796,830
Khosrow Zamani	**1,259,590**	1,259,590

All directors' interests are beneficially held.

Directors' insurance

The Company has made qualifying third-party provision for the benefit of its directors during the year which remains in force at the date of this report.

Substantial shareholders

The Company has been notified of the following interests of 3 per cent. or more in its issued share capital as at 23 May 2017:

	Number of ordinary shares	Per cent.
Reza Vaziri	**32,796,830**	**29.1**
John Sununu	**10,734,540**	**9.5**
Limelight Industrial Developments	**4,038,600**	**3.6**

Going concern

The directors have prepared the Group financial statements on a going concern basis after reviewing the Group's forecast cash position for the period to 30 June 2018 and satisfying themselves that the Group will have sufficient funds on hand to realise its assets and meet its obligations as and when they fall due.

In making this assessment, the directors have acknowledged the challenging and uncertain market conditions in which the Group is operating. In 2016, the price of gold averaged $1,253 per ounce with a high of $1,366 per ounce and a low of $1,077 per ounce. The Group has substantially reduced its net debt during 2016 from $49.0 million at 1 January to $34.6 million at 31 December. However, total production is forecast to be lower in 2017 compared to 2016.

The Group commenced making payments on the principal of its debt in 2015. Until the date of this annual report, the Group has made all payments of interest and principal on time other than by advance agreement with certain banks to defer payment.

Key to achieving the Group's forecast cash position, and therefore its going concern assumption are the following:

- achieving the forecast production of gold doré from its heap and agitation leaching facilities.
- achieving its forecast production of precious metal concentrates from its SART and flotation processing.
- its metal (principally gold and copper) price assumptions being met or bettered.

The Group's cash flow forecasts assume that the newly discovered Ugur gold deposit will commence production as an open pit mine in the fourth quarter of 2017. If the start-up of the mine is delayed, the cash flow forecast will be adversely affected in the absence of any further actions being taken. In the event of a production delay from Ugur, the Group has several options to maintain production to cover any cash flow deficit including recommencing mining in the main open pit, further processing of stockpiled ores and processing underground ores from the Gadir underground mine which have been extracted ancillary to the current exploration programme.

The Group's loan agreement with the Amsterdam Trade Bank ("ATB") and Gazprombank (Switzerland) Ltd ("GPBS") contains a debt service cover ratio ("DSCR") covenant of at least 1.25. This ratio is calculated twice a year from the Group's published financial statements. The Group has received waivers of the DSCR covenant from ATB for the full year to 31 December 2016 and from ATB and GPBS for the half year to 30 June 2017. Based on current forecasts, the directors believe that the Group will be compliant with the DSCR covenant for the full year to 31 December 2017.

Should there be a moderate and sustained decrease in either the production or metal price assumptions, significant doubt would be cast over the Group's short term cash position. Under this circumstance, the Group would look to defer all non-essential capital expenditure and administrative costs in order to preserve cash. The Group also has access to local sources of short term finance to meet any shortfalls.

The Group's assumptions are neither overly aggressive or overly conservative and appropriate rigour and diligence has been performed by the directors in approving the assumptions. The directors believe all assumptions are prepared on a realistic basis using the best available information.

Directors' report continued

year ended 31 December 2016

Going concern continued

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found in the Group's annual report and accounts within the chairman's statement on pages 5 and 6 and within the strategic report on pages 7 to 13. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review. In addition, note 22 to the Group financial statements includes the Group's objectives, details of its financial instrument exposures to credit risk and liquidity risk.

After making due enquiry, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the annual report and financial statements.

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

1 so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

2 the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418(2) of the Companies Act 2006.

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

Corporate governance

A report on corporate governance is set out on page 19.

Annual general meeting

The Company will hold its annual general meeting for 2017 on 30 June 2017. Notification of the meeting has been included in this annual report.

Listing

The Company's ordinary shares have been traded on London's AIM since 29 July 2005. SP Angel Corporate Finance LLP is the Company's nominated adviser and broker. The closing mid-market share price at 30 December 2016 was 24.00p (2015: 5.5p).

Relations with shareholders

Communications with shareholders are considered important by the directors. The directors regularly speak to investors and analysts during the year. Press releases have been issued throughout the year and since the balance sheet date in relation to the progress of the Group. A website, www.angloasianmining.com, is regularly updated and contains a wide range of information about the Group.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the relevant matters affecting the performance of the Group. This is mainly achieved through informal meetings which the directors believe is the most appropriate method given the current number of Group employees.

Internal controls

The board of directors acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and for reviewing its effectiveness. The procedures which include, inter alia, financial, operational and compliance matters and risk management are reviewed on an ongoing basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The directors do not believe an internal audit function is practicable in a company of this size.

Donations

The Group has made charitable donations during the year of $nil (2015: $nil). Political donations of $nil (2015: $nil) were made.

Research and development

There was no expenditure on research and development during the year (2015: $nil).

Related party transactions

Related party transactions are disclosed in note 26 – 'Related party transactions' to the Group financial statements.

Financial risk management

The Group's operations expose it to financial risks that include liquidity risk, credit risk, foreign exchange risk and interest rate risk. The Group does not enter into any derivative transactions, and it is the Group's policy that no trading in such financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, foreign exchange risk and interest rate risk. Further details are disclosed in note 22 – 'Financial instruments' to the Group financial statements.

By order of the board of directors

Fisher Secretaries Limited
Company secretary
24 May 2017

Report on directors' remuneration

year ended 31 December 2016

Unaudited information

Policy on the executive director's remuneration

The Company operates within a competitive environment and its performance depends on the individual contributions of the directors and employees.

The executive director's remuneration package may include:

i) basic annual salary; and

ii) health insurance for the executive and his family.

The Group does not make any contribution to any pension plan of any of the directors.

The executive director's remuneration is reviewed once per year. In deciding upon appropriate levels of remuneration the remuneration committee has regard to rates of pay for similar jobs in comparable companies as well as internal factors such as performance.

Directors' contracts

The executive director currently has an employment contract which may be terminated by the Company with up to 12 months' notice. No other payments are made for compensation for loss of office.

The remuneration of the non-executive directors is determined by the board of directors within the limits set out in the articles of association. Non-executive directors currently have employment contracts which may be terminated by the director or the Company with three months' notice. No other payments are made for compensation for loss of office.

Audited information

Directors' emoluments

Amounts paid by the Group in respect of directors' services are as follows:

Year ended 31 December 2016	Consultancy $	Fees $	Benefits $	Total $
John Monhemius	**6,422**	**43,704**	**—**	**50,126**
Richard Round	**—**	**43,704**	**—**	**43,704**
John Sununu	**—**	**64,007**	**—**	**64,007**
Reza Vaziri	**586,392**	**43,704**	**40,862**	**670,958**
Khosrow Zamani	**—**	**107,801**	**—**	**107,801**
	592,814	**302,920**	**40,862**	**936,596**

Directors' fees and consultancy fees for 2016 were paid in cash.

Year ended 31 December 2015	Consultancy $	Fees $	Benefits $	Total $
John Monhemius	6,145	50,252	—	56,397
Richard Round	—	50,252	—	50,252
John Sununu	—	72,486	—	72,486
Reza Vaziri	577,597	50,252	42,283	670,132
Khosrow Zamani	—	124,446	—	124,446
	583,742	347,688	42,283	973,713

Certain fees and expenses of the directors for the year ended 31 December 2015 were settled by issuing shares to those directors. The number of shares issued, and the gross fees (before deduction of taxes) and expenses in which they were in respect of, are as follows:

Director	Number of shares issued	Fees $	Expenses $
John Monhemius	157,845	25,554	—
Richard Round	152,801	25,554	—
Khosrow Zamani	666,406	63,946	1,962

The shares were issued on 22 July 2015 at a price of 6.19p per share.

Audited information continued

Share option scheme

The Group has initiated a share option scheme for its employees. This was set up in order to reward employees for the performance of the Company on a long-term basis and to enable the Company to continue to attract a high calibre of management and operational personnel. Details of share options issued under the scheme are disclosed in note 24 – 'Share-based payment' to the Group financial statements.

Details of share options for directors who served during the year are as follows:

	Exercise price (pence)	Latest exercise date	1 January 2016	Lapsed during the year	**31 December 2016**
Khosrow Zamani	16.5	1 June 2017	100,000	—	**100,000**
	12.0	27 July 2017	500,000	—	**500,000**
Richard Round	42.5	12 April 2016	495,859	(495,859)	**—**
	12.0	27 July 2017	600,000	—	**600,000**

The Company's share price has ranged from 5.5p at 31 December 2015 to a high of 33.75p and a low of 3.875p during the year ended 31 December 2016 with a closing price of 24.00p at 30 December 2016.

By order of the board of directors

Fisher Secretaries Limited
Company secretary
24 May 2017

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the rules of AIM of the London Stock Exchange, elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The directors have also elected to prepare the financial statements of the parent company (the "Company") in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. The directors are also responsible for preparing the directors' report in accordance with the Companies Act 2006 and applicable regulations.

In the case of the Group's IFRS financial statements, the directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing the Group financial statements the directors are required to:

- select suitable accounting policies in accordance with International Accounting Standard ("IAS") 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state whether they have been prepared in accordance with IFRS;
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so; and
- make judgements and estimates that are reasonable and prudent.

In the case of the Company's UK GAAP financial statements, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting frameworks, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the strategic report and the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board of directors

Khosrow Zamani
Non-executive chairman
24 May 2017

Independent auditor's report

to the members of Anglo Asian Mining PLC

We have audited the financial statements of Anglo Asian Mining PLC for the year ended 31 December 2016 which comprise the Group income statement, Group statement of comprehensive income, Group statement of financial position, Group cash flow statement, Group statement of changes in equity, Company balance sheet and the related notes set out on pages 28 to 61. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the strategic report and directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

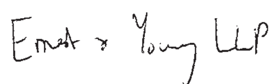
- based on the work undertaken in the course of the audit:
  - the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
  - the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 May 2017

Notes:

1. The maintenance and integrity of the Anglo Asian Mining PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

year ended 31 December 2016

	Notes	2016 $000	2015 $000
Revenue	6	**79,184**	78,057
Cost of sales	8	**(62,770)**	(75,234)
Gross profit		**16,414**	2,823
Other income	7	**1,375**	714
Administrative expenses		**(4,931)**	(5,415)
Other operating expense	7	**(1,144)**	(1,311)
Operating profit/(loss)	8	**11,714**	(3,189)
Finance costs	10	**(4,935)**	(5,721)
Profit/(loss) before tax		**6,779**	(8,910)
Income tax	11	**(2,795)**	1,529
Profit/(loss) attributable to the equity holders of the parent		**3,984**	(7,381)
Profit/(loss) per share attributable to the equity holders of the parent			
Basic (US cents per share)	12	**3.55**	(6.58)
Diluted (US cents per share)	12	**3.55**	(6.58)

Group statement of comprehensive income

year ended 31 December 2016

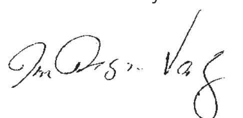
	2016 $000	2015 $000
Profit/(loss) for the year	**3,984**	(7,381)
Total comprehensive profit/(loss)	**3,984**	(7,381)
Attributable to the equity holders of the parent	**3,984**	(7,381)

Group statement of financial position

31 December 2016

	Notes	2016 $000	2015 $000
Non-current assets			
Intangible assets	13	**16,848**	18,373
Property, plant and equipment	14	**98,476**	108,428
Inventory	16	**—**	2,543
Other receivables	17	**1,084**	120
		116,408	129,464
Current assets			
Inventory	16	**34,018**	26,197
Trade and other receivables	17	**16,250**	16,131
Cash and cash equivalents	18	**1,379**	249
		51,647	42,577
Total assets		**168,055**	172,041
Current liabilities			
Trade and other payables	19	**(21,833)**	(20,112)
Interest-bearing loans and borrowings	20	**(26,165)**	(26,708)
		(47,998)	(46,820)
Net current assets/(liabilities)		**3,649**	(4,243)
Non-current liabilities			
Provision for rehabilitation	21	**(9,416)**	(8,554)
Interest-bearing loans and borrowings	20	**(9,765)**	(22,588)
Deferred tax liability	11	**(18,230)**	(15,435)
		(37,411)	(46,577)
Total liabilities		**(85,409)**	(93,397)
Net assets		**82,646**	78,644
Equity			
Share capital	23	**1,993**	1,993
Share premium account		**32,325**	32,325
Share-based payment reserve		**154**	283
Merger reserve	23	**46,206**	46,206
Retained earnings/(loss)		**1,968**	(2,163)
Total equity		**82,646**	78,644

The Group financial statements were approved by the board of directors and authorised for issue on 24 May 2017. They were signed on its behalf by:



Reza Vaziri
Chief executive

Group cash flow statement

year ended 31 December 2016

	Notes	2016 $000	2015 $000
Profit/(loss) before tax		**6,779**	(8,910)
Adjustments for:			
Finance costs	10	**4,935**	5,721
Depreciation of property, plant and equipment	14	**20,080**	19,808
Amortisation of mining rights and other intangible assets	13	**1,884**	2,049
Share-based payment expense	24	**18**	15
Shares issued in lieu of cash payment		**—**	94
Foreign exchange gain, net	7	**(138)**	(380)
Write down of advances paid	7	**353**	184
Operating cash flow before movements in working capital		**33,911**	18,581
Increase in trade and other receivables		**(2,805)**	(1,110)
(Increase)/decrease in inventories		**(5,278)**	6,285
Increase/(decrease) in trade and other payables		**3,751**	(793)
Cash provided by operations		**29,579**	22,963
Income taxes paid		**—**	—
Net cash provided by operating activities		**29,579**	22,963
Investing activities			
Expenditure on property, plant and equipment and mine development		**(10,679)**	(14,279)
Investment in exploration and evaluation assets including other intangible assets		**(359)**	(377)
Net cash used in investing activities		**(11,038)**	(14,656)
Financing activities			
Proceeds from borrowings	20	**14,083**	14,793
Repayments of borrowings	20	**(27,544)**	(18,314)
Interest paid		**(3,950)**	(4,859)
Net cash outflow used in financing activities		**(17,411)**	(8,380)
Net increase/(decrease) in cash and cash equivalents		**1,130**	(73)
Cash and cash equivalents at the beginning of the year	18	**249**	322
Cash and cash equivalents at the end of the year	18	**1,379**	249

Group statement of changes in equity

year ended 31 December 2016

	Notes	Share capital $000	Share premium $000	Share-based payment reserve $000	Merger reserve $000	Retained earnings/ (loss) $000	Total equity $000
1 January 2015		1,978	32,246	670	46,206	4,816	85,916
Loss for the year		—	—	—	—	(7,381)	(7,381)
Shares issued		15	79	—	—	—	94
Fair value of expired options		—	—	(402)	—	402	—
Share-based payment	24	—	—	15	—	—	15
31 December 2015		1,993	32,325	283	46,206	(2,163)	78,644
Profit for the year		—	—	—	—	3,984	3,984
Fair value of expired options		—	—	(147)	—	147	—
Share-based payment	24	—	—	18	—	—	18
31 December 2016		**1,993**	**32,325**	**154**	**46,206**	**1,968**	**82,646**

Notes to the Group financial statements

year ended 31 December 2016

1 General information

Anglo Asian Mining PLC (the "Company") is a company incorporated and limited by shares in England and Wales under the Companies Act 2006. The address of its registered office is set out in Company information on page 65 of this annual report. The Company's ordinary shares are traded on the AIM exchange of the London Stock Exchange. The Company is a holding company. The principal activities and place of business of the Company and its subsidiaries (the "Group") are set out in note 15, the chairman's statement on pages 5 and 6 and the strategic report on pages 7 to 13 of this annual report.

2 Basis of preparation

The Group's annual report is for the year ended 31 December 2016 and includes the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The Group financial statements have been prepared using accounting policies set out in note 4 which are consistent with all applicable IFRSs and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. For these purposes, IFRSs comprises the standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee that have been endorsed by the European Union.

The Group financial statements have been prepared under the historical cost convention except for the treatment of share-based payments. The Group financial statements are presented in United States Dollars ("$") and all values are rounded to the nearest thousand except where otherwise stated. In the Group financial statements "£" and "pence" are references to the United Kingdom pound sterling.

As set out in the directors' report on page 21, the board of directors assessed the ability of the Group to continue as a going concern and these financial statements have been prepared on a going concern basis.

The directors have prepared the Group financial statements on a going concern basis after reviewing the Group's forecast cash position for the period to 30 June 2018 and satisfying themselves that the Group will have sufficient funds on hand to realise its assets and meet its obligations as and when they fall due.

In making this assessment, the directors have acknowledged the challenging and uncertain market conditions in which the Group is operating. In 2016, the price of gold averaged $1,253 per ounce with a high of $1,366 per ounce and a low of $1,077 per ounce. The Group has substantially reduced its net debt during 2016 from $49.0 million at 1 January to $34.6 million at 31 December. However, total production is forecast to be lower in 2017 compared to 2016.

The Group commenced making payments on the principal of its debt in 2015. Until the date of this annual report, the Group has made all payments of interest and principal on time other than by advance agreement with certain banks to defer payment.

Key to achieving the Group's forecast cash position, and therefore its going concern assumption are the following:

- achieving the forecast production of gold doré from its heap and agitation leaching facilities.
- achieving its forecast production of precious metal concentrates from its SART and flotation processing.
- its metal (principally gold and copper) price assumptions being met or bettered.

The Group's cash flow forecasts assume that the newly discovered Ugur gold deposit will commence production as an open pit mine in the fourth quarter of 2017. If the start-up of the mine is delayed, the cash flow forecast will be adversely affected in the absence of any further actions being taken. In the event of a production delay from Ugur, the Group has several options to maintain production to cover any cash flow deficit including recommencing mining in the main open pit, further processing of stockpiled ores and processing underground ores from the Gadir underground mine which have been extracted ancillary to the current exploration programme.

The Group's loan agreement with the Amsterdam Trade Bank ("ATB") and Gazprombank (Switzerland) Ltd ("GPBS") contains a debt service cover ratio ("DSCR") covenant of at least 1.25. This ratio is calculated twice a year from the Group's published financial statements. The Group has received waivers of the DSCR covenant from ATB for the full year to 31 December 2016 and from ATB and GPBS for the half year to 30 June 2017. Based on current forecasts, the directors believe that the Group will be compliant with the DSCR covenant for the full year to 31 December 2017.

Should there be a moderate and sustained decrease in either the production or metal price assumptions, significant doubt would be cast over the Group's short term cash position. Under this circumstance, the Group would look to defer all non-essential capital expenditure and administrative costs in order to preserve cash. The Group also has access to local sources of short term finance to meet any shortfalls.

The Group's assumptions are neither overly aggressive or overly conservative and appropriate rigour and diligence has been performed by the directors in approving the assumptions. The directors believe all assumptions are prepared on a realistic basis using the best available information.

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found in the Group's annual report and accounts within the chairman's statement on pages 5 and 6 and within the strategic report on pages 7 to 13. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review. In addition, note 22 to the Group financial statements includes the Group's objectives, details of its financial instrument exposures to credit risk and liquidity risk.

2 Basis of preparation continued

After making due enquiry, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the annual report and financial statements.

3 Adoption of new and revised standards

a) New and amended standards and interpretations

The Group applied those minor amendments, including annual improvements, which are effective for annual periods beginning on or after 1 January 2016. However, they do not impact the annual consolidated financial statements of the Group or the interim financial statements and, hence, have not been disclosed.

b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date are disclosed below. The Group intends to adopt these standards when they become effective. The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements that are not expected to impact the Group have not been listed below.

- **IFRS 9 'Financial Instruments'**
  In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' that replaces IAS 39 and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Group plans to adopt the new standard on the required effective date. The Group is assessing the impact of the changes required by the final version of IFRS 9, but these are not expected to be materially significant.

- **IFRS 15 'Revenue from Contracts with Customers'**
  IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

  The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is assessing the impact of the changes of IFRS 15, but these are not expected to be materially significant.

- **IAS 7 'Statement of Cash Flows'**
  The amendments to IAS 7 'Statement of Cash Flows' are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group plans to implement the new standard on the effective date for implementation which is for annual periods beginning on or after 1 January 2017. Comparative information for preceding annual periods is not required to be restated. The Group does not expect these additional disclosures to be materially significant.

- **IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12'**
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount.

  These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

3 Adoption of new and revised standards continued

b) Standards issued but not yet effective continued

- **IFRS 16 'Leases'**

  IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease,' SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease.' IFRS 16 sets out the principles for the recognition measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

  IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

  IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements. However, as disclosed in note 25, the Group has no significant leases.

4 Significant accounting policies

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. 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; and
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

4 Significant accounting policies continued

4.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred to the buyer.

The following criteria are also met in specific revenue transactions:

i) Gold bullion and copper concentrate sales

Revenue from gold bullion sales is recognised when the significant risks and rewards of ownership have transferred to the buyer and selling prices and assay results are known or can be reasonably estimated. Assay results determine the content of gold and silver in doré, the price of which is determined based on market quotations of each metal. Silver in doré, which is produced together with gold, is treated as a by-product and recognised in sales revenue.

Contractual terms for the Group's sale of gold, silver and copper in concentrate (metal in concentrate) allow for a price adjustment based on final assay results of the metal in concentrate to determine the final content. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the spot price at the date of shipment, with a subsequent adjustment made upon final determination.

Contractual terms with third parties for the sale of metal in concentrate specify a provisional selling price based on the average prevailing spot prices at date of shipment to the customer. Final selling price is based on average prevailing spot prices during a specified future period after shipment to the customer (the "quotation period"). Sales revenue for the sale of metal in concentrate is recognised at final selling price.

ii) Interest revenue

Interest revenue is recognised as it accrues, using the effective interest rate method.

4.3 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the Group income statement on a straight line basis over the lease term.

The Group had no finance leases during 2016 and 2015.

4.4 Taxation

i) Current and deferred income taxes

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Group financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax assets and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised in the Group income statement is charged or credited in the Group income statement. Deferred tax relating to items recognised outside the Group income statement is recognised outside the Group income statement and items are recognised in correlation to the underlying transaction either in the Group statement of comprehensive income or directly in equity.

Deferred tax assets are not recognised in respect of temporary differences relating to tax losses where there is insufficient evidence that the asset will be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Group income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

The tax expense represents the sum of the tax currently payable and deferred tax.

ii) Value-added taxes ("VAT")

The Group pays VAT on purchases made in both the Republic of Azerbaijan and the United Kingdom. Under both jurisdictions, VAT paid is refundable. Azerbaijani jurisdiction permits offset of an Azerbaijani VAT credit against other taxes payable to the state budget.

4 Significant accounting policies continued

4.5 Transactions with related parties

For the purposes of these Group financial statements, the following parties are considered to be related:

- where one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions;
- entities under common control; and
- key management personnel.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

4.6 Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are considered substantially ready for their intended use, i.e. when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the Group income statement in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the 'probable economic benefits' test. Any related borrowing costs are therefore generally recognised in the Group income statement in the period they are incurred.

4.7 Intangible assets

i) Exploration and evaluation assets

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalised as intangible assets as part of exploration and evaluation assets.

Exploration and evaluation assets are carried forward during the exploration and evaluation stage and are assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the period. No amortisation is charged prior to the commencement of production.

Once commercially viable reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to assets under construction.

Upon transfer of exploration and evaluation costs into assets under construction, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within assets under construction.

When commercial production commences, exploration, evaluation and development costs previously capitalised are amortised over the commercial reserves of the mining property on a units-of-production basis.

Exploration and evaluation costs incurred after commercial production start date in relation to evaluation of potential mineral reserves and resources that is expected to result in increase of reserves are capitalised as evaluation and exploration assets within intangible assets. Once there is evidence that reserves are increased, such costs are tested for impairment and transferred to producing mines.

ii) Mining rights

Mining rights are carried at cost to the Group less any provisions for impairments which result from evaluations and assessments of potential mineral recoveries and accumulated depletion. Mining rights are depleted on the units-of-production basis over the total reserves of the relevant area.

4 Significant accounting policies continued

4.7 Intangible assets continued

iii) Other intangible assets

Other intangible assets are mainly the costs of agricultural compensation paid to landowners for the use of land ancillary to the Group's mining operations. These costs are depreciated over the respective terms of right to use the land.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Group income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Group income statement when the asset is derecognised.

4.8 Property, plant and equipment and mine properties

Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase.

Upon completion of mine construction, the assets initially charged to assets in the course of construction are transferred into 'Plant and equipment, motor vehicles and leasehold improvements' or 'Producing mines'. Items of 'Plant and equipment, motor vehicles and leasehold improvements' and 'Producing mines' are stated at cost, less accumulated depreciation and accumulated impairment losses.

During the production period expenditures directly attributable to the construction of each individual asset are capitalised as 'Assets under construction' up to the period when the asset is ready to be put into operation. When an asset is put into operation it is transferred to 'Plant and equipment, motor vehicles and leasehold improvements' or 'Producing mines'. Additional capitalised costs performed subsequent to the date of commencement of operation of the asset are charged directly to 'Plant and equipment, motor vehicles and leasehold improvements' or 'Producing mines', i.e. where the asset itself was transferred.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development.

i) Depreciation and amortisation

Accumulated mine development costs within producing mines are depreciated and amortised on a units-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight line method is applied. The unit of account for run of mine ("ROM") costs and for post-ROM costs is recoverable ounces of gold. The units-of-production rate for the depreciation and amortisation of mine development costs takes into account expenditures incurred to date.

The premium paid in excess of the intrinsic value of land to gain access is amortised over the life of the mine on a units-of-production basis.

Other plant and equipment such as mobile mine equipment is generally depreciated on a straight line basis over their estimated useful lives as follows:

- Temporary buildings – eight years (2015: eight years)
- Plant and equipment – eight years (2015: eight years)
- Motor vehicles – four years (2015: four years)
- Office equipment – four years (2015: four years)
- Leasehold improvements – eight years (2015: eight years)

An item of property, plant and equipment, and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Group income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation and amortisation are reviewed at each reporting date and adjusted prospectively if appropriate.

4 Significant accounting policies continued

4.8 Property, plant and equipment and mine properties continued

ii) Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, the expenditure is capitalised.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

4.9 Impairment of tangible and intangible assets

The Group conducts annual internal assessments of the carrying values of tangible and intangible assets. The carrying values of capitalised exploration and evaluation expenditure, mine properties and property, plant and equipment are assessed for impairment when indicators of such impairment exist or at least annually. In such cases an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash-generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Group evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the Group income statement so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less cost to sell and value in use).

Impairment losses related to continuing operations are recognised in the Group income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding the intangibles referred to above, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Group statement of comprehensive income. Impairment losses recognised in relation to indefinite life intangibles are not reversed for subsequent increases in its recoverable amount.

4.10 Fair value measurement

The Group measures financial instruments such as bank borrowings at fair value at each balance sheet date. Fair value disclosures for financial instruments measured at fair value, or where fair value is disclosed, are summarised in the following notes:

- Note 17 – 'Trade and other receivables';
- Note 18 – 'Cash and cash equivalents';
- Note 19 – 'Trade and other payables'; and
- Note 20 – 'Interest-bearing loans and borrowings'.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal marketplace for the asset or the liability; or
- in the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the unobservable inputs.

4 Significant accounting policies continued

4.10 Fair value measurement continued

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a reoccurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as set out above.

4.11 Provisions

i) General

Provisions are recognised when (a) the Group has a present obligation (legal or constructive) as a result of a past event and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a risk-free rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

ii) Rehabilitation provision

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

The obligation generally arises when the asset is installed or the ground or environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in the Group income statement as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the Group income statement.

If the change in estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the asset, the Group is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36. If, for mature mines, the revised mine assets net of rehabilitation provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

For closed sites, changes to estimated costs are recognised immediately in the Group income statement. Rehabilitation obligations that arise as a result of the standard production activities of a mine are expensed as incurred.

4.12 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a) Financial assets

i) Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits and trade and other receivables.

4 Significant accounting policies continued

4.12 Financial instruments – initial recognition and subsequent measurement continued

a) **Financial assets** continued

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

- financial assets at fair value through profit and loss;
- loans and receivables;
- held-to-maturity investments; and
- available for sale financial assets.

The only category of financial assets of the Group is currently loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance income in the Group income statement. The losses arising from impairment are recognised in the Group income statement.

iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset) is derecognised when:

- the rights to receive cash flows from the asset have expired; and
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

iv) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

v) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

b) **Financial liabilities**

i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities include trade and other payables, contractual provisions and loans and borrowings.

ii) Subsequent measurement

The measurement of financial liabilities depends on their classification:

Trade and other payables and contractual provisions

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

4 Significant accounting policies continued

4.12 Financial instruments – initial recognition and subsequent measurement continued

b) Financial liabilities continued

ii) Subsequent measurement continued

Loans and borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the Group income statement using the effective interest method. They are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Group income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance costs in the Group income statement.

iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the Group income statement.

c) Derivative financial instruments

The Group uses derivative financial instruments such as forward commodity and option contracts to hedge its commodity price risks. Such contracts are not designated as hedges or accounted for as such in accordance with IAS 39. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are accounted for as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivative financial instruments are included in the Group income statement.

4.13 Trade and other receivables

The Group presents trade and other receivables in the statement of financial position based on a current or non-current classification. A trade and other receivable is classified as current as follows:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading; and
- expected to be realised within 12 months after the date of the statement of financial position.

Gold bullion held on behalf of the Government of Azerbaijan is classified as a current asset and valued at the current market price of gold at the statement of financial position date. A current liability of equal amount representing the liability of the gold bullion to the Government of Azerbaijan is also established.

Advances made to suppliers for fixed asset purchases are recognised as non-current prepayments until the fixed asset is delivered when they are capitalised as part of the cost of the fixed asset.

4.14 Inventories

Metal in circuit consists of in-circuit material at properties with milling or processing operations and doré awaiting refinement, all valued at the lower of average cost and net realisable value. In-process inventory costs consist of direct production costs (including mining, crushing and processing and site administration costs) and allocated indirect costs (including depreciation, depletion and amortisation of producing mines and mining interests).

Ore stockpiles consist of stockpiled ore, ore on surface and crushed ore, all valued at the lower of average cost and net realisable value. Ore stockpile costs consist of direct production costs (including mining, crushing and site administration costs) and allocated indirect costs (including depreciation, depletion and amortisation of producing mines and mining interests).

Inventory costs are charged to operations on the basis of ounces of gold sold. The Group regularly evaluates and refines estimates used in determining the costs charged to operations and costs absorbed into inventory carrying values based upon actual gold recoveries and operating plans.

Finished goods consist of doré bars that have been refined and assayed and are in a form that allows them to be sold on international bullion markets and metal in concentrate. Finished goods are valued at the lower of average cost and net realisable value. Finished goods costs consist of direct production costs (including mining, crushing and processing; site administration costs; and allocated indirect costs, including depreciation, depletion and amortisation of producing mines and mining interests).

Spare parts and consumables consist of consumables used in operations, such as fuel, chemicals, reagents and spare parts, valued at the lower of average cost and replacement cost and, where appropriate, less a provision for obsolescence.

4 Significant accounting policies continued

4.15 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, or value of services received net of any issue costs.

4.16 Deferred stripping costs

The removal of overburden and other mine waste materials is often necessary during the initial development of a mine site, in order to access the mineral ore deposit. The directly attributable cost of this activity is capitalised in full within mining properties and leases, until the point at which the mine is considered to be capable of commercial production. This is classified as expansionary capital expenditure, within investing cash flows.

The removal of waste material after the point at which a mine is capable of commercial production is referred to as production stripping.

When the waste removal activity improves access to ore extracted in the current period, the costs of production stripping are accounted for as part of the cost of producing those inventories.

Where production stripping activity both produces inventory and improves access to ore in future periods the associated costs of waste removal are allocated between the two elements. The portion which benefits future ore extraction is capitalised as deferred stripping capital expenditure within producing mines. If the amount to be capitalised cannot be specifically identified it is determined based on the volume of waste extracted compared with expected volume for the identified component of the ore body. Components are specific volumes of a mine's ore body that are determined by reference to the life of mine plan.

In certain instances significant levels of waste removal may occur during the production phase with little or no associated production.

All amounts capitalised in respect of waste removal are depreciated using the unit-of-production method based on the ore reserves of the component of the ore body to which they relate.

The effects of changes to the life of mine plan on the expected cost of waste removal or remaining reserves for a component are accounted for prospectively as a change in estimate.

4.17 Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and accrued but unused annual leave, are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

4.18 Retirement benefit costs

The Group does not operate a pension scheme for the benefit of its employees but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the Group income statement.

4.19 Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payment'. IFRS 2 has been applied to all grants of equity instruments.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been calculated using management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The vesting condition assumptions are reviewed during each reporting period to ensure they reflect current expectations.

4.20 Significant accounting judgements, estimates and assumptions

The preparation of the Group financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Group financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously 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. However, actual outcomes can differ from these estimates. In particular, information about significant areas of estimation uncertainty considered by management in preparing the Group financial statements is described below.

i) Ore reserves and resources

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources, based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body and requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation and depreciation and amortisation charges.

4 Significant accounting policies continued

4.20 Significant accounting judgements, estimates and assumptions continued

ii) Exploration and evaluation expenditure (note 13)

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee ("JORC") resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the Group income statement in the period when the new information becomes available.

iii) Inventory (note 16)

Net realisable value tests are performed at least annually and represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting date, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

The ounces of gold sold are compared to the remaining reserves of gold for the purpose of charging inventory costs to operations.

iv) Impairment of tangible and intangible assets (notes 13 and 14)

The assessment of tangible and intangible assets for any internal and external indications of impairment involves judgement. Each reporting period, the Group assesses whether there are indicators of impairment; if indicated then a formal estimate of the recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use. Determining whether the projects are impaired requires an estimation of the recoverable value of the individual areas to which value has been ascribed. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the projects and a suitable discount rate in order to calculate present value.

v) Production start date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and is reclassified from assets under construction to producing mines and property, plant and equipment. Some of the criteria will include, but are not limited to, the following:

- the level of capital expenditure compared to the construction cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce metal in saleable form (within specifications); and
- ability to sustain ongoing production of metal.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. This is also the point at which the depreciation/amortisation recognition commences.

vi) Mine rehabilitation provision (note 21)

The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the Group statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 'Property, Plant and Equipment'.

vii) Recovery of deferred tax assets (note 11)

Judgement is required in determining whether deferred tax assets are recognised within the Group statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Notes to the Group financial statements continued
year ended 31 December 2016

5 Segment information

The Group determines operating segments based on the information that is internally provided to the Group's chief operating decision maker. The chief operating decision maker has been identified as the board of directors. The board of directors currently considers consolidated financial information for the entire Group and reviews the business based on the Group income statement and Group statement of financial position on this basis. Accordingly, the Group has only one operating segment, mining operations. The mining operations comprise the Group's major producing asset, the Gedabek mine, which accounts for all the Group's revenues and the majority of its cost of sales, depreciation and amortisation. The Group's mining operations are all located within Azerbaijan and therefore all within one geographic segment.

All sales of gold and silver bullion are made to one customer, the Group's gold refinery, MKS Finance SA, based in Switzerland. Copper concentrate is sold to Industrial Minerals SA.

6 Revenue

The Group's revenue consists of gold and silver bullion and copper concentrate sold to third-party customers. Revenue from sales of gold and silver bullion was $66,766,000 and $164,000 respectively (2015: $74,221,000 and $58,000). Revenue from sales of precious metal concentrate was $12,254,000 (2015: $3,778,000).

7 Other income and operating expense

Other income

Other income comprises loan interest receivable in respect of a loan to a former employee, release of provisions no longer required and foreign exchange gains for the years ended 31 December 2015 and 2016. Foreign exchange gain for the year ended 31 December 2016 was $138,000 (2015: $629,000).

Other operating expense

Other operating expense comprises metal refining costs, foreign currency exchange losses, write down of advances paid and other miscellaneous operating expenses for the years ended 31 December 2015 and 2016.

8 Operating profit/(loss)

	Notes	2016 $000	2015 $000
Operating profit/(loss) is stated after charging:			
Depreciation on property, plant and equipment – owned	14	**20,080**	19,808
Amortisation of mining rights and other intangible assets	13	**1,884**	2,049
Employee benefits and expenses	9	**7,471**	9,614
Foreign currency exchange gain		**138**	629
Inventory expensed during the year		**28,520**	35,592
Operating lease expenses		**730**	616
Fees payable to the Company's auditor for:			
The audit of the Group's annual accounts		**132**	138
The audit of the Group's subsidiaries pursuant to legislation		**114**	119
Audit related assurance services – half year review		**2**	—
Total audit services		**248**	257
Amounts paid to auditor for other services:			
Tax compliance services		**9**	10
Total non-audit services		**9**	10
Total		**257**	267

There were no non-cancellable operating lease and sublease arrangements during 2016 and 2015.

The audit fees for the parent company were $107,000 (2015: $107,000).

9 Staff numbers and costs

The average number of staff employed by the Group (including directors) during the year, analysed by category, was as follows:

	2016 Number	2015 Number
Management and administration	**51**	51
Exploration	**20**	19
Mine operations	**580**	545
	651	615

9 Staff numbers and costs continued

The aggregate payroll costs of these persons were as follows:

	2016 $000	2015 $000
Wages and salaries	**6,109**	8,172
Share-based payments	**18**	15
Social security costs	**1,343**	1,609
	7,470	9,796
Less: salary costs capitalised as exploration, evaluation, development, fixed asset and inventory expenditure	**—**	(182)
	7,470	9,614

Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate:

	2016 $	2015 $
Short-term employee benefits	**1,750,094**	1,541,245
Share-based payment	**18,705**	109,658
	1,768,799	1,650,903

The key management personnel of the Group comprise the chief executive officer, the vice president of government affairs, the senior vice president, Azerbaijan International Mining Company Limited, the vice president of technical services, the director of geology and the chief financial officer. The disclosure of the remuneration of the directors as required by the Companies Act 2006 is given in the report on directors' remuneration on pages 24 and 25.

10 Finance costs

	2016 $000	2015 $000
Interest charged on interest-bearing loans and borrowings	**4,344**	5,177
Finance charges on letters of credit	**98**	130
Unwinding of discount on provisions	**493**	414
	4,935	5,721

Interest on interest-bearing loans and borrowings represents charges incurred on those credit facilities as set out in note 20 – "Interest-bearing loans and borrowings".

Where a portion of the loans has been used to finance the construction and purchase of assets of the Group ('qualifying assets'), the interest on that portion of the loans has been capitalised up until the time the assets were substantially ready for use. For the year ended 31 December 2016, $nil (2015: $nil) interest was capitalised.

11 Taxation

Corporation tax is calculated at 32 per cent. (as stipulated in the production sharing agreement for R.V. Investment Group Services LLC ("RVIG") in the Republic of Azerbaijan, the entity that contributes the most significant portion of profit or loss before tax in the Group financial statements) of the estimated assessable profit or loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Deferred income taxes arising in RVIG are recognised and fully disclosed in these Group financial statements. RVIG's unutilised tax losses at 31 December 2016 were $19,162,000 (2015: $27,990,000).

The major components of the income tax (charge)/credit for the year ended 31 December are:

	2016 $000	2015 $000
Current income tax		
Current income tax charge	**—**	—
Deferred tax		
(Charge)/credit relating to origination and reversal of temporary differences	**(2,795)**	1,529
Income tax (charge)/credit for the year	**(2,795)**	1,529

11 Taxation continued

Deferred income tax at 31 December relates to the following:

	Statement of financial position		Income statement	
	2016 $000	2015 $000	2016 $000	2015 $000
Deferred income tax liability				
Property, plant and equipment – accelerated depreciation	**(19,453)**	(20,791)	**1,338**	(538)
Non-current prepayments	**(347)**	(158)	**(189)**	260
Trade and other receivables	**(1,466)**	(694)	**(772)**	(334)
Inventories	**(9,447)**	(7,759)	**(1,688)**	2,011
Deferred income tax liability	**(30,713)**	(29,402)		
Deferred income tax asset				
Trade and other payables and provisions*	**3,489**	2,298	**1,191**	(654)
Asset retirement obligation*	**3,013**	2,737	**276**	(23)
Interest-bearing loans and borrowings*	**(151)**	(25)	**(126)**	(186)
Carry forward losses**	**6,132**	8,957	**(2,825)**	993
Deferred income tax asset	**12,483**	13,967		
Deferred income tax (charge)/credit			**(2,795)**	1,529
Net deferred income tax liability	**(18,230)**	(15,435)		

* Deferred income tax assets have been recognised for the trade and other payables and provisions, asset retirement obligation and interest-bearing loans and borrowings based on local tax basis differences expected to be utilised against future taxable profits.

** Deferred income tax assets have been recognised for the carry forward of unused tax losses to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses can be utilised. The probability that taxable profits will be available in the future is based on forward looking budgets and business plans of the Group.

A reconciliation between the accounting profit/(loss) and the total taxation charge/(credit) for the years ended 31 December is as follows:

	2016 $000	2015 $000
Profit/(loss) before tax	**6,779**	(8,910)
Theoretical tax charge/(credit) at statutory rate of 32 per cent. for RVIG*	**2,169**	(2,851)
Effects of different tax rates for certain Group entities (20 per cent.)	**127**	173
Tax effect of items which are not deductible or assessable for taxation purposes:		
– losses in jurisdictions that are exempt from taxation	**2**	1
– non-deductible expenses	**867**	1,175
– non-taxable income	**(370)**	(27)
Income tax charge/(credit) for the year	**2,795**	(1,529)

* This is the local tax rate applicable in accordance with local legislation.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax assets and liabilities have been offset for deferred taxes recognised for RVIG since there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority. The Group intends to settle its current tax assets and liabilities on a net basis in the Republic of Azerbaijan.

At 31 December 2016, the Group had unused tax losses available for offset against future profits of $22,877,000 (2015: $30,762,000). Unused tax losses in the Republic of Azerbaijan at 31 December 2016 were $19,162,000 (2015: $27,990,000). No deferred tax assets have been recognised in respect of jurisdictions other than the Republic of Azerbaijan due to the uncertainty of future profit streams.

12 Profit/(loss) per share

The calculation of basic and diluted profit per share is based upon the retained profit for the financial year of $3,984,000 (2015: loss of $7,381,000).

The weighted average number of ordinary shares for calculating the basic profit (2015: loss) and diluted profit (2015: loss) per share after adjusting for the effects of all dilutive ordinary shares relating to share options are as follows:

	2016	2015
Basic	**112,117,622**	112,117,622
Diluted	**112,295,664**	112,117,622

At 31 December 2016 there were 1,100,000 unexercised share options that could potentially dilute basic earnings per share (2015: nil).

13 Intangible assets

	Exploration and evaluation Gedabek $000	Exploration and evaluation Ordubad $000	Mining rights $000	Other intangible assets $000	Total $000
Cost					
1 January 2015	—	3,513	41,925	468	45,906
Additions	—	347	—	30	377
31 December 2015	—	3,860	41,925	498	46,283
Additions	191	168	—	—	359
31 December 2016	**191**	**4,028**	**41,925**	**498**	**46,642**
Amortisation and impairment*					
1 January 2015	—	—	25,606	255	25,861
Charge for the year	—	—	2,020	29	2,049
31 December 2015	—	—	27,626	284	27,910
Charge for the year	—	—	1,843	41	1,884
31 December 2016	**—**	**—**	**29,469**	**325**	**29,794**
Net book value					
31 December 2015	—	3,860	14,299	214	18,373
31 December 2016	**191**	**4,028**	**12,456**	**173**	**16,848**

* 507,000 ounces of gold at 1 January 2016 were used to determine depreciation of producing mines, mining rights and other intangible assets (2015: 579,000 ounces).

14 Property, plant and equipment

	Plant and equipment and motor vehicles $000	Producing mines $000	Assets under construction $000	Total $000
Cost				
1 January 2015	19,409	159,898	2,093	181,400
Additions	257	6,810	7,222	14,289
Transfer to producing mines	—	8,838	(8,838)	—
Increase in provision for rehabilitation	—	(484)	—	(484)
31 December 2015	19,666	175,062	477	195,205
Additions	1,799	4,404	3,556	9,759
Transfer to producing mines	—	3,598	(3,598)	—
Decrease in provision for rehabilitation	—	369	—	369
31 December 2016	**21,465**	**183,433**	**435**	**205,333**
Depreciation and impairment*				
1 January 2015	10,761	56,208	—	66,969
Charge for the year	1,881	17,927	—	19,808
31 December 2015	12,642	74,135	—	86,777
Charge for the year	2,014	18,066	—	20,080
31 December 2016	**14,656**	**92,201**	**—**	**106,857**
Net book value				
31 December 2015	7,024	100,927	477	108,428
31 December 2016	**6,809**	**91,232**	**435**	**98,476**

* 507,000 ounces of gold at 1 January 2016 were used to determine depreciation of producing mines, mining rights and other intangible assets (2015: 579,000 ounces).

14 Property, plant and equipment continued

Upon completion of construction and commencement of operation, SAG mill construction costs of $1,500,000 and electricity substation construction costs of $2,098,000, were transferred to the category of producing mines.

As a result of the recoverable amount analysis performed during the year, no impairment losses were recognised by the Group.

The capital commitments by the Group have been disclosed in note 25.

The Group performs an impairment analysis at each balance sheet date to ascertain that the carrying value of the Group's property plant and equipment is in excess of its fair value less cost to dispose ("FVLCD"). The determination of FVLCD is most sensitive to the following key assumptions:

- production volumes;
- commodity prices;
- discount rates;
- foreign exchange rates; and
- capital and operating costs.

Production volumes: In calculating the FVLCD, the production volumes incorporated into the cash flow models were 453,000 ounces of gold and 58,000 tonnes of copper. Estimated production volumes are based on detailed life of mine plans. Production volumes are dependent on a number of variables such as the recoverable quantities, the cost of the necessary infrastructure to recover the reserves, the production costs, the contractual duration of the mining rights and the selling prices of the quantities extracted. These production volumes are based on the mine being operational until the end of 2027.

Commodity prices: Forecast precious metal and commodity prices are based on management estimates. Estimated long-term gold prices of between $1,400 and $1,535 per ounce (2015: $1,284 per ounce) and estimated long-term copper prices of between $6,146 and $6,739 per tonne (2015: $6,600 per tonne) have been used to estimate future revenue.

Discount rates: In calculating the FVLCD, a post-tax discount rate of 10.53 per cent. (2015: 13.5 per cent.) was applied to the post-tax cash flows expressed in real terms. This discount rate is derived from the Group's post-tax weighted average cost of capital ("WACC"), which takes into account both equity and debt, and is then adjusted to reflect the Group's assessment of a discount rate that other market participants would consider when evaluating the assets.

Foreign exchange rates: The only significant foreign exchange rate in the cash flow model is the United States Dollar to Azerbaijan Manat rate. A rate of $1 equals 1.84 Manat (2015: $1 equals 1.55 Manat) has been used in the cash flow model.

Capital and operating costs: In calculating the cash flow model, the significant capital and operating costs are the additional future capital cost to be incurred over the life of the mine of $459 million and the cash cost per ounce of producing gold. Cash costs per ounce of producing gold were used of $650 to $750 per ounce.

Management believes that, other than the volume of gold production, there are no changes which are reasonably possible in any of the other assumptions discussed above, which would lead to impairment. At 31 December 2016, the recoverable amount of the Group's assets exceeded its carrying amount by $29 million. It is estimated that a 10 per cent. reduction in gold production and copper production, after incorporating any consequential effects of changes on the other variables used to measure the recoverable amount, would result in the recoverable amount of the Group's assets still exceeding its carrying amount by approximately $8 million.

15 Subsidiary undertakings

Anglo Asian Mining PLC is the parent and ultimate parent of the Group.

The Company's subsidiaries included in the Group financial statements at 31 December 2016 are as follows:

Name	Registered address*	Primary place of business	Percentage of holding per cent.
Anglo Asian Operations Limited	England and Wales	United Kingdom	100
Holance Holdings Limited	British Virgin Islands	Azerbaijan	100
Anglo Asian Cayman Limited	Cayman Islands	Azerbaijan	100
R.V. Investment Group Services LLC	Delaware, USA	Azerbaijan	100
Azerbaijan International Mining Company Limited	Cayman Islands	Azerbaijan	100

There has been no change in subsidiary undertakings since 1 January 2016.

* see note 5 – "Subsidiaries" of notes to the Company financial statements.

16 Inventory

Non-current assets	2016 $000	2015 $000
Cost		
Ore stockpiles	—	2,543

Current assets	2016 $000	2015 $000
Cost		
Finished goods – bullion	**903**	1,441
Finished goods – metal in concentrate	**240**	203
Metal in circuit	**12,119**	11,899
Ore stockpiles	**9,784**	4,635
Spare parts and consumables	**10,972**	8,019
Total current inventories	**34,018**	26,197
Total inventories at the lower of cost and net realisable value	**34,018**	28,740

The Group has capitalised mining costs related to high grade sulphide ore stockpiled during the year. Such stockpiles are expected to be utilised as part of flotation processing. Inventory is recognised at the lower of cost or net realisable value.

17 Trade and other receivables

Non-current assets	2016 $000	2015 $000
Advances for fixed asset purchases	**989**	—
Loans	**95**	120
	1,084	120

Current assets	2016 $000	2015 $000
Gold held due to the Government of Azerbaijan	**10,078**	12,412
VAT refund due	**339**	186
Other tax receivable	**926**	720
Trade receivables	**639**	642
Prepayments and advances	**4,218**	2,121
Loans	**50**	50
	16,250	16,131

The carrying amount of trade and other receivables approximates to their fair value.

The VAT refund due at 31 December 2016 and 2015 relates to VAT paid on purchases.

Gold bullion held and transferable to the Government is bullion held by the Group due to the Government of Azerbaijan. The Group holds the Government's share of the product from its mining activities and from time to time transfers that product to the Government. A corresponding liability to the Government is included in trade and other payables as disclosed in note 19.

The Group does not consider any stated trade and other receivables as past due or impaired.

18 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and held by the Group within financial institutions that are available immediately. The carrying amount of these assets approximates their fair value.

The Group's cash on hand and cash held within financial institutions at 31 December 2016 (including short-term cash deposits) comprised $118,000 and $1,261,000, respectively (2015: $98,000 and $151,000).

The Group's cash and cash equivalents are mostly held in United States Dollars.

19 Trade and other payables

	2016 $000	2015 $000
Accruals and other payables	**3,111**	4,861
Trade creditors	**7,815**	2,302
Gold held due to the Government of Azerbaijan	**10,078**	12,412
Payable to the Government of Azerbaijan from copper concentrate joint sale	**829**	537
	21,833	20,112

Trade creditors primarily comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest bearing and the creditor days were 42 (2015: 11). Accruals and other payables mainly consist of accruals made for accrued but not paid salaries, bonuses, related payroll taxes and social contributions, accrued interest on borrowings, and services provided but not billed to the Group by the end of the reporting period. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

The amount payable to the Government of Azerbaijan from copper concentrate joint sale represents the portion of cash received from the customer for the Government's portion from the joint sale of copper concentrate.

20 Interest-bearing loans and borrowings

	2016 $000	2015 $000
International Bank of Azerbaijan – agitation leaching plant loan	**5,385**	10,209
International Bank of Azerbaijan – loan facilities	**970**	1,500
Amsterdam Trade Bank	**17,307**	27,096
Atlas Copco	**801**	355
Yapi Kredi Bank	**672**	1,659
Pasha Bank – letters of credit	**—**	4,617
Pasha Bank – loans	**5,935**	—
Kapital Bank	**1,000**	—
Director	**3,860**	3,860
	35,930	49,296
Loans repayable in less than one year	**26,165**	26,708
Loans repayable in more than one year	**9,765**	22,588
	35,930	49,296

The directors consider that the carrying amount of interest-bearing loans and borrowings approximates to their fair value.

International Bank of Azerbaijan ("IBA")

Agitation leaching plant loan

In 2012 and 2013, the Group borrowed $49.5 million under a series of loan agreements to finance the construction of its agitation leaching plant. The annual interest rate for each agreement is 12 per cent. The repayment of principal begins two years from the withdrawal date for each agreement. The loans were partially repaid by the proceeds of a refinancing loan from Amsterdam Trade Bank. The loans are repayable commencing from 31 March 2015 and finishing on 30 June 2018. The total gross amount outstanding under the loan agreements at 31 December 2016 was $5.4 million (31 December 2015: $10.2 million).

Loan facilities

During 2014, the Group entered into a credit facility for $1.5 million for a period of one year at an annual interest rate of 12 per cent. The repayment date of the credit facility was extended in 2015 and the loan was repaid in 2016.

In 2016, the Group entered into two further credit facilities with IBA:

- AZN1 million at an annual interest rate of 18 per cent. The interest and principal are repayable on a reducing balance basis in 12 equal monthly instalments of AZN92,000 and the final instalment is payable in January 2017.
- $1.5 million at an annual interest rate of 12 per cent. The interest and principal are repayable on a reducing balance basis in 24 equal monthly instalments of $71,000 and the final instalment is payable in February 2018.

Amsterdam Trade Bank ("ATB")

During 2013, the Group entered into a loan agreement for $37.0 million to refinance its agitation leaching plant loan from IBA. The annual interest rate is 8.25 per cent. plus LIBOR. Principal is repayable in 15 equal quarterly instalments of $2,467,000. The first payment of principal commenced in February 2015 with the final instalment payable in August 2018. The Group has pledged to ATB its present and future claims against MKS Finance SA, the Group's sole buyer of gold doré until termination of the loan agreement. The total gross amount outstanding at 31 December 2016 was $17.3 million (31 December 2015: $27.1 million). Part of the bank loan from Amsterdam Trade Bank was transferred to Gazprombank (Switzerland) Ltd in 2017, see note 27 – "Post balance sheet event" on page 56.

20 Interest-bearing loans and borrowings continued

Atlas Copco

The amounts outstanding are in respect of vendor equipment financing. The amount outstanding at 31 December 2015 was repaid in 2016. In 2016, the Group entered into further vendor equipment financing for Euro 1.1 million at an annual interest rate of 8.14 per cent. The principal is repayable quarterly in eight equal instalments which commenced on 31 August 2016 with the final instalment payable on 31 May 2018. Interest is payable quarterly with the principal.

Yapi Credit Bank, Azerbaijan ("YCBA")

The Group has entered into several credit facilities with YCBA. The annual interest rate for each facility is 10 to 11 per cent. and each facility is repayable in 12 equal monthly instalments on a reducing balance basis starting one month after drawdown. In 2016, new credit facilities were entered into totalling $1,488,000 (2015: $1,929,000).

Pasha Bank

Letters of credit for flotation plant construction

In 2014, the Group entered into a facility for $2.5 million to finance a letter of credit for the construction of its flotation plant. The facility carried an annual interest rate of 6 per cent. for the unused portion and 6.8 per cent. plus one month LIBOR for the used portion of the credit facility. In 2016, an additional facility was entered into for $1.2 million which carried an annual interest rate of 6.2 per cent. for the unused portion and 7.05 per cent. plus one month LIBOR for the used portion of the credit facility. The facilities were repaid in 2016.

On 4 July 2014, the Group entered into a credit facility to finance letters of credit with a total amount of $3,059,000 (AZN 2.4 million) for the purchase of cyanide. This facility was extended in 2015 to 7 July 2017 for a total amount of $3 million at an annual interest rate of 3 per cent. The letters of credit were repaid in 2016.

Loans

The Group entered into loans with Pasha Bank in 2016 at annual interest rates and maturities as in the following table. No principal repayment had been made in respect of any of these loans in 2016.

Loan value $000	Term (months)	Interest rate (per cent.)	Principal repayment
1,000	18	7	2 equal instalments in March and September 2017
1,500	12	9	November 2017
916	24	7	7 equal instalments, 2017 – $525,000; 2018 – $391,000
2,100	2	14	2 equal instalments January and February 2017
416	2	18	2 equal instalments January and February 2017

Kapital Bank

In December 2016, the Group entered into a working capital credit facility for $1 million with Kapital Bank. The facility is for one year with an annual interest rate of 7 per cent. Interest is payable monthly and the principal is repayable by four equal quarterly monthly instalments commencing March 2017.

Director

On 20 May 2015, the chief executive of Anglo Asian Mining PLC provided a $4 million loan facility to the Group. Any loan from the facility was repayable on 8 January 2016 at an interest rate of 10 per cent. The loan has been extended during 2016 on the same terms until 8 January 2018.

Unused credit facilities

The Group had no credit facilities at 31 December 2016 which were not utilised (2015: $nil).

21 Provision for rehabilitation

	2016 $000	2015 $000
1 January	**8,554**	8,624
Change in estimate	**—**	(747)
Accretion expense	**493**	414
Change in discount rate	**369**	263
31 December	**9,416**	8,554

The Group has a liability for restoration, rehabilitation and environmental costs arising from its mining operations. Estimates of the cost of this work including reclamation costs, close down and pollution control are made on an ongoing basis, based on the estimated life of the mine. The provision represents the net present value of the best estimate of the expenditure required to settle the obligation to rehabilitate any environmental disturbances caused by mining operations. The undiscounted liability for rehabilitation at 31 December 2016 was $15,314,000 (2015: $14,294,000). The undiscounted liability was discounted using a risk-free rate of 4.88 per cent. (2015: 5.73 per cent.). Expenditures on restoration and rehabilitation works are expected between 2025 and 2027 (2015: between 2023 and 2025).

22 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and cash equivalents, loans and letters of credit. The main purpose of these financial instruments is to finance the Group operations. The Group has other financial instruments, such as trade and other receivables and trade and other payables, which arise directly from its operations. Surplus cash within the Group is put on deposit, the objective being to maximise returns on such funds whilst ensuring that the short-term cash flow requirements of the Group are met.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are capital risk, market risk, interest rate risk, foreign currency risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include bank loans and overdrafts, accounts receivable, accounts payable and accrued liabilities.

The sensitivity has been prepared for the years ended 31 December 2016 and 2015 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group has sufficient capital to fund ongoing production and exploration activities, with capital requirements reviewed by the board on a regular basis. Capital has been sourced through share issues on AIM, part of the London Stock Exchange, and loans from the International Bank of Azerbaijan, Amsterdam Trade Bank ("ATB") and other banks in Azerbaijan. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through capital growth. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risk and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

The Group is not subject to externally imposed capital requirements other than the limit for financial indebtedness with ATB which is that the Group will not incur financial indebtedness of more than $30,000,000 without written prior approval from ATB. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 70 per cent. The Group defines net debt as interest-bearing loans and borrowings less cash and cash equivalents.

	2016 $000	2015 $000
Interest-bearing loans and borrowings (note 20)	**35,930**	49,296
Less cash and cash equivalents (note 18)	**(1,379)**	(249)
Net debt	**34,551**	49,047
Equity	**82,646**	78,644
Capital and net debt	**117,197**	127,691
Gearing ratio (per cent.)	**29**	38

Interest rate risk

The Group's cash deposits, letters of credit, borrowings and interest-bearing loans are at a fixed rate of interest except for three month LIBOR embedded in the interest rate on the borrowings with ATB.

The Group manages the risk by maintaining fixed rate instruments, with approval from the directors required for all new borrowing facilities.

The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2016 and 2015.

22 Financial instruments continued

Interest rate sensitivity analysis

Interest rate sensitivity of the Group from a reasonable possible movement in the three month LIBOR rate is limited to a negative $137,000 or a positive $18,000 impact on the Group's profit before taxation. Assumed impact is based on a 0.6 per cent. increase or a 0.08 per cent. decrease respectively in the three month LIBOR rate (2015: $203,000 negative or positive impact based on a 0.5 per cent. increase or decrease respectively) on interest bearing loans from ATB.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial liabilities. Included in note 20 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2016

	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Interest-bearing loans and borrowings	**—**	**7,319**	**20,575**	**10,142**	**38,036**
Trade and other payables	**—**	**21,833**	**—**	**—**	**21,833**
	—	**29,152**	**20,575**	**10,142**	**59,869**

Year ended 31 December 2015

	On demand $000	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Interest-bearing loans and borrowings	—	6,574	23,235	24,734	54,543
Trade and other payables	—	20,112	—	—	20,112
	—	26,686	23,235	24,734	74,655

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the consolidated statement of financial position date.

The Group has adopted a policy of only dealing with creditworthy banks and has cash deposits held with reputable financial institutions. Trade receivables consist of amounts due to the Group from sales of gold and silver bullion and copper and precious metal concentrates. All sales of gold and silver bullion are made to MKS Finance SA, a Switzerland-based gold refinery, and copper concentrate to Industrial Minerals SA. Due to the nature of the customers, the board of directors does not consider that a significant credit risk exists for receipt of revenues. The board of directors continually reviews the possibilities of selling gold to alternative customers and also the requirement for additional measures to mitigate any potential credit risk.

Foreign currency risk

The presentational currency of the Group is United States Dollars. The Group is exposed to currency risk due to movements in foreign currencies relative to the United States Dollar affecting foreign currency transactions and balances.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December are as follows:

	Liabilities		Assets	
	2016 $000	2015 $000	**2016 $000**	2015 $000
UK Sterling	**33**	187	**2**	2
Azerbaijan Manats	**4,379**	3,416	**1,390**	1,003
Other	**434**	317	**152**	—

22 Financial instruments continued

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the United Kingdom (UK Sterling), the currency of the European Union (Euro) and the currency of the Republic of Azerbaijan (Azerbaijan Manat).

The following table details the Group's sensitivity to a 6 per cent., 10 per cent. and 20 per cent. (2015: 13 per cent., 12.5 per cent. and 15 per cent.) increase and an 18 per cent., 10 per cent. and 20 per cent. (2015: 4.5 per cent., 12.5 per cent. and 60 per cent.) decrease in the United States Dollar against United Kingdom Sterling, Euro and Azerbaijan Manat, respectively. These are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for respective change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the United States Dollar strengthens by the mentioned rates against the relevant currency. Weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be reversed.

	UK Sterling impact		Azerbaijan Manat impact		Euro impact	
	2016 $000	2015 $000	**2016 $000**	2015 $000	**2016 $000**	2015 $000
Increase – effect on profit/(loss) before tax	**2**	24	**598**	1,447	**28**	40
Decrease – effect on profit/(loss) before tax	**(6)**	(8)	**(598)**	(362)	**(28)**	(40)

Market risk

The Group's activities are exposed to the financial risk of changes in the price of gold, silver and copper. These changes have a direct impact on the Group's revenues. The management and board of directors continuously monitor the spot price of these commodities. The forward prices for these commodities are also regularly monitored. The majority of the Group's production is sold by reference to the spot price of the commodity on the date of sale. However, the board of directors will enter into forward and option contracts for the purchase and sale of commodities when it is commercially advantageous.

A 10 per cent. decrease in gold price in the year ended 31 December 2016 would result in a reduction in revenue of $6,677,000 and a 10 per cent. increase in gold price would have the equal and opposite effect. A 10 per cent. decrease in silver price would result in a reduction in revenue of $217,000 and a 10 per cent. increase in silver price would have an equal and opposite effect. A 10 per cent. decrease in copper price would result in a reduction in revenue of $655,000 and a 10 per cent. increase in copper price would have an equal and opposite effect.

23 Equity

	2016		2015	
	Number	£	Number	£
Authorised				
Ordinary shares of 1 pence each	**600,000,000**	**6,000,000**	600,000,000	6,000,000

	Shares	$000
Ordinary shares issued and fully paid		
1 January and 31 December 2016	112,661,024	1,993

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options

The Group has a share option scheme under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (note 24).

Merger reserve

The merger reserve was created in accordance with the merger relief provisions under Section 612 of the Companies Act 2006 (as amended) relating to accounting for Group reconstructions involving the issue of shares at a premium. In preparing Group consolidated financial statements, the amount by which the base value of the consideration for the shares allotted exceeded the aggregate nominal value of those shares was recorded within a merger reserve on consolidation, rather than in the share premium account.

Retained earnings/(loss)

Retained earnings/(loss) represent the cumulative earnings/(loss) of the Group attributable to the equity shareholders.

24 Share-based payment

The Group operates a share option scheme for directors and senior employees of the Group. The vesting periods are up to three years. Options are exercisable at a price equal to the closing quoted market price of the Group's shares on the date the board of directors give approval to grant options. Options are forfeited if the employee leaves the Group and the options are not exercised within three months from leaving date.

The number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year were as follows:

	2016		2015	
	Number	WAEP pence	Number	WAEP pence
1 January	**2,120,859**	**21**	2,801,684	36
Granted during the year	**120,000**	**10**	—	—
Expired during the year	**(495,859)**	**42**	(680,825)	84
31 December	**1,745,000**	**14**	2,120,859	21

The following share options were exercisable at 31 December:

	2016		2015	
	Number	WAEP pence	Number	WAEP pence
	1,665,000	**14**	1,970,859	21

The weighted average remaining contractual life of the share options outstanding at 31 December 2016 was 3 years (2015: 3 years) and the range of their exercise prices was 10 pence to 35 pence (2015: 12 pence to 43 pence).

On 11 November 2016, 120,000 share options were granted with a weighted average fair value of £0.09.

Share options are valued using the Black-Scholes model. The assumptions used to value the share options issued in the year ended 31 December are as follows:

	2016	2015*
Weighted average share price (pence)	**26**	n/a
Weighted average exercise price (pence)	**9.88**	n/a
Expected volatility for six months' vesting period option (per cent.)	**—**	n/a
Expected volatility for one year's vesting period option (per cent.)	**70**	n/a
Expected volatility for two years' vesting period option (per cent.)	**70**	n/a
Expected life for six months' vesting period option (years)	**2**	n/a
Risk-free rate (per cent.)	**2.23**	n/a

* Not applicable as no options issued in 2015.

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one and two years for share options with one and two year vesting periods, respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expense related to equity-settled share-based payment transactions for the year ended 31 December 2016 of $18,000 (2015: $15,000).

Notes to the Group financial statements continued

year ended 31 December 2016

25 Contingencies and commitments

The Group undertakes its mining operations in the Republic of Azerbaijan pursuant to the provisions of the Agreement on the Exploration, Development and Production Sharing for the Prospective Gold Mining Areas: Gedabek, Gosha, Ordubad Group (Piyazbashi, Agyurt, Shakardara, Kiliyaki), Soutely, Kyzilbulag and Vejnali Deposits dated year ended 20 August 1997 (the "PSA"). The PSA contains various provisions relating to the obligations of R.V. Investment Group Services LLC ("RVIG"), a wholly owned subsidiary of the Company. The principal provisions are regarding the exploration and development programme, preparation and timely submission of reports to the Government, compliance with environmental and ecological requirements. The Directors believe that RVIG is in compliance with the requirements of the PSA. The Group has announced a discovery on Gosha Mining Property in February 2011 and submitted the development programme to the Government according to the PSA requirements, which was approved in 2012. In April 2012 the Group announced a discovery on the Ordubad Group of Mining Properties and submitted the development programme to the Government for review and approval according to the PSA requirements.

The mining licence on Gedabek expires in March 2022, with the option to extend the licence by ten years conditional upon satisfaction of certain requirements stipulated in the PSA.

RVIG is also required to comply with the clauses contained in the PSA relating to environmental damage. The Directors believe RVIG is in compliance with the environmental clauses contained in the PSA.

In accordance with a pledge agreement signed on 24 July 2013, the Group is a guarantor for one of its suppliers, Azerinterpartlayish-X MMC, for a loan from the International Bank of Azerbaijan in the amount of Azerbaijan New Manat ("AZN") 500,000 for an initial 36 months. The pledge agreement was extended in 2016 till 1 July 2018. The amount of the loan outstanding at 31 December 2016 was AZN364,026.

There were no significant operating lease and no capital lease commitments at 31 December 2016 (2015: $nil).

26 Related party transactions

Trading transactions

During the years ended 31 December 2015 and 2016, there were no trading transactions between Group companies.

Other related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

a Shares issued to directors are disclosed in the report on directors' remuneration on pages 24 and 25.

b Remuneration paid to directors is disclosed in the report on directors' remuneration on pages 24 and 25.

c During the year ended 31 December 2016, total payments of $1,522,000 (2015: $1,018,000) were made for equipment and spare parts purchased from Proses Muhendislik Danismanlik Inshaat ve Tasarim Anonim Shirket, the entity in which the chief technical officer of Azerbaijan International Mining Company has a direct ownership interest.

At 31 December 2016 there is an advance payment in relation to the above related party transaction of $34,000 (2015: $59,000).

d On 20 May 2015, the chief executive made a $4 million loan facility available to the Group. The interest accrued and unpaid at 31 December 2016 was $385,000 (2015: $195,000). Details of the loan facility are disclosed in note 20 – 'Interest-bearing loans and borrowings' on page 51.

All of the above transactions were made on arm's length terms.

27 Post balance sheet event

Partial transfer of loan from Amsterdam Trade Bank N.V. to Gazprombank (Switzerland) Ltd

In October 2013, the Group entered into a loan with Amsterdam Trade Bank N.V. ("ATB N.V.") for $37 million for the purpose of constructing its agitation leaching plant. The balance of the loan at 31 December 2016 was $17.3 million. On 15 February 2017, a transaction was finalised to transfer 50 per cent. of the balance of the loan, being $8.6 million, to Gazprombank (Switzerland) Ltd ("GPBS"). The terms of the loan and security remained unchanged and ATB N.V. will act as agent to administer the loan on behalf of ATB N.V. and GPBS.

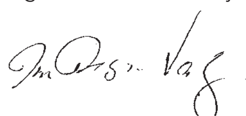
Company statement of financial position

31 December 2016

	Notes	2016 $000	2015 $000
Non-current assets			
Property, plant and equipment	3	**219**	241
Investments	4	**1,325**	1,325
Other receivables	6	**70**	119
		1,614	1,685
Current assets			
Other receivables	6	**15,500**	17,193
Cash and cash equivalents	7	**424**	68
		15,924	17,261
Total assets		**17,538**	18,946
Current liabilities			
Trade and other payables	8	**(355)**	(724)
Net current assets		**15,569**	16,537
Total liabilities		**(355)**	(724)
Net assets		**17,183**	18,222
Equity			
Share capital	10	**1,993**	1,993
Share premium account		**32,325**	32,325
Retained loss		**(17,135)**	(16,096)
Total equity		**17,183**	18,222

The loss dealt with in the financial statements of the Company is $1,058,000 (2015: $1,418,000).

These Company financial statements were approved by the board of directors and authorised for issue on 24 May 2017. They were signed on its behalf by:



Reza Vaziri
Chief executive

Company statement of changes in equity

year ended 31 December 2016

	Share capital $000	Share premium $000	Accumulated loss $000	Total equity $000
1 January 2015	1,978	32,246	(14,693)	19,531
Loss for the year	—	—	(1,418)	(1,418)
Shares issued	15	79	—	94
Share-based payment	—	—	15	15
31 December 2015	1,993	32,325	(16,096)	18,222
Loss for the year	—	—	(1,058)	(1,058)
Share-based payment	—	—	19	19
31 December 2016	**1,993**	**32,325**	**(17,135)**	**17,183**

Notes to the Company financial statements
year ended 31 December 2016

1 Basis of preparation

The parent company financial statements of Anglo Asian Mining PLC are presented as required by the Companies Act 2006 and were approved for issue on 24 May 2017.

The parent company financial statements have been prepared using the accounting policies set out in note 2 which are consistent with all applicable International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework', ("FRS 101"). FRS 101 enables the financial statements of the parent company to be prepared in accordance with EU-adopted IFRS but with certain disclosure exemptions. The main areas of reduced disclosure are in respect of equity settled share-based payments, financial instruments, the cash flow statement and related party transactions with Group companies.

The parent company financial statements have been prepared under the historical cost convention except for the treatment of share based payments. The parent company financial statements are presented in United States Dollars ("$") and all values are rounded to the nearest thousand except where otherwise stated. In the parent company financial statements "£" and "pence" are references to the United Kingdom pound sterling. As permitted by section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of the parent company financial statements.

2 Significant accounting policies

2.1 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on cost in annual instalments over the estimated useful lives of assets which are reviewed annually. Property, plant and equipment is mainly office and computer equipment which are depreciated on a straight line basis over four years.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.2 Investments

Investments in subsidiaries are stated at cost, and where appropriate, less any provision for impairment. Impairment is tested annually by comparing the recoverable amount of the underlying subsidiary to the carrying value of the investment, with any shortfall provided for during the period.

2.3 Other receivables

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate method. The losses arising from impairment are recognised in the profit and loss account.

2.4 Deferred taxation

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are not recognised in respect of temporary differences where there is insufficient evidence that the asset will be recovered.

2.5 Share-based payments

The Company has applied the requirements of IFRS 2 'Share-based Payment'. IFRS 2 has been applied to all grants of equity instruments.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The vesting condition assumptions are reviewed during each reporting period to ensure they reflect current expectations.

Notes to the Company financial statements continued
year ended 31 December 2016

3 Property, plant and equipment

	Office equipment $000
Cost	
1 January 2015	166
Additions	183
31 December 2015	349
Additions	3
31 December 2016	**352**
Depreciation	
1 January 2015	95
Charge for the year	13
31 December 2015	108
Charge for the year	25
31 December 2016	**133**
Net book value	
31 December 2015	241
31 December 2016	**219**

4 Investments

	2016 $000	2015 $000
Shares in subsidiary undertakings		
Anglo Asian Operations Limited	**1,325**	1,325

5 Subsidiaries

Anglo Asian Mining PLC is the parent and ultimate parent of the Group.

The Company's subsidiaries at 31 December 2016 are set out in the table below. All subsidiaries are 100 per cent. owned and their financial statements are included in the consolidated group financial statements:

Name	Registered office address	Primary activity
Anglo Asian Operations Limited	7 Devonshire Square Cutlers Gardens London EC2 4YH United Kingdom	Holding company
Holance Holdings Limited	P.O. Box 3136 Akara Building Main Street Road Town British Virgin Islands	Holding company
Anglo Asian Cayman Limited	Zephyr House P.O. Box 709 122 Mary Street Grand Cayman KY1 1107 Cayman Islands	Holding company
R.V. Investment Group Services LLC	15 East North Street Dover Kent Delaware United States of America	Mineral development
Azerbaijan International Mining Company Limited	Zephyr House P.O. Box 709 122 Mary Street Grand Cayman KY1 1107 Cayman Islands	Mining

There has been no change in subsidiary undertakings since 1 January 2016.

6 Other receivables

	2016 $000	2015 $000
Non-current assets		
Loans	**70**	119

	2016 $000	2015 $000
Current assets		
Prepayments	**33**	29
Loans	**68**	74
Advances	**51**	46
HMRC	**—**	26
Amounts owed by subsidiary undertakings	**15,348**	17,018
	15,500	17,193

7 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less.

There are no restrictions over the access to, and use of, the Company's bank and cash balances, other than those that customarily relate to periodic short-term deposits.

8 Trade and other payables

	2016 $000	2015 $000
Trade creditors	**75**	47
Accruals	**272**	677
HMRC	**8**	—
	355	724

9 Deferred taxation

	2016 $000	2015 $000
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**3,715**	2,772
Unrecognised deferred tax asset	**743**	554

A deferred tax asset has not been recognised in respect of temporary differences relating to tax losses as there is insufficient evidence that the asset will be recovered. None of the assets are recognised. The asset would be recovered if suitable taxable profits were generated in future periods.

10 Share capital

	2016		2015	
	Number	£	Number	£
Authorised				
Ordinary shares of 1 pence each	**600,000,000**	**6,000,000**	600,000,000	6,000,000

	Shares	$000
Ordinary shares issued and fully paid		
1 January and 31 December 2016	112,661,024	1,993

11 Share-based payments

Equity-settled share option scheme

Details of the Company's equity-settled share option scheme are given in note 24 to the Group financial statements.

12 Subsequent events

No significant events took place during the period after the balance sheet date.

13 Auditor's remuneration

The Company paid $107,000 (2015: $107,000) to its auditor in respect of the audit of the financial statements of the Company. Fees paid to Ernst & Young LLP and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of Anglo Asian Mining PLC because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

Letter to shareholders

Anglo Asian Mining PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5227012)

Directors
Khosrow Zamani
John Monhemius
Richard Round
John Sununu
Reza Vaziri

Registered office
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH

1 June 2017

To the holders of ordinary shares and, for information only, to the holders of share options of Anglo Asian Mining PLC (the "Company").

Dear shareholder
Accompanying this letter you will find the Company's annual report and accounts for the year to 31 December 2016 together with the attached notice of the annual general meeting to be held on 30 June 2017 (the "Meeting") and a form of proxy. This letter is to explain the background to some of the resolutions to be put to shareholders at the Meeting.

Resolution 3 – Re-election of the Director retiring by rotation
Under the Company's articles of association, one third of the directors of the board of directors (or, if the number of directors is not three or a multiple of three, the number nearest to and not exceeding one third) must retire at each annual general meeting and may offer themselves for re-election to the board of directors. This year Khosrow Zamani is retiring in accordance with the Company's articles of association and is seeking re-election at the Meeting.

Resolution 4 – Authority to allot shares
This ordinary resolution deals with the renewal of the directors' authority to allot new ordinary shares during the course of the year in order to facilitate the business of the Company and renews the equivalent authority granted at last year's annual general meeting which expires at the end of the Meeting.

The current Investment Association guidelines state that Investment Association members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to two-thirds of the Company's issued share capital, but on the basis that any authority to allot shares exceeding one-third of the Company's issued share capital can only be used to allot shares pursuant to a fully pre-emptive rights issue.

In accordance with these guidelines, resolution 4 proposes that directors be granted authority to allot shares in the capital of the Company up to a maximum amount representing the guideline limit of two-thirds of the Company's issued ordinary share capital as at 24 May 2017 (the latest practicable date prior to publication of this letter). Of this amount, half can only be allotted pursuant to a rights issue.

The authority will expire on the earlier of: (i) the conclusion of the next annual general meeting; and (ii) 30 June 2018 (being six months after the Company's accounting reference date).

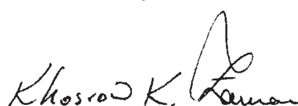
Resolution 5 – Disapplication of statutory pre-emption rights
This resolution is a special resolution that renews the authority given at last year's Annual General Meeting and which seeks to give the directors the authority to allot securities for cash on a pre-emptive basis within the limits of the authority set out in resolution 4 and on a non pre-emptive basis up to a maximum of 10 per cent. of the issued ordinary share capital of the Company. The directors believe that it is in the best interests of the shareholders that the directors should have the right to allot relevant securities for cash on a pre-emptive basis and a limited authority to allot relevant securities for cash on a non-pre-emptive basis.

Action to be taken
Whether or not you intend to be present at the Meeting, you are requested to complete the reply-paid form of proxy in accordance with its instructions and return it to the address given on the form of proxy.

Recommendation
The directors consider all the resolutions to be put to the Meeting to be in the best interests of the Company and its shareholders as a whole and are most likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly the directors unanimously recommend that you vote in favour of the proposed resolutions, as they intend to do in respect of their own beneficial shareholdings.

We look forward to as many of you as possible attending the Meeting.

Yours faithfully



Khosrow Zamani
Non-executive chairman

Notice of annual general meeting of shareholders

NOTICE IS HEREBY GIVEN that the annual general meeting ("AGM") of the shareholders of Anglo Asian Mining PLC (the "Company") will be held on 30 June 2017 at 10.30am at The Washington Mayfair Hotel, 5 Curzon Street, Mayfair, London W1J 5HE for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 4 (inclusive) will be proposed as ordinary resolutions and resolution 5 will be proposed as a special resolution:

Ordinary resolutions

1 THAT the consolidated financial statements and the reports of the board of directors and of the auditors for the year ended 31 December 2016 be received.

2 THAT Ernst & Young LLP be re-appointed as the auditors of the Company and that the board of directors be authorised to fix their remuneration.

3 THAT Khosrow Zamani be re-elected as a director, having retired by rotation in accordance with the Company's articles of association.

4 THAT the directors be hereby authorised generally and unconditionally pursuant to Section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot equity securities (as defined in Section 560 of the Act):

(a) up to an aggregate nominal amount of £375,537*; and

(b) up to an aggregate nominal amount of £751,073** (including within such limit any equity securities issued under paragraph (a) above) in connection with an offer by way of a rights issue:

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary, and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any matter.

The authority granted by this resolution shall (unless previously revoked, varied or extended by the Company in general meeting) expire on the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, on 30 June 2018, save that the Company may at any time before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this authority had not expired.

Special resolution

5 THAT subject to the passing of resolution 4 above the directors be hereby empowered pursuant to Section 570 and Section 573 of the Act to allot equity securities (as defined by Section 560 of the Act) wholly for cash and/or to sell or transfer shares held by the Company in treasury ("Treasury Shares") as the directors deem appropriate (in the case of allotments, pursuant to the authority conferred by resolution 4 above) as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment (or, in the case of Treasury Shares, the sale or transfer) of equity securities:

(a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange or otherwise; and

(b) otherwise than pursuant to sub-paragraph (a) of this resolution up to an aggregate nominal amount of £112,661†,

and provided that this authority shall (unless previously revoked, varied or extended by the Company in general meeting) expire on the conclusion of the Company's next annual general meeting or, if earlier, 30 June 2018 save that the Company may, at any time before such expiry make an offer or agreement which would or might require equity securities to be allotted (or in the case of Treasury Shares, sold or transferred) after such expiry and the directors may allot (or in the case of Treasury Shares, sell or transfer) equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

By order of the board of directors

Fisher Secretaries Limited
Acre House
11/15 William Road
London NW1 3ER
United Kingdom
1 June 2017

* Calculated as one third of the nominal value of the total issued ordinary share capital (i.e. 112,661,024 shares of nominal value £1,126,610.24).
** Calculated as two thirds of the nominal value of the total issued ordinary share capital (£1,126,610.24).
† 10 per cent. of the ordinary issued share capital of the Company (£1,126,610.24).

Notice of annual general meeting of shareholders continued

Notes

1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to exercise any of their rights to attend, speak and vote on their behalf at the AGM. A proxy need not be a member of the Company. Where more than one proxy is appointed, each proxy must be appointed for different shares. A proxy form is enclosed. Completion and return of a proxy form will not preclude a member from attending and voting at the AGM should he subsequently decide to do so. To be effective, the proxy form and any power of attorney or other such instrument (if any) under which it is signed or a notarially certified copy of such power of attorney must be deposited at the offices Capita Asset Services, PXS, 34 Beckenham Road, Kent BR3 4TU not later than 10.30am on 28 June 2017.

2 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company at close of business on 28 June 2017 shall be entitled to vote in respect of shares registered in their name at that time. Changes to the register of members after close of business on 28 June 2017 shall be disregarded in determining the rights of any person to attend or vote at the AGM.

Company information

Azerbaijan office (principal place of business)
20, Block 520
Huseyn Javid Avenue
Baku, AZ 1073
The Republic of Azerbaijan
Tel +994 12 596 3350
Fax +994 12 596 3354

Secretary
Fisher Secretaries Limited
Acre House
11/15 William Road
London NW1 3ER
United Kingdom

Registered office
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH
United Kingdom

Website
www.angloasianmining.com

Company number
5227012
Registered in England and Wales

VAT registration number
872 3197 09

Bankers – Azerbaijan
International Bank of Azerbaijan
67 Nizami Str.
Baku
The Republic of Azerbaijan

Yapi Kredi Bank Azerbaijan JSC
32 J. Jabbarly Str.
Baku
The Republic of Azerbaijan

Solicitors – United Kingdom
Squire Patton Boggs (UK) LLP
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH
United Kingdom

Solicitors – Azerbaijan
Nazal Consulting LLC
36 Islam Safarly Str.
Baku
The Republic of Azerbaijan

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Nominated adviser and broker
SP Angel Corporate Finance LLP
Prince Frederick House
35–39 Maddox Street
London W1S 2PP
United Kingdom

Financial PR advisers
St Brides Partners Limited
3 St. Michael's Alley
London EC3V 9DS
United Kingdom

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Produced by
designportfolio

Anglo Asian Mining PLC
20, Block 520
Huseyn Javid Avenue
Baku, AZ 1073
The Republic of Azerbaijan
Tel +994 12 596 3350
Fax +994 12 596 3354
www.angloasianmining.com