ANGLO ASIAN MINING PLC

Gold, copper and silver production in Azerbaijan

Anglo Asian Mining PLC
Annual report and accounts 2017

Anglo Asian Mining PLC is building a long-term and sustainable mining business in Azerbaijan which is both growing and cash generative.

Gold, copper and silver are produced at Gedabek in north-western Azerbaijan. Ore is mined from open pit and underground mines and processed by both leaching and flotation. The Company anticipates production to increase significantly in 2018.

The Company also has two other operating concessions in Azerbaijan, which together with Gedabek, cover 1,062 square kilometres. These concessions are all located on the Tethyan Tectonic Belt, one of the world's most significant gold and copper-bearing trends. All three concessions have extensive exploration potential.

The Company's properties are held under a Production Sharing Agreement with the Government of Azerbaijan and the Company has been listed on AIM since 2005.

Contents

Highlights

year ended 31 December 2017

Operational highlights

- Total production for 2017 was 71,461 gold equivalent ounces ("GEOs") compared to 72,304 GEOs in 2016
- Gold production for 2017 of 59,617 ounces, a 9 per cent. decrease compared to 65,394 ounces produced in 2016
- Gold bullion sales in 2017 of 43,496 ounces (2016: 53,281 ounces) completed at an average of $1,265 per ounce (2016: $1,253 per ounce)
- Gold produced in 2017 at an all in sustaining cost* net of by-product credits of $604 per ounce (2016: $616 per ounce). Lower all in sustaining cost due to a decrease in cash operating costs
- Copper production for 2017 was 1,991 tonnes, compared to 1,941 tonnes produced in 2016
- Silver production for 2017 totalled 172,853 ounces compared to 2016 production of 165,131 ounces
- Ugur open pit mine commenced production in September 2017 – 238,818 tonnes of ore mined containing 3.2 grammes of gold per tonne in 2017
- Total production target of between 78,000 and 84,000 gold equivalent ounces for 2018

Financial highlights

Revenue ($m)

$71.8m

2017	71.8
2016	79.2
2015	78.1

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

$604 per oz

2017	604
2016	616
2015	858

Profit before taxation ($m)

$5.7m

2017	5.7
2016	6.8
2015	(8.9)

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

$32.2m

2017	32.2
2016	33.9
2015	18.6

Net debt calculated as aggregate of loans and borrowings ($m)

$18.1m

2017	18.1
2016	34.6
2015	49.0

* See definition on page 17.

Discover more online

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

Anglo Asian Mining

Anglo Asian Mining has a portfolio of gold, copper and silver production and exploration assets in Azerbaijan. It combines both mature assets and a pipeline of highly prospective new mining targets.

- **Established** – produced first gold in May 2009
- **Experienced** – highly qualified team with decades of experience in the industry – directors own 40 per cent. of the Company, fully aligning them with shareholders
- **First mover advantage** – only listed miner in Azerbaijan
- **Cash generative** – highly cash generative with fast reducing debt (47 per cent. reduction in 2017)
- **Fast track ability** – Ugur mine brought into production in one year from discovery
- **Exploration potential** – several high-grade targets under investigation

Gedabek village.

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.

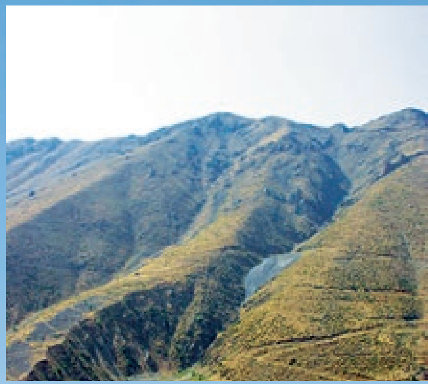
The country has an established democratic government, which is fully supportive of international investment initiatives. Infrastructure is reasonably extensive. Low cost labour is also available.

Gedabek contract area

- 300 square kilometre contract area
- Mining and exploration rights until March 2022
- Gadir underground mine situated 700 metres from the existing main open pit mine
- New Ugur mine started in September 2017
- All processing of ore carried out at Gedabek

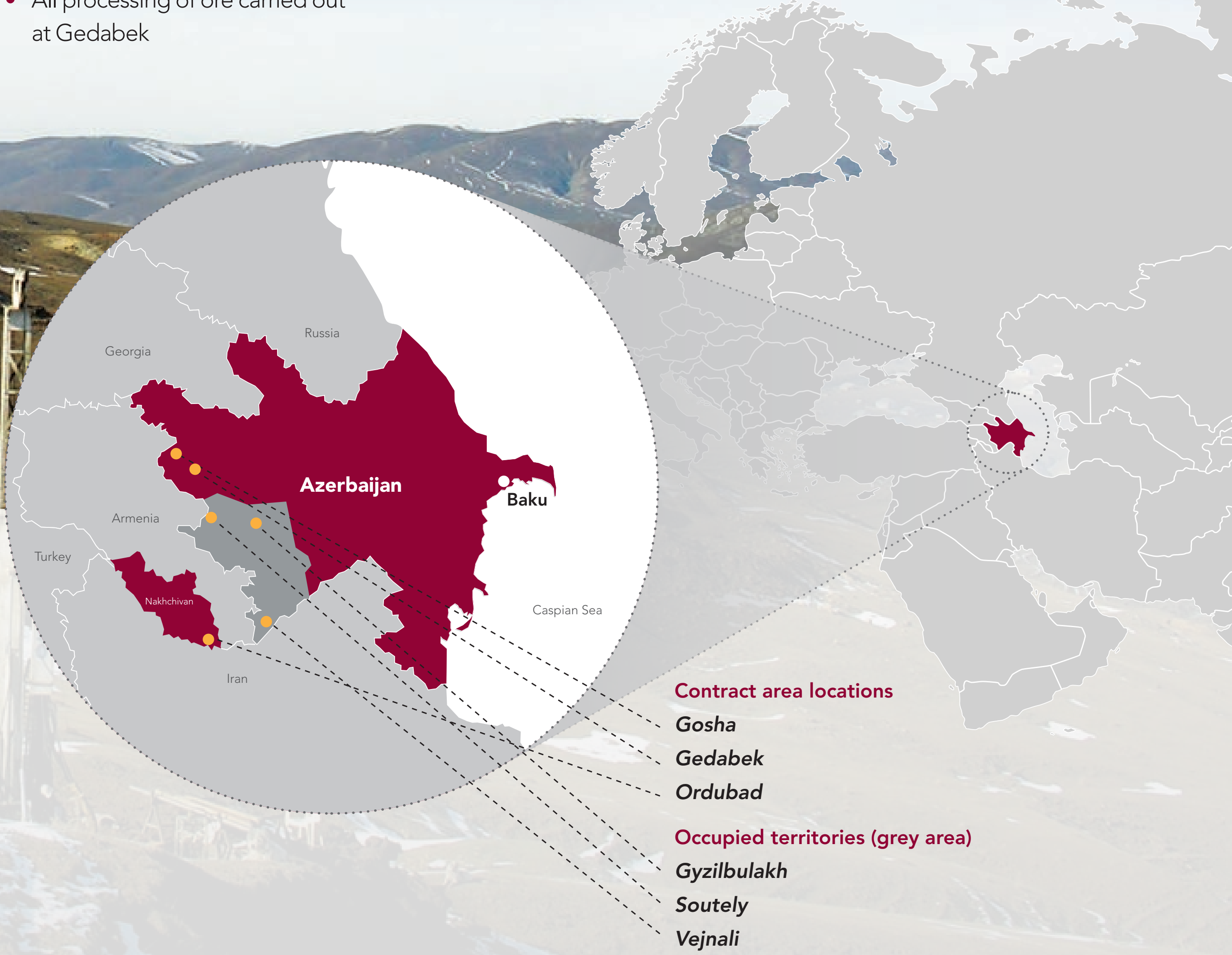
Gosha contract area

- 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
- Main target is copper-gold mineralisation of epithermal and porphyry style
- Expanded exploration programme planned in 2018



Chairman's statement

Khosrow Zamani

"Our strategic review in early 2017 set down clear objectives.......These objectives were successfully executed during the year."

2017 has been another profitable year for Anglo Asian during which time your Company has also been transitioning into a sustainable mining business. Our strategic review in early 2017 set down clear objectives for the year to ensure long-term production at Gedabek. These included commencing production from a new open pit at Ugur in late 2017 together with other production and optimisation initiatives. These objectives were successfully executed during the year. I am especially pleased to report the publication of the JORC resource for the Ugur deposit in August 2017 and the commencement of gold doré production from its open pit mine the following month, less than a year after the deposit's discovery.

I am pleased to report that total production in 2017 was broadly in line with 2016. The reduction in mining and resulting lower production, due to the strategic review, was offset by better than anticipated production from Ugur. The Company is now benefitting from those optimisation initiatives and we have set a production target for 2018 significantly higher than 2017. The financial position of Anglo Asian has also improved materially with net debt almost halving in the year which significantly lowered interest costs. The progress achieved by the Company during the year, together with the recently started three-year programme of geological exploration, will all further advance the delivery of long-term value to shareholders and provide a sound basis for our short term objective of paying a maiden dividend.

Review of 2017 and 2018 to date

Anglo Asian produced a total of 71,461 gold equivalent ounces ("GEOs") of metal in 2017, marginally less than 72,304 GEOs ounces in 2016. Total gold production was 59,617 ounces in 2017 compared to 65,394 ounces in 2016. However, this was offset by a combination of higher production and selling prices for copper and also higher silver production. Copper production in 2017 was 1,991 tonnes, a 2.6 per cent. increase over 2016 of 1,941 tonnes and silver production in 2017 was 172,853 ounces compared to 165,131 ounces in 2016. Gold bullion production in 2017 at 52,534 ounces was lower by 8,398 ounces compared to 60,932 ounces in 2016. This was a result of lower output in the first nine months of the year following implementation of the production optimisation strategy, which was then partially offset by strong production in the last quarter, due to the commencement of mining at the Ugur deposit.

Revenues in 2017 at $71.8 million were $7.4 million lower than 2016. The lower revenues in 2017 were due to an increase in gold doré inventory at the end of 2017 compared to 2016 of just over two thousand ounces and because a higher proportion of our gold was sold as concentrate which achieves a lower sales value. The average gold price in 2017 was marginally higher at $1,258 per ounce compared to $1,253 per ounce in 2016 and the Company also benefitted from higher copper prices with an average price of $6,200 per metric tonne in 2017, being 27 per cent. higher than 2016. The Company continued to be subject to an effective royalty on its revenues in 2017 of 12.75 per cent. of the value of its production under the terms of its Production Sharing Agreement. The basis of this royalty is explained on pages 21 and 22 of the financial review. The Company will continue to be subject to this effective royalty of 12.75 per cent. until all its unrecovered costs for Gedabek are utilised in accordance with the Production Sharing Agreement.

New civic centre in Gedabek.

Unrecovered costs for Gedabek at the end of 2017 totalled $95 million (2016: $100 million) and our current business plans indicate that these costs will not be fully recovered until at least 2023 and the effective royalty of 12.75 per cent. will therefore continue until then.

The Company's all in sustaining cost ("AISC") per ounce of gold produced marginally reduced to $604 in 2017 compared to $616 in 2016. This partially offset the reduction in revenue and the operating profit in 2017 was $9.2 million compared to $11.7 million in 2016.

Cash from operations, despite the impact of the optimisation initiatives in the year, increased marginally to $29.8 million from $29.6 million in 2016. We continued to service our debt on time and net debt reduced from $34.6 million at the end of 2016 to $18.1 million at the end of 2017. The Company also refinanced $13.5 million of its debt in early 2018 with a two-year syndicated loan from banks primarily in Azerbaijan. This is a sign of the confidence that Azeri banks have in our business and the new loan substantially reduced our borrowing costs. It also resulted in the release of $8.4 million in 2018 by extending the repayment of debt principal into 2019. The new loan has no financial covenants and is unsecured. We were pleased to repay in full the loan from our chief executive, Reza Vaziri in March 2018 and I would like to thank Reza for his confidence and commitment to the Company which has proved to be amply justified.

The start of production from the new Ugur open pit mine in September 2017 was a very significant milestone for the Company. The discovery of the deposit, which is located three kilometres north-west from our processing facilities at Gedabek, was announced in October 2016. That we were able to bring the mine into production in around one year was a tremendous success and demonstrates our ability to rapidly exploit any future opportunities which may arise. The start of production from Ugur required the construction of a 4.6 kilometre access road through very hilly terrain. The JORC (2012) resource estimation for the Ugur gold deposit released in August 2017 shows a mineral resource of 199,000 ounces of gold which is a valuable addition to our resources and further advances the sustainability of the Company.

The versatility of our processing facilities also proved valuable in 2017 in helping to maintain production whilst the strategic review was implemented. Initially in 2017, we used both crushed ore as feedstock for the agitation leaching plant, with the tailings treated by flotation and the reverse configuration with crushed ore feedstock initially treated by flotation followed by leaching. Following the start of mining from Ugur, the flotation plant was temporarily placed on care and maintenance, as the Ugur oxide-rich ores do not contain copper and only require treatment by agitation leaching. To increase the overall utilisation of the Company's processing facilities, a dedicated independent crusher line for the flotation plant is being commissioned in the current quarter of 2018. This will enable the two main plants to operate independently of each other and will increase both the flexibility and capacity of our processing facilities.

The Company continues to invest in infrastructure and plant to reduce costs and improve both the productivity and sustainability of its operations especially given the scarce water resources of the region. During 2017, the construction and commissioning of a water treatment plant at a cost of $3 million was completed which uses the latest reverse osmosis technology. In the last few years, Gedabek village has experienced water shortages in the summer and this plant reduces to the absolute minimum the consumption of fresh water required by the Company. The plant is now producing around 200,000 litres of purified water per day which is being used in Gedabek's processing facilities. Additionally, the tailings dam wall was raised by six metres, which gives the tailings dam sufficient capacity for the next two to three years. We also completed a second pipeline between our processing facilities and the tailings dam to increase the volume of tailings which can be discharged.

The Company's main operation is located at the village of Gedabek in north-west Azerbaijan. The economy of the village and the surrounding area has benefitted enormously over the years from our operations. Gedabek village has been transformed with the construction of much new infrastructure and many new buildings including a new civic centre. New shops and restaurants are opening in the village. The Company takes its corporate and social responsibilities very seriously and on page 18 we describe some of our initiatives to help the local community. These include improving local water supplies, agricultural initiatives, sporting enterprises and education with the construction of a kindergarten. Including contractors, our operation now employs over one thousand people in the local area.

Panoramic view of the Gedabek site.

Chairman's statement continued

Review of 2017 and 2018 to date continued

The Gedabek site is now connected to the national electricity power grid, and together with good road access, this provides Gedabek with excellent infrastructure. The financial benefits of our investments in infrastructure were evident in 2017 with fuel and electricity costs $2 million lower in total than 2016 due to the connection to the power grid. The Company's health and safety record continues to improve with a reduction in the lost time injury rate in 2017. We also expanded the health, safety and environmental ("HSE") department in 2017.

We undertook significant geological exploration in 2017 as described in the Strategic Report on pages 9 to 17 and in March 2018 we announced a significant three-year geological exploration programme. This will build upon previous geological work and includes near mine, brownfield and greenfield exploration. In 2018, it is anticipated that 12,000 metres of reverse circulation, 17,500 metres of surface core and 14,000 metres of underground core drilling will be carried out. A heli-borne electromagnetic survey is also planned covering the entire Gedabek contract area and the further potential of Gosha and Ordubad will be investigated. The expected cost of the programme in 2018 is around $6 million, which will be funded from internal resources. Gedabek has numerous known mineral occurrences and our existing mines have further development potential. We have also previously made significant finds of commercially exploitable minerals. We therefore believe this programme has the potential to significantly add value to your Company.

Dividend

In order to reward shareholders following the significant reduction in debt and anticipated surplus cash generation, the Company is currently preparing a plan for the payment of dividends. There are some legal and financial issues requiring consideration before payment of a maiden dividend and the board is currently working on these. The board will announce a dividend policy as soon as practical and, in any event, an announcement is expected to be made no later than the end of quarter three 2018.

Outlook

It is with continued optimism that I look forward to 2018 and beyond. During the course of 2017 and early 2018 we have opened a new mine and added to the Company's resources. We have also carried out several initiatives to maintain and increase production from our existing mines and have embarked on a three-year exploration programme to further explore and develop the potential of Gedabek. This progress has enabled us to target significantly higher production for 2018 compared to the previous two years and we are on track to achieve this target. It is also building on our strong platform for sustained growth in production and development.

The Group has a production target for 2018 of between 78,000 ounces and 84,000 GEOs, an increase of over 13 per cent. compared to total production of 71,461 GEOs in 2017. This includes between 64,000 ounces and 70,000 ounces of gold and between 2,100 tonnes and 2,300 tonnes of copper. I look forward to updating shareholders on our progress over the remainder of 2018.

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 sustainable 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 2018.

Khosrow K. Zamani

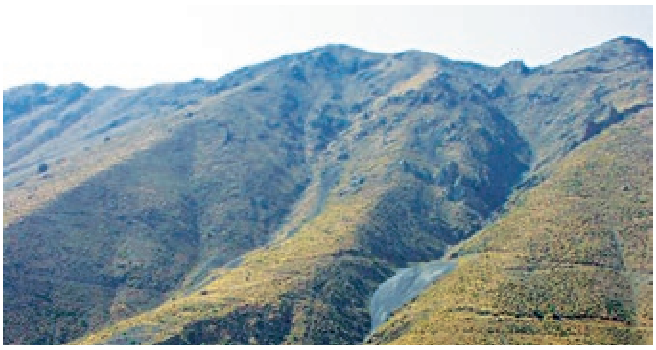
Khosrow Zamani
Non-executive chairman
23 May 2018

Strategy and exploration in 2018

"We undertook significant geological exploration in 2017 and in March 2018 we announced a significant three-year geological exploration programme. This will build upon previous geological work and includes near mine, brownfield and greenfield exploration."

- **Objectives** are to replace existing mined ounces, extend mine life and increase the Company's resources
- **New mineral deposits** similar to Ugur will be sought which can be brought quickly into production
- **43,500 metres** in total of surface and underground drilling is planned
- **Airborne geophysics programme** planned for the entire Gedabek contract area

Gedabek main open pit
2,500 metres of core and 7,500 metres of reverse circulation drilling are planned to identify the quantity and quality of the feedstock for the processing plants.



Ordubad
An initial surface exploration programme is planned in 2018 to identify porphyry-style mineralisation and its relationships with the known gold vein deposits of the area.

Ugur open pit
4,500 metres of core and 4,500 metres of reverse circulation drilling are planned for 2018. Targets to be assessed are extensions to the known mineralisation and drilling areas adjacent to the current mining area.

Gedabek underground
The down dip continuity of the mineralisation was confirmed in 2017. Tunnelling and the construction of drill chambers will be carried out and 5,750 metres of underground core drilling is planned to assess the quantity and quality of mineralisation.

$6 million to be spent on exploration in 2018

Gadir underground
7,500 metres of core surface and 8,400 metres of underground drilling are planned in 2018 for both Gadir and between Gadir and the main open pit. This is to further define the footprint geology of Gadir and assess the geological relationship between Gadir and Gedabek mineralisation.

The new Ugur open pit mine

"The start of production from the new Ugur open pit mine in September 2017 was a very significant milestone for the Company. The discovery of the deposit, which is located three kilometres north-west from our processing facilities at Gedabek, was announced in October 2016."

Panoramic view of the Ugur mine
The discovery of the Ugur deposit was announced in October 2016 and the mine commenced production in September 2017. This is extremely rapid in an industry which usually requires several years as a minimum to develop mines. It demonstrates the ability of the Company to take extremely quick advantage of opportunities.

Road between the Ugur mine and processing facilities
To commence production from the Ugur mine required the construction of a 4.6 kilometre road through very hilly terrain.

Infrastructure at the Ugur mine
All of the necessary infrastructure at the Ugur mine has now been built including the mine office, canteen and washroom facilities.

Mineral resource of 199,000 ounces of gold

Free digging of Ugur ore
Initial production of ore from Ugur was by free digging. The ore is a "clean" oxide ore containing no copper or significant impurities and is very amenable to agitation leaching. 238,818 tonnes of ore grading 3.2 grammes per tonne of gold was mined between September and December 2017.

Strategic report

"The total production target for the year to 31 December 2018 expressed as gold equivalent ounces ("GEOs") is between 78,000 GEOs and 84,000 GEOs compared to total production for the year to 31 December 2017 of 71,461 GEOs."

The directors present their strategic report for the year ended 31 December 2017.

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, 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, the Ugur 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. 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 Nakhchivan, South West Azerbaijan.

Overview of 2017 and 2018 production target

In early 2017, a wide-ranging strategic review of Gedabek was completed 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, several initiatives to ensure sustainable long-term production at Gedabek were undertaken in 2017:

- A temporary reduction of ore production from both the Gedabek main open pit and the Gadir underground mine, in order to carry out exploration, ore zone definition and production optimisation. Any ancillary ore mined during this time was stockpiled for later processing.
- Development of the Ugur deposit so that mining could commence from an open pit before the end of the year.
- Processing of the Company's extensive stockpiles of ore whilst mining was suspended, with the flotation and agitation leaching plants reconfigured to treat the high copper content of the stockpiled ore to maintain production.

The Group has a production target for the year to 31 December 2018 of 64,000 ounces to 70,000 ounces of gold and 2,100 tonnes to 2,300 tonnes of copper. The total production target for the year to 31 December 2018 expressed as gold equivalent ounces ("GEOs") is between 78,000 GEOs and 84,000 GEOs, compared to total production for the year to 31 December 2017 of 71,461 GEOs.

New water treatment plant.

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 open pits and underground mines and its processing facilities.

Gold was first poured from ore mined from the main 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 (SART) plant was commissioned. The Group's agitation leaching plant commenced production in 2013 and its flotation plant in 2015. Underground extraction of ore started in June 2015 when the Gadir mine was opened. During 2017, the Group brought Ugur, a newly discovered gold deposit three kilometres north-west of its processing facilities, into production as an open pit mine.

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 most recent ore reserve estimate for its main open pit 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 main open pit ore reserve estimate as at 1 September 2014.

Table 1 – Main open pit ore reserve estimate 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**

During 2017, the Group completed the JORC (2012) mineral resource and ore reserve statements for the Ugur deposit. Table 2 shows the mineral resource estimate for the Ugur deposit and Table 3 shows the ore reserve estimate for the Ugur deposit.

Table 2 – Ugur mineral resource estimate at 1 August 2017

	Mineral resource				
		In situ grades		Contained metal	
Resource category	In situ (tonnes)	Au (g/t)	Ag (g/t)	Au (ounces)	Ag* (ounces)
Measured	4,120,000	1.2	6.3	164,000	841,000
Indicated	340,000	0.8	3.9	8,000	44,000
Measured and indicated	**4,460,000**	**1.2**	**6.2**	**172,000**	**884,000**
Inferred	2,500,000	0.3	2.1	27,000	165,000
Total	**6,960,000**	**0.9**	**4.7**	**199,000**	**1,049,000**

* does not add due to rounding

Table 3 – Ugur ore reserves estimate at 1 August 2017

	Ore reserves				
		In situ grades		Contained metal	
Reserve category	In situ (tonnes)	Au (g/t)	Ag (g/t)	Au (ounces)	Ag (ounces)
Proved	3,370,000	1.3	7.2	142,000	779,000
Probable	220,000	0.8	4.1	5,000	29,000
Proved and probable	**3,590,000**	**1.3**	**7.0**	**147,000**	**808,000**

Mining operations

The principal mining operation at Gedabek is conventional open cast mining from the main open pit (which comprises several contiguous smaller open pits) and the new Ugur open pit. 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 blast-hole drilling and haulage of ore and waste rock are carried out by contractors, while blasting and mining activities are carried out by the Company.

Production commenced from the new Ugur open pit mine in September 2017. To enable production, a 4.6 kilometre road was constructed between the mine and the Company's processing facilities. All necessary surface infrastructure, including geology and medical and HSE offices, hygiene facilities, mechanical workshop, lubricants and spares stores, a weighbridge and diesel store was also constructed at the minesite. Due to the composition of the Ugur ore, initial mining of ore in the first few months of operation, was by free digging with drill and blast not required.

Ore is also mined from the Gadir underground mine which is situated approximately one kilometre from the main open pit at the Gedabek site. Table 4 shows the total amount of ore mined in 2017 from all the Company's mines at Gedabek (including Gosha).

Mining activities were reduced in 2017 in the main open pit from April and suspended from August to December. During this time, the mining fleet was redeployed to develop and start production in the Ugur open pit mine, where exploration, ore zone definition and production optimisation was carried out. Mining was also significantly reduced in 2017 in the Gadir underground mine to allow further mine development, exploration and ore zone definition to be carried out.

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, instead it 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 (agitation) 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, or after 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 ion exchange 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, comprising an alloy of 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 metal 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 precipitates the copper from the solution in the form of a finely divided copper sulphide concentrate containing silver and minor amounts of gold. The process also recovers cyanide from the solution, which is recycled back to leaching.

Table 4 – Ore mined at Gedabek from all mines (including Gosha) for the year ended 31 December 2017

	Total ore mined	
	12 months to 31 December 2017	
Mine	Ore mined (tonnes)	Average gold grade (g/t)
Main open pit	712,444	1.18
Ugur – open pit	238,818	3.20
Gadir – underground	80,614	3.56
Gosha – underground	28,284	3.99
Total	**1,060,160**	**1.89**

Strategic report continued

Waste water evaporator deployed in the tailings dam.

Gedabek continued

Processing operations continued

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 mineral particles 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 mineral concentrate containing copper, gold and silver.

Initially, gold doré was produced at Gedabek only by heap leaching crushed and agglomerated ore. Heap leaching is a low capital cost method of production commonly used by mines when they first move into production. Ore at Gedabek is being crushed to less than 25mm in size and the resultant gold recovery is approximately 60 per cent. to 70 per cent. of the contained gold over leaching cycles which extend typically beyond one year.

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 chemical 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 a copper-rich mineral concentrate, containing gold and silver as by-products. The flotation plant commenced production in November 2015.

The flotation plant has the flexibility to be configured for various methods of operation. Initially in 2017, gold doré and copper concentrate was produced by using ground ore as feedstock for the agitation leaching plant, with the leached tailings being treated by flotation. This configuration was reversed from early February with ground ore feedstock initially treated by flotation, prior to agitation leaching. This was to treat the high copper-content ore stockpiles whilst production optimisation was carried out. With commencement of mining from the Ugur open pit in September 2017, the Ugur ore, which is copper free, was treated by agitation leaching only and the flotation plant was temporarily put on care and maintenance. To improve the total processing capacity of the plants and enable their independent operation, a second, dedicated crusher line for the flotation plant was procured for $3.0 million, including site works, and which is being commissioned in the current quarter of 2018.

Production and sales

For the year ended 31 December 2017, total gold production as doré bars and as a constituent of the copper and precious metal concentrate totalled 59,617 ounces, which was a decrease of 5,777 ounces in comparison to the production of 65,394 ounces for the year ended 31 December 2016.

Table 5 summarises the amount of ore and its gold grade processed by heap and agitation leaching for the year ended 31 December 2017.

Table 5 – Amount of ore and its gold grade processed at Gedabek for the year ended 31 December 2017

	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 2017	110,348	102,622	184,074	1.00	0.87	1.52
30 June 2017	162,147	115,559	179,454	1.05	0.89	1.77
30 September 2017	173,616	87,979	176,997	1.02	0.95	2.04
31 December 2017	201,097	99,046	211,421	0.86	0.68	2.92
Total for the year	**647,208**	**405,206**	**751,946**	**0.97**	**0.85**	**2.10**

Table 6 summarises the gold and silver bullion produced as doré bars and sales of gold bullion for the year ended 31 December 2017.

Table 6 – Gold and silver bullion produced as doré bars and sales of gold bullion for the year ended 31 December 2017

Quarter ended	Gold produced* (ounces)	Silver produced* (ounces)	Gold sales** (ounces)	Gold sales price ($ per ounce)
31 March 2017	9,258	2,447	8,283	1,220
30 June 2017	9,131	3,266	7,406	1,258
30 September 2017	12,221	4,381	9,287	1,286
31 December 2017	21,924	12,634	18,520	1,278
Total for the year	**52,534**	**22,728**	**43,496**	**1,265**

* Including Government of Azerbaijan's share.

** Excluding Government of Azerbaijan's share.

Table 7 summarises the total copper, gold and silver produced as concentrate by both SART processing and flotation processing for the year ended 31 December 2017.

Table 7 – Total copper and precious metal produced as concentrate for the year ended 31 December 2017

	Copper (tonnes)			Gold (ounces)			Silver (ounces)		
Quarter ended	SART	Flotation	Total	SART	Flotation	Total	SART	Flotation	Total
31 March 2017	210	396	606	5	1,815	1,820	5,523	31,399	36,922
30 June 2017	187	529	716	4	3,005	3,009	4,717	37,735	42,452
30 September 2017	165	385	550	4	2,243	2,247	9,097	26,810	35,907
31 December 2017	119	—	119	7	—	7	34,844	—	34,844
Total for the year	**681**	**1,310**	**1,991**	**20**	**7,063**	**7,083**	**54,181**	**95,944**	**150,125**

Table 8 summarises the total copper and precious metal concentrate production and sales from both SART processing and flotation processing for the year ended 31 December 2017.

Table 8 – Total copper concentrate production and sales during the year ended 31 December 2017

Quarter ended	Concentrate production* (dmt)	Copper content* (tonnes)	Gold content* (ounces)	Silver content* (ounces)	Concentrate sales (dmt)	Concentrate sales ($000)
31 March 2017	2,740	606	1,820	36,922	2,230	4,220
30 June 2017	3,622	716	3,009	42,452	3,166	6,104
30 September 2017	2,712	550	2,247	35,907	2,905	5,480
31 December 2017	256	119	7	34,844	196	977
Total for the year	**9,330**	**1,991**	**7,083**	**150,125**	**8,497**	**16,781**

* Including Government of Azerbaijan's share.

Infrastructure

The Gedabek contract area is served by excellent infrastructure. The main site is located at the village of Gedabek which is connected by a good tarmacadam road to the regional capital of Ganja. Baku, the capital of Azerbaijan to the south and the country's border with Georgia to the north, are both approximately a four to five hour drive over excellent roads. The site is connected to the Azeri national power grid and there is a dedicated sub-station located at the main Gedabek processing facilities.

Water management

During 2017, the construction and commissioning of a water treatment plant at a cost of $3 million was completed which uses the latest reverse osmosis technology. In the last few years, Gedabek village has experienced water shortages in the summer and this plant reduces to the absolute minimum the consumption of fresh water required by the Company. The plant is now producing around 200,000 litres of pure water per day which is being used in Gedabek's processing facilities.

The wastewater evaporation equipment is now also deployed in 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.

Gedabek continued

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 facilities, topographically at a lower level than the processing plant, thus allowing gravity assistance of tailings in the slurry pipeline. Immediately downstream of the tailings dam is a reed bed biological treatment system to purify any seepage from the dam before discharge into the nearby Shamkir river.

During 2017, the wall of the tailings dam was raised by six metres. This has increased the capacity of the tailings dam from 3.2 million cubic metres to 4.3 million cubic metres. A second pipeline from the Company's processing facilities to the tailings dam was also completed.

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 HSE officers. 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 2017, there were 45 (2016: 58) reportable safety incidents, of which two (2016: five) were lost time incidents ("LTI"), where the casualty had to take time off work. Both staff injured in 2017 made a full recovery.

Company employee refurbishing excavator bucket.

During 2017, the Health and Safety department was expanded to cover the Company's growing operations. Three new HSE officers were recruited and the number of staff in the department totalled 11 at the end of 2017. The Company's growing experience of mining is resulting in increased safety with fewer incidents occurring.

Exploration at Gedabek site

A significant exploration programme was carried out in 2017.

Gedabek open pit

During the temporary reduction and suspension of mining in 2017, ore zone definition activity to define the gold and the copper-gold distribution was carried out. 48 surface core drill holes with a total length of 4,219 metres and 75 reverse circulation drill holes with a total length of 4,170 metres were completed. All the core and reverse circulation cuttings were geologically logged, sampled and assayed. In addition, production and grade control drilling was carried out, which included 61 reverse circulation drill holes with a total length of 2,135 metres and 7,480 bench drill holes with a total length of 20,903 metres. Database development continued and the results confirm the presence of copper mineralisation.

Areas adjacent to the Gedabek open pit

A mineral occurrence adjacent to the main open pit is located at a south-west corner of the prospecting area at a distance of 2.8 kilometres. Structural mapping has defined one quartz vein with pyrite phenocrysts at a north-east strike with a dip to the north-west at an angle of 70 degrees. Based on the geology of the area, 30 trench and grab samples were taken and analysed. The results show the presence of gold at around 0.15 to 0.8 grammes per tonne and silver at 1.0 to 10.0 grammes per tonne. Although these grades are not high, they do indicate the presence of gold on the surface which warrants further exploratory work and possible follow-up drilling.

Gedabek open pit – underground

As part of investigating the future potential of the Gedabek mine, exploration activity commenced to ascertain whether sufficient mineralisation exists under the pit to consider underground mining beneath the pit. This will allow for planning simultaneous open pit and underground mining or estimating the timing of an open pit to underground mining transition.

Push-back of the back wall as part of the development of the main open pit.

To access the area beneath the pit, a tunnel was constructed from the existing Gadir underground mine to a point at the northern end of the Gedabek main open pit ("Pit Four"). Some 606 metres of tunnelling was completed to access the target area. The tunnelling intersected mineralisation between the target and Gadir, as well as at the target destination. At the end of the tunnel at the Pit Four location, initial drilling was carried out using BQ underground core drilling to assess mineralisation adjacent to the main drive. Over 271 metres of drilling was completed which showed significant mineralisation. The tunnelling will provide access for further drill chambers to assess the mineralisation between Gadir and the main open pit. The intersections have been modelled independently and show continuous zones that can be considered for mining.

Gadir underground mine

During 2017, ten surface core drill holes with a total length of 4,407 metres and 63 underground core drill holes (HQ/NQ diameter) with a total length of 5,043 metres were completed. 3,340 metres of underground sidewall and tunnel roof mapping was also completed. This work resulted in defining zones for the continuation of mining and extended the down dip footprint of the mineralisation.

In addition, underground mine work continued in 2017 for both exploration and development and for production activities as follows:

		Metres
Development	Spiral ramp development	386
	Tunnelling to access "Pit 4" Gedabek	606
	Tunnelling to exploration drill sites	441
Production	Tunnelling	1,554
	Raise work	150

As part of the mining activity, the following geological work was also conducted:

- 64 drill holes of BQ size core with a total length of 1,816 metres were drilled for ore definition;
- 3,340 metres of sidewall and roof geological mapping was completed; and
- 2,761 metres of channel sampling for zone definition was completed.

Gedabek continued

Ugur

Exploration activity in 2017 continued that of 2016 with the purpose of completing the JORC (2012) resource and reserve statements for the deposit and to bring the deposit into production. The exploration activity in 2017 included the following:

- 48 core drill holes with a total length of 5,054 metres;
- 40 reverse circulation drill holes with a total length of 3,700 metres;
- 435 outcrop samples; and
- 100,000 square-metres of detailed lithological-alteration-structural mapping was completed (over the central part of the deposit).

Soyudlu

The Soyudlu mineralisation area is located about two kilometres to the south from the village of Soyudlu at the confluence of the Missu and Parakendsu rivers. 150 outcrop and 8 stream samples were collected. All samples were prepared and assayed, and the results imported to the geological database. The samples showed sufficient mineralisation to indicate that the area warrants follow-up exploration work.

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 28,284 tonnes of ore of average gold grade 3.99 grammes per tonne were mined at Gosha in the year ended 31 December 2017.

Ordubad

Our 462 square kilometre Ordubad contract area is located in Nakhchivan, South West Azerbaijan and contains numerous targets including Shakardara, Piyazbashi, Misdag, Agyurt, Shalala and Diakchay, all of which are located within a five kilometre radius of each other. The Group's efforts in 2017 were focused on Shakardara which is located in the central area of the Ordubad contract area.

The presence of gold was first discovered at Shakardara around 1956 to 1958. Soviet geologists estimated resources for the main vein zone of 2.6 million tonnes of ore containing 3.7 tonnes of gold, 8.8 tonnes of silver and 4.01 tonnes of copper, but these estimates have never been substantiated. Based on recent understanding of porphyry style mineralisations, a reassessment of the deposit is currently being carried out.

Exploration in 2017 included resampling from existing adits and surface trenching. Table 9 summarises the exploration work completed in 2017 at Ordubad.

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.

Table 9 – Exploration work at Ordubad in 2017

Activity	Unit of measurement	Result
Geological outcrop sampling	Number of samples	140
Surface geochemical sampling	Area in square kilometres	91
Trenching	Linear in metres	1,797
	Volume in cubic metres	449
Trench samples	Number of samples	1,160
Underground mapping	Linear in metres	1,374
Channel sampling	Linear in metres	470
	Number of samples	458
Road cleaning	Linear in metres	11,750
Underground rehabilitation	Linear in metres	1,130

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 23 to the financial statements.

Liquidity and interest rate risk

During 2017, interest rates on loans payable were fixed except for the three month LIBOR embedded in the terms of the Amsterdam Trade Bank ("ATB") and Gazprombank (Switzerland) Ltd ("GPBS") loans. The loans from ATB and GPBS were repaid in March 2018 and since then the interest rates on all loans have been fixed. The Group has not used any interest rate swaps or other instruments to manage its interest rate profile during 2017, but this requirement is reviewed on a periodic basis. Information on the exposure to changing interest rates is disclosed in note 23 to the financial statements. The approval of the board of directors is required for all new borrowing facilities.

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 production 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
23 May 2018

Corporate and social responsibility

“The Group is fully committed to developing a truly sustainable mining operation in Azerbaijan. This involves minimising the risks to the environment from extraction and processing and preventing work related injuries. The Company also contributes to the economic and social development of the local communities.”

New kindergarten at Gedabek
The Company contributed approximately two thirds of the $300,000 cost of a new kindergarten which opened in 2017. It accommodates 130 children.

Arikhdam school repair
The building of the elementary school in the village of Arikhdam had deteriorated so that it was unsafe for children. The Company undertook repairs to the building at a cost of $300,000.

Construction of infrastructure
The Company has constructed two bridges in the local area. The Gumlu village bridge for pedestrians and the Soyudlu village bridge which was widened for vehicles. Pictured is the Gumlu pedestrian bridge.

Beekeeping assistance programme
Beekeeping and the production of honey is widely practiced in the local area with an estimated 800 families keeping bees. The Company has been actively assisting bee keeping in various ways such as micro-loans to purchase new hives and equipment and holding training programmes.

Over $400 million contributed to the Azerbaijan economy

English and computer training
The Company has opened an internet resource facility to provide free internet services and basic computer skills to young people in Gedabek. Classes teaching basic computer skills are carried out and there are now English language courses. Students receive a certificate upon successful completion of their courses.

Investment in our operations

"The Company continues to invest in infrastructure and plant to reduce costs and improve both the productivity and the sustainability of its operations."

Waste management and water treatment

The Company's new water treatment plant was commissioned during 2017. The plant uses the latest reverse osmosis technology and is now producing around 200,000 litres of pure water per day which is being used in Gedabek's processing facilities. The Company also raised the wall of its tailings dam by six metres and completed a second pipeline between our processing facilities and the tailings dam.

New water treatment plant.

Tailings dam showing the wall raised by six metres.

New second crusher line for flotation plant

The Company's new crusher line has been purchased at a total cost of $3 million. This will both increase the flexibility and capacity of the processing facilities. A new thickener is also being constructed.

Delivery of the new jaw crusher.

Construction of the foundations for the new jaw crusher.

Additional thickener being constructed for the new second crusher line.

Financial review

Reza Vaziri and William Morgan

"The Group recorded a profit before taxation in 2017 of $5.7m compared to $6.8m in 2016. Lower revenues were offset by a lower all in sustaining cost of gold production and finance costs."

The directors present their financial review for the year ended 31 December 2017. This financial review forms part of the strategic report on pages 9 to 17.

Group statement of income

The Group generated revenues in 2017 of $71.8m (2016: $79.2m) from the sales of gold and silver bullion and copper and precious metal concentrate.

The revenues in 2017 included $55.4m (2016: $66.9m) generated from the sales of gold and silver bullion from the Group's share of the production of doré bars. Bullion sales in 2017 were 43,496 ounces of gold and 18,442 ounces of silver (2016: 53,281 ounces of gold and 9,512 ounces of silver) at an average price of $1,265 per ounce and $17 per ounce respectively (2016: $1,253 per ounce and $17 per ounce respectively). In addition, the Group generated revenue of $16.4m (2016: $12.3m) from the sale of 8,497 (2016: 6,830) dry metric tonnes of copper and precious metal concentrate.

The Group did not hedge any metal sales during 2017.

The Group incurred cost of sales in 2017 of $56.8m (2016: $62.8m). The cash cost of mining and processing in 2017 decreased by $7.5m from $46.6m in 2016 to $39.1m in 2017. Reagents cost decreased by $4.4m due to improving operational efficiency and the processing of Ugur ores which do not contain copper. Fuel costs were lower by $3.9m as the Gedabek site did not generate its own electrical power in 2017. The lower fuel cost was partially offset by electricity and other utility costs which increased by $1.8m as the Group purchased electricity for Gedabek.

The Group generated revenues in 2017 of

$71.8m

Depreciation and amortisation in 2017 was higher at $22.8m compared to $22.0m in 2016. 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 2017 of $0.6m (2016: $1.4m) which was interest receivable on a loan to a former employee and other miscellaneous income. The Group incurred administration expenses in 2017 of $4.7m (2016: $4.9m). 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 majority of the administration costs are incurred in either Azerbaijan New Manats or UK Sterling, both of which were weaker against the United States dollar in 2017 compared to 2016. This resulted in lower administration costs when the costs were translated into United States dollars. Finance costs in 2017 were $3.5m (2016: $4.9m) and comprise interest on the credit facilities and loans, interest on letters of credit and accretion expenses on the rehabilitation provision. The costs reduced in the year due to both a reduction in the average debt in 2017 and a reduction in the average interest rate on the debt.

The Group recorded a profit before taxation in 2017 of $5.7m compared to $6.8m in 2016. This was due to lower revenues and higher depreciation in 2017 partially offset by a lower all in sustaining cost of gold production and finance costs.

Bullion sales in 2017 were

43,496 ounces

of gold

18,442 ounces

of silver

The Group had a taxation charge in 2017 of $3.2m (2016: $2.8m). This comprised a current income tax charge of $nil (2016: $nil) and a deferred tax charge of $3.2m (2016: $2.8m). The Group had no current taxation charge in 2017 or 2016 as the taxable profits incurred by its operating company in Azerbaijan were offset against taxable losses brought forward from previous years. Tax losses carried forward at end 2017 were $4.7m (2016: $19.2m). The taxable profits of the operating company in Azerbaijan are taxed at 32 per cent. However, the Group's overall tax rate in 2017 was 56 per cent. (2016: 41 per cent.). The overall tax rate is higher than 32 per cent. because the UK administrative costs and depreciation of mining rights in Azerbaijan cannot be offset against the taxable profits arising in Azerbaijan. These costs in 2017 totalled $3.1m (2016: $2.9m).

All in sustaining cost ("AISC") per ounce in 2017 of

$604

The Group recorded a profit before taxation in 2017 of

$5.7m

All in sustaining cost of gold production

The Group produced gold at an all in sustaining cost ("AISC") per ounce of $604 in 2017 compared to $616 in 2016. The Group reports its cash cost as an AISC calculated in accordance with the World Gold Council's guidance which is a standardised metric in the industry. The reason for the marginal decrease in 2017 compared to 2016 was due to the decrease in cash operating costs partially offset by a higher sustaining capital charge, lower by-product credits and lower gold production.

Group statement of financial position

Non-current assets decreased from $116.4m at the end of 2016 to $104.4m at the end of 2017. The main reasons for the decrease were intangible assets lower by $0.7m and property, plant and equipment lower by $11.1m. These decreases were due to depreciation and amortisation in the year.

There were net current assets of $12.6m at the end of 2017 compared to $3.6m at the end of 2016. The main reason for the increase in current assets was a decrease in trade and other payables of $6.7m and current portion of loans payable of $6.1m. The Group's cash balances at 31 December 2017 were $2.5m (2016: $1.4m).

Net assets of the Group at the end of 2017 were $85.4m (2016: $82.6m). The increase was due to the profit earned in 2017 and the issue of shares during the year. During 2017, 1,100,000 ordinary shares were issued at 12 pence per share. This increased the net assets of the Group by $0.2m.

The Group is financed by a mixture of equity and debt. The Group's total debt at 31 December 2017 was $20.7m, a significant reduction from $35.9m in 2016. The significant reduction of debt in 2017 was mainly due to cash generation resulting in the repayment of loans made for the construction of the agitation leaching plant from the International Bank of Azerbaijan, the Amsterdam Trade Bank and Gazprombank (Switzerland) ("ATB/GPBS"). Principal repayments were made totalling $13.7m. The only material new borrowing in 2017 was a $3.0m loan from Pasha Bank OJSC.

The Group continues to reduce the weighted average interest rate payable on its borrowings through either refinancing debt at lower interest rates or negotiating lower interest rates with banks in respect of existing loans. The weighted average interest rate on its debt at end 2017 was 8 per cent. (2016: 10 per cent.).

As set out in note 28 to the accounts – "Post Balance Sheet Event" on page 64, the Group refinanced a significant portion of its debt and repaid the loan from the chief executive in February and March 2018. The only covenant contained within the Group's loan facilities at end 2017 was the debt service coverage ratio covenant in the loan from ATB/GPBS. This loan was repaid in 2018 from the refinancing and the Group does not currently have any borrowings which are subject to financial covenants or that are secured.

Operating cash inflow before movements in working capital in 2017 was

$32.2m

Group cash flow statement

Operating cash inflow before movements in working capital was $32.2m (2016: $33.9m). The main source of operating cash flow was the profit before taxation before the non-cash charges of depreciation and amortisation in 2017 of $28.4m (2016: $28.7m) after adding back the finance costs of $3.5m (2016: $4.9m).

Working capital movements absorbed cash of $2.4m (2016: $4.3m) largely due to a decrease in trade and other payables of $4.6m (2016: increase of $3.8m).

Income tax paid was $nil (2016: $nil). The Group generated taxable profits in 2017 due to its profitability but these were relieved by taxable losses brought forward from previous years.

Cash from operations in 2017 was $29.8m compared to $29.6m in 2016. The lower operating cash inflow before movements in working capital was offset by a lower absorption by working capital.

Expenditure on property, plant and equipment and mine development was $9.4m (2016: $10.7m). The main items of expenditure in 2017 were capitalisation of deferred stripping and development costs of the main open pit of $3.7m, the raise of the tailings dam wall and second tailings pipeline of $1.7m, Ugur and Gadir development of $1.4m and the water treatment plant of $1.2m.

Exploration and evaluation expenditure in 2017 of $1.0m (2016: $0.4m) was incurred and capitalised. This arose on exploration at the Gedabek and Ordubad mining properties.

Production Sharing Agreement

Under the terms of the Production Sharing Agreement ("PSA") with the Government of Azerbaijan ("Government"), the Group and the Government share the commercial products of each mine. The Government's share is 51 per cent. of "Profit Production". Profit Production is defined as the value of production, less all capital and operating cash costs incurred during the period when the production took place. Profit Production for any period is subject to a minimum of 25 per cent. of the value of the production. This is to ensure the Government always receives a share of production. The minimum Profit Production is applied when the total capital and operating cash costs (including any unrecovered costs from previous periods) are greater than 75 per cent. of the value of production. All operating and capital cash costs in excess of 75 per cent. of the value of production can be carried forward indefinitely, and set off against the value of future production.

Profit Production for the Group has been subject to the minimum 25 per cent. for all years since commencement of production including 2017. The Government's share of production in 2017 (as in all previous years) was therefore 12.75 per cent. being 51 per cent. of 25 per cent. with the Group entitled to the remaining 87.25 per cent. The Group was therefore subject to an effective royalty on its revenues in 2017 of 12.75 per cent. of the value of its production.

Financial review continued

Production Sharing Agreement continued

The Group can recover the following costs in accordance with the PSA:

- 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.

Unrecovered costs are calculated separately for the three contract areas of Gedabek, Gosha and Ordubad and can only be recovered against production from their respective contract areas. The total unrecovered costs for the Gedabek and Gosha contract areas at end 2017 were $94.6m and $21.8m respectively (2016: $99.8m and $21.8m respectively).

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 2019 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 uncertain market conditions in which the Group is operating. In 2017, the price of gold averaged $1,258 per ounce with a high of $1,346 per ounce and a low of $1,151 per ounce and the price of copper averaged $6,200 per tonne with a high of $7,289 per tonne and a low of $5,486 per tonne. The Group has substantially, though, reduced its net debt during 2017 from $34.6 million at 1 January to $18.1 million at 31 December and is also forecasting higher production in 2018 compared to 2017.

In early 2018, the Group refinanced a significant amount of its existing debt with a syndicated loan from Pasha Bank and other banks (the "Refinancing Loan"). The Refinancing Loan has a lower interest rate and a later maturity date than the loans repaid. The Group also renegotiated a lower rate of interest on certain of its loans which were not refinanced.

The Group has made all payments of interest and principal of its debt in line with agreement of its lenders.

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 copper and precious metal concentrates from its SART and flotation processing facilities
- its metal (principally gold and copper) price assumptions being met or bettered.

The Group repaid its loans from Amsterdam Trade Bank and Gazprombank (Switzerland) Ltd. in February 2018 from the proceeds of the Refinancing Loan. The Refinancing Loan does not contain any financial covenants. The Group no longer has any borrowings which are subject to financial covenants.

Should there be a sustained decrease in either the production or metal price assumptions, there would be an impact on the Group's short term cash position, although the Group is forecasting to maintain reasonable cash headroom during the period of the cash forecast. Under this circumstance, the Group could also look to defer all non-essential capital expenditure and administrative costs in order to further preserve cash. The Group also has access to local sources of short term finance should this be required. 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 is financed by a mixture of equity and debt. The Group's net debt at 31 December 2017 was

$18.1m

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 4 to 6 and within the strategic report on pages 9 to 17. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review. In addition, note 23 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
23 May 2018

William Morgan
Chief financial officer
23 May 2018

Board of directors

Mr Khosrow Zamani*

Non-executive chairman, age 75

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 a member of the compensation committee of Komercijalna Bank, Serbia.

Mr Richard Round*

Non-executive director, age 60

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 75

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 to 1996, 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 65

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 78

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 2017

Annual report and financial statements

The directors present their annual report together with the audited Group financial statements on pages 36 to 64.

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 contract areas in western Azerbaijan.

Business review and future prospects

A review of the activities of the business throughout the year and up to 23 May 2018 is set out in the chairman's statement on pages 4 to 6 and the strategic report on pages 9 to 17 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 (2016: $nil).

Capital structure

Details of the Company's authorised and issued share capital, together with the movements for the years ended 31 December 2016 and 2017 are disclosed in note 24 – '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 25 – '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 24.

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 23 May 2018 are set out on page 23.

Reza Vaziri 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 2017 and their connected parties in the share capital of the Company at 31 December were as follows:

	2017 Number of ordinary shares	2016 Number of ordinary shares
John Monhemius	**341,890**	341,890
Richard Round	**361,680**	306,759
John Sununu	**10,734,540**	10,734,540
Reza Vaziri	**32,796,830**	32,796,830
Khosrow Zamani	**1,418,352**	1,259,590

All directors' interests are beneficially held.

Directors' report continued

year ended 31 December 2017

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 22 May 2018:

	Number of ordinary shares	Per cent.
Reza Vaziri	**32,796,830**	**28.8**
John Sununu	**10,734,540**	**9.4**
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 2019 and satisfying them-selves 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 uncertain market conditions in which the Group is operating. In 2017, the price of gold averaged $1,258 per ounce with a high of $1,346 per ounce and a low of $1,151 per ounce and the price of copper averaged $6,200 per tonne with a high of $7,289 per tonne and a low of $5,486 per tonne. The Group has substantially, though, reduced its net debt during 2017 from $34.6 million at 1 January to $18.1 million at 31 December and is also forecasting higher production in 2018 compared to 2017.

In early 2018, the Group refinanced a significant amount of its existing debt with a syndicated loan from Pasha Bank and other banks (the "Refinancing Loan"). The Refinancing Loan has a lower interest rate and a later maturity date than the loans repaid. The Group also renegotiated a lower rate of interest on certain of its loans which were not refinanced.

The Group has made all payments of interest and principal of its debt in line with agreement of its lenders.

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 copper and precious metal concentrates from its SART and flotation processing facilities.
- its metal (principally gold and copper) price assumptions being met or bettered.

The Group repaid its loans from Amsterdam Trade Bank and Gazprombank (Switzerland) Ltd. in February 2018 from the proceeds of the Refinancing Loan. The Refinancing Loan does not contain any financial covenants. The Group no longer has any borrowings which are subject to financial covenants.

Should there be a sustained decrease in either the production or metal price assumptions, there would be an impact on the Group's short term cash position, although the Group is forecasting to maintain reasonable cash headroom during the period of the cash forecast. Under this circumstance, the Group could also look to defer all non-essential capital expenditure and administrative costs in order to further preserve cash. The Group also has access to local sources of short term finance should this be required. 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 4 to 6 and within the strategic report on pages 9 to 17. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review. In addition, note 23 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 24.

Annual general meeting

The Company will hold its annual general meeting for 2018 on 29 June 2018. 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 2017 was 32.00 pence (2016: 24.00 pence).

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 (2016: $nil). Political donations of $nil (2016: $nil) were made.

Research and development

There was no expenditure on research and development during the year (2016: $nil).

Related party transactions

Related party transactions are disclosed in note 27 – '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 23 – 'Financial instruments' to the Group financial statements.

By order of the board of directors

Fisher Secretaries Limited
Company secretary
23 May 2018

Report on directors' remuneration

year ended 31 December 2017

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.

Directors' emoluments

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

Year ended 31 December 2017	Consultancy $	Fees $	Benefits $	Total $
John Monhemius	**13,750**	**51,970**	—	**65,720**
Richard Round	—	**51,970**	—	**51,970**
John Sununu	—	**76,342**	—	**76,342**
Reza Vaziri	**578,126**	**51,970**	**32,471**	**662,567**
Khosrow Zamani	—	**127,761**	—	**127,761**
	591,876	**360,013**	**32,471**	**984,360**

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 and 2017 were paid in cash.

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 25 – '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)	1 January 2017	Exercised during the year	Lapsed during the year	**31 December 2017**
Khosrow Zamani	16.5	100,000	—	(100,000)	**—**
	12.0	500,000	(500,000)	—	**—**
Richard Round	12.0	600,000	(600,000)	—	**—**

The Company's share price has ranged from 24.00 pence at 30 December 2016 to a high of 37.5 pence and a low of 15.13 pence during the year ended 31 December 2017 with a closing price of 32.00 pence at 29 December 2017.

Exercise of options and sale of shares by directors

On 26 July 2017, Khosrow Zamani and Richard Round exercised 500,00 and 600,000 options respectively over ordinary shares of the Company at an exercise price of 12 pence per ordinary share. The closing mid-market price of the Company's ordinary shares on 26 July 2017 was 21.5 pence. On 27 July 2017, Khosrow Zamani and Richard Round sold 341,238 and 545,079 respectively of the ordinary shares acquired at 17.72 pence per share.

By order of the board of directors

Fisher Secretaries Limited
Company secretary
23 May 2018

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
23 May 2018

Independent auditor's report
to the members of Anglo Asian Mining PLC

Our opinion on the financial statements
In our opinion:

- Anglo Asian Mining plc's Group financial statements and Parent company financial statements (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 2017 and of the Group's profit and loss 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, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Anglo Asian Mining PLC which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2017	Statement of financial position as at 31 December 2017
Consolidated income statement for the year ended 31 December 2017	Statement of changes in equity for the year ended 31 December 2017
Consolidated statement of comprehensive income for the year ended 31 December 2017	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year ended 31 December 2017	
Consolidated statement of cash flows for the year ended 31 December 2017	
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report
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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report continued
to the members of Anglo Asian Mining PLC

Overview of our audit approach

Key audit matters	• Improper revenue recognition • Impairment of mining assets
Audit scope	• We performed an audit of the complete financial information of 2 components. • The components where we performed full audit procedures accounted for 99% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall Group materiality of $540k which represents 0.75% of Revenue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Improper revenue recognition **Refer to the accounting policies (page 43); and note 6 of the consolidated financial statements (page 52)** For the year ended 31 December 2017 the Group recognised revenue from operations of US$71.8m (2016: US$79.2m). In accordance with ISAs (UK) there is a presumed fraud risk relating to revenue recognition and management override. We consider the fraud risk relating to revenue recognition to relate to: • Sales cut-off; and • Accounting for government portion of production The risk relating to revenue recognition has remained stable in comparison to the prior year as no significant changes were noted in sales agreements.	Our approach focused on the following procedures: • Obtained an understanding of the key controls over revenue recognition and assessed their design effectiveness in supporting the prevention, detection or correction of material errors in the financial statements; • Performed detailed substantive audit procedures on sales revenues to ensure appropriate cut off, including testing underlying evidence to ensure revenue is recognised in the correct period; • For all the sales transactions taking place during the year, we agreed the main inputs to supporting evidence, such as bill of lading, invoices and cash receipts; • We reconciled the Group's records with the amount of revenue recalculated based on approved gold alloys shipment documentation, lab results of gold content in those alloys and respective market prices for each date of sale; • Obtained confirmation of outstanding receivables with the counterparty, which includes the portion related to the government's gold; and • Read the disclosures in the financial statements to ensure that all disclosure requirements in respect of revenue have been met. We performed audit procedures in one full scope audit component covering 100% of the risk amount.	As a result of the procedures performed, we concluded that the Group's revenue transactions have been properly recognised and accounted for in accordance with IFRS.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee

Impairment of mining assets
 	
Refer to the accounting policies (page 46); and notes 13 and 14 of the consolidated financial statements (pages 55 and 56)
 	
At 31 December 2017 the carrying value of the Group's mining assets were:
• Property, plant and equipment: US$87.4m (2016: US$98.5m);
• Intangible assets: US$16.1m (2016: US$16.8m).
 	
IFRS requires impairment testing to be undertaken when there are indicators that an impairment may exist.
 	
Consistent with prior year, the Group's CGUs are:
• Operating mines (property, plant and equipment): one CGU that combines Gedabek, Gosha and Ugur; and
• Exploration asset (intangible asset): Ordubad
 	
This risk has decreased as compared to the prior year as the commodity price outlook has strengthened in 2017 and the Group has added further reserves and production from the Ugur deposit.
	Our approach focused on the following procedures:
	• Obtained an understanding of management's process and key controls over the impairment evaluation for mining assets;
	• Verified through discussions with management and review of supporting evidence, the appropriateness of management's determination of CGUs;
	• Searched for any indicators of impairment for operating mines and exploration assets during 2017, following the requirements of IAS 36 and IFRS 6 respectively. Our work included the following procedures:
	  • We examined macro-economic factors including market interest rates and both spot and future gold, silver and copper prices to identify potential impairment indicators;
	  • For the operating mines, we evaluated the performance of the CGU during 2017 by comparing against management's budget and prior year actuals, and evaluated the existence of any significant changes to the expected performance through studying the updated mine plans; and
	  • For Ordubad we assessed the project for impairment indicators through inquiries of management and obtained supporting evidence for management's plans to develop the asset in future periods.
	
	The audit procedures over this risk area were performed by the primary and component teams, covering 100% of the risk amounts.
		As a result of the audit procedures performed, we concur with management's assessment and conclusion that no impairment indicators were noted as of 31 December 2017.

As part of our audit, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. The above is not a complete list of all risks identified by our audit.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and any other relevant factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 6 reporting components of the Group, we selected 2 components covering entities within the United Kingdom and Azerbaijan, which represent the principal business units within the Group.

We performed an audit of the complete financial information of those 2 components ("full scope components") which were selected based on their size or risk characteristics.

The reporting components where we performed audit procedures accounted for 99% (2016: 99%) of the Group's Profit before tax, 100% (2016: 100%) of the Group's Revenue and 100% (2016: 100%) of the Group's Total assets.

The remaining 4 components together and individually represent less than 1% of the Group's Revenue. For these components, we performed other procedures, including analytical reviews, testing of consolidation journals and intercompany eliminations and inquiries of management about unusual transactions in these components, to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The scoping is consistent with the prior year audit.

Independent auditor's report continued
to the members of Anglo Asian Mining PLC

An overview of the scope of our audit continued

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the two full scope components, audit procedures were performed on one of these directly by the primary audit team.

The primary audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits the client site once a year. During the current year's audit cycle, a visit was undertaken by the primary audit team to the component team in Baku, Azerbaijan. This visit involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component team where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $540k (2016: $593k), which is 0.75% (2016: 0.75%) of the Group's Revenue. We believe that Revenue provides us with a reliable measure that is significant to users since it is more representative of the business activities of the Group at a time when the operations are focused on future growth priorities, which can significantly distort the group's profitability in a given period.

We determined materiality for the Parent Company to be $160k (2016: $172k), which is 1% (2016: 1%) of Equity.

During the course of our audit, we reassessed initial materiality and no changes were required to our initial assessment.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely $270k (2016: $297k). We have set performance materiality at this percentage based on our assessment of the likelihood of misstatements based on our review of prior year audit adjustments.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $105k to $270k (2016: $119k to $297k).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $27k (2016: $30k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 30, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

Andrew Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 May 2018

Group statement of income
year ended 31 December 2017

	Notes	2017 $000	2016 $000
Revenue	6	**71,806**	79,184
Cost of sales	8	**(56,825)**	(62,770)
Gross profit		**14,981**	16,414
Other income	7	**584**	1,375
Administrative expenses		**(4,745)**	(4,931)
Other operating expense	7	**(1,598)**	(1,144)
Operating profit	8	**9,222**	11,714
Finance costs	10	**(3,538)**	(4,935)
Profit before tax		**5,684**	6,779
Income tax	11	**(3,164)**	(2,795)
Profit attributable to the equity holders of the parent		**2,520**	3,984
Profit per share attributable to the equity holders of the parent			
Basic (US cents per share)	12	**2.23**	3.55
Diluted (US cents per share)	12	**2.22**	3.55

Group statement of comprehensive income
year ended 31 December 2017

	2017 $000	2016 $000
Profit for the year	**2,520**	3,984
Total comprehensive profit	**2,520**	3,984
Attributable to the equity holders of the parent	**2,520**	3,984

Group statement of financial position

31 December 2017

	Notes	2017 $000	2016 $000
Non-current assets			
Intangible assets	13	**16,145**	16,848
Property, plant and equipment	14	**87,387**	98,476
Other receivables	16	**875**	1,084
		104,407	116,408
Current assets			
Inventory	17	**33,980**	34,018
Trade and other receivables	16	**11,276**	16,250
Cash and cash equivalents	18	**2,534**	1,379
		47,790	51,647
Total assets		**152,197**	168,055
Current liabilities			
Trade and other payables	19	**(15,170)**	(21,833)
Interest-bearing loans and borrowings	20	**(20,051)**	(26,165)
		(35,221)	(47,998)
Net current assets		**12,569**	3,649
Non-current liabilities			
Provision for rehabilitation	22	**(9,629)**	(9,416)
Interest-bearing loans and borrowings	20	**(600)**	(9,765)
Deferred tax liability	11	**(21,394)**	(18,230)
		(31,623)	(37,411)
Total liabilities		**(66,844)**	(85,409)
Net assets		**85,353**	82,646
Equity			
Share capital	24	**2,008**	1,993
Share premium account		**32,484**	32,325
Share-based payment reserve		**74**	154
Merger reserve	24	**46,206**	46,206
Retained earnings		**4,581**	1,968
Total equity		**85,353**	82,646

The Group financial statements were approved by the board of directors and authorised for issue on 23 May 2018. They were signed on its behalf by:

Reza Vaziri
Chief executive

Group statement of cash flows

year ended 31 December 2017

	Notes	2017 $000	2016 $000
Cash flows from operating activities			
Profit before tax		**5,684**	6,779
Adjustments to reconcile profit before tax to net cash flows:			
Finance costs	10	**3,538**	4,935
Depreciation of property, plant and equipment	14	**21,008**	20,080
Amortisation of mining rights and other intangible assets	13	**1,778**	1,884
Share-based payment expense	25	**13**	18
Foreign exchange gain, net	7	**—**	(138)
Write down of advances paid	7	**—**	353
Write down of unrecoverable inventory		**179**	—
Operating cash flow before movements in working capital		**32,200**	33,911
Decrease/(increase) in trade and other receivables		**2,342**	(2,805)
Increase in inventories		**(142)**	(5,278)
(Decrease)/increase in trade and other payables		**(4,565)**	3,751
Cash from operations		**29,835**	29,579
Income taxes paid		**—**	—
Net cash flow from operating activities		**29,835**	29,579
Cash flows from investing activities			
Expenditure on property, plant and equipment and mine development		**(9,397)**	(10,679)
Investment in exploration and evaluation assets including other intangible assets		**(1,075)**	(359)
Net cash used in investing activities		**(10,472)**	(11,038)
Cash flows from financing activities			
Proceeds from issue of shares	24	**174**	—
Proceeds from borrowings	21	**8,796**	14,083
Repayments of borrowings	21	**(24,116)**	(27,544)
Interest paid		**(3,062)**	(3,950)
Net cash used in financing activities		**(18,208)**	(17,411)
Net increase in cash and cash equivalents		**1,155**	1,130
Cash and cash equivalents at the beginning of the year	18	**1,379**	249
Cash and cash equivalents at the end of the year	18	**2,534**	1,379

Group statement of changes in equity

year ended 31 December 2017

	Notes	Share capital $000	Share premium $000	Share-based payment reserve $000	Merger reserve $000	Retained earnings/ (loss) $000	Total equity $000
1 January 2016		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	25	—	—	18	—	—	18
31 December 2016		1,993	32,325	154	46,206	1,968	82,646
Profit for the year		—	—	—	—	2,520	2,520
Shares issued	24	15	159	—	—	—	174
Share options exercised	25	—	—	(82)	—	82	—
Fair value of expired options		—	—	(11)	—	11	—
Share-based payment	25	—	—	13	—	—	13
31 December 2017		**2,008**	**32,484**	**74**	**46,206**	**4,581**	**85,353**

Notes to the Group financial statements

year ended 31 December 2017

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 73 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 4 to 6 and the strategic report on pages 9 to 17 of this annual report.

2 Basis of preparation

The Group's annual report is for the year ended 31 December 2017 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 26, 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 2019 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 uncertain market conditions in which the Group is operating. In 2017, the price of gold averaged $1,258 per ounce with a high of $1,346 per ounce and a low of $1,151 per ounce and the price of copper averaged $6,200 per tonne with a high of $7,289 per tonne and a low of $5,486 per tonne. The Group has substantially, though, reduced its net debt during 2017 from $34.6 million at 1 January to $18.1 million at 31 December and is also forecasting higher production in 2018 compared to 2017.

In early 2018, the Group refinanced a significant amount of its existing debt with a syndicated loan from Pasha Bank and other banks (the "Refinancing Loan"). The Refinancing Loan has a lower interest rate and a later maturity date than the loans repaid. The Group also renegotiated a lower rate of interest on certain of its loans which were not refinanced.

The Group has made all payments of interest and principal of its debt in line with agreement of its lenders.

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 copper and precious metal concentrates from its SART and flotation processing facilities.
- its metal (principally gold and copper) price assumptions being met or bettered.

The Group repaid its loans from Amsterdam Trade Bank and Gazprombank (Switzerland) Ltd. in February 2018 from the proceeds of the Refinancing Loan. The Refinancing Loan does not contain any financial covenants. The Group no longer has any borrowings which are subject to financial covenants.

Should there be a sustained decrease in either the production or metal price assumptions, there would be an impact on the Group's short term cash position, although the Group is forecasting to maintain reasonable cash headroom during the period of the cash forecast. Under this circumstance, the Group could also look to defer all non-essential capital expenditure and administrative costs in order to further preserve cash. The Group also has access to local sources of short term finance should this be required. 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 4 to 6 and within the strategic report on pages 9 to 17. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review. In addition, note 23 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.

3 Adoption of new and revised standards

a) New and amended standards and interpretations

The Group applied, for the first time, certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Several other amendments apply for the first time in 2017. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group and, hence, have not been disclosed.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Amendments to IAS 7 'Statement of Cash Flows'

The amendments require entities to provide disclosure of 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 has provided the information for both the current and the comparative period in note 21.

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 has assessed the impacts of implementing IFRS 9 but these are not expected to be significant. The Group's only significant financial instruments are cash and cash equivalents, trade and other debtors, interest bearing loans payable and trade creditors. The Group does not have any long term loans, equity instruments or "non-vanilla" financial assets or liabilities or currently carry out any hedging activity. All financial instruments are included in the Group's statement of financial position at values which approximate to their fair value. It is not expected that IFRS 9 will have any effect on the classification, initial recognition or subsequent measurement of the Group's financial instruments.

  IFRS 9 requires the Group to use an expected credit loss model for its trade receivables measured at amortised cost. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables measured at amortised cost, however considering the short term nature of these receivables, the Group does not expect these changes will have a significant impact.

- **IFRS 15 'Revenue from Contracts with Customers'**

  IFRS 15 was issued in May 2014, and amended in April 2016, 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 modified retrospective method. The Group has assessed the impacts of implementing IFRS 15 and the changes required but these are not expected to be significant. The only significant revenues of the Group are sales of gold and silver bullion to its gold refiner and sales of copper concentrate to its off-taker. In both cases, sales are only recognised when the buyer takes physical possession of the goods and priced at the current market price as follows:

  - Sales of gold and silver bullion are only made when the precious metals are physically at the refinery and at the spot metal price on date of sale.

3 Adoption of new and revised standards continued

b) Standards issued but not yet effective continued

- Sales of each shipment of copper concentrate are invoiced when the off-taker takes physical delivery of each shipment at the Group's factory gate and provisionally priced using a recent prior period average metal price. A final invoice for each shipment is issued within the next one to two months and is again priced using a recent prior period average metal price. The Group does not separately account for the embedded derivative in each transaction as the short one to two month transaction cycle would result in any change to the Group's financial statements being immaterial.

- **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.

  As disclosed in note 26, the Group has no significant leases and therefore IFRS 16 is not expected to have any materially significant effect on its financial statements.

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 2017. 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 2017 and 2016.

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 are 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 (2016: eight years)
- Plant and equipment – eight years (2016: eight years)
- Motor vehicles – four years (2016: four years)
- Office equipment – four years (2016: four years)
- Leasehold improvements – eight years (2016: 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 16 – '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.

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.

4 Significant accounting policies continued

4.10 Fair value measurement continued

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.

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.

4 Significant accounting policies continued

4.12 Financial instruments – initial recognition and subsequent measurement continued

a) Financial assets continued

ii) Subsequent measurement continued

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.

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.

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 continued

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.

4.15 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.

4 Significant accounting policies continued

4.16 Deferred stripping costs continued

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

The preparation of the Group financial statements in conformity with IFRS requires management to make judgements 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.

4.20i) 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.

4.20ii) 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 from future exploitation. This deferral policy requires management to make certain judgements about future events or circumstances, in particular whether an economically viable extraction operation can be established. Judgements 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 consolidated statement of profit or loss in the period when the new information becomes available.

4.20iii) Impairment of intangible and tangible 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.

4 Significant accounting policies continued

4.20 Significant accounting judgements continued

4.20iv) Production start date (note 14)

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.

4.20v) Renewal of Production Sharing Agreement ("PSA") (note 26)

The Group operates its mines and processing facilities on contract areas licenced under a PSA with the Government of Azerbaijan. The majority of the Group's fixed assets, including its processing facilities and its main producing mines, are located on the Gedabek contract area which has a mining licence expiring in March 2022. The Group depreciates each tangible fixed asset over its estimated useful life regardless of whether or not the end of its useful life is later than March 2022. There is an option to extend the Gedabek licence for a further ten years conditional upon satisfaction of certain requirements stipulated in the PSA. The directors have judged that the requirements to renew the licence for a further 10 years will be satisfied and therefore it is valid to depreciate assets over useful lives which end later than the end date of the current Gedabek licence.

4.21 Significant accounting estimates

The preparation of the Group financial statements in conformity with IFRS requires management to make estimates 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 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.

4.21i) Ore reserves and resources (notes 13 and 14)

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.

4.21ii) Inventory (note 17)

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.

4.22ii) Mine rehabilitation provision (note 22)

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'. Expenditure on mine rehabilitation is expected to take place between 2023 and 2025. Given that the expenditure will not occur until between 6 to 8 years after the balance sheet date, it is not expected that there is a significant risk that a change in estimate will result in a material adjustment to the carrying amount of the mine rehabilitation provision within the financial year ended 31 December 2017.

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 $55,099,000 and $311,000 respectively (2016: $66,766,000 and $164,000). Revenue from sales of precious metal concentrate was $16,396,000 (2016: $12,254,000).

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 2016 and 2017.

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 2016 and 2017.

8 Operating profit

	Notes	2017 $000	2016 $000
Operating profit is stated after charging:			
Depreciation on property, plant and equipment – owned	14	**21,008**	20,080
Amortisation of mining rights and other intangible assets	13	**1,778**	1,884
Employee benefits and expenses	9	**7,305**	7,471
Foreign currency exchange net (loss)/gain		**(28)**	138
Inventory expensed during the year		**21,502**	28,520
Operating lease expenses		**591**	730
Fees payable to the Company's auditor for:			
The audit of the Group's annual accounts		**135**	132
The audit of the Group's subsidiaries pursuant to legislation		**119**	114
Audit related assurance services – half year review		**2**	2
Total audit services		**256**	248
Amounts paid to auditor for other services:			
Tax compliance services		**14**	9
Total non-audit services		**14**	9
Total		**270**	257

There were no non-cancellable operating lease and sublease arrangements during 2017 and 2016.

The audit fees for the parent company were $107,000 (2016: $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:

	2017	2016
Management and administration	**49**	51
Exploration	**19**	20
Mine operations	**626**	580
	694	651

9 Staff numbers and costs continued

The aggregate payroll costs of these persons were as follows:

	2017 $000	2016 $000
Wages and salaries	**6,043**	6,109
Share-based payments	**13**	18
Social security costs	**1,249**	1,343
	7,305	7,470

Remuneration of key management personnel

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

	2017 $	2016 $
Short-term employee benefits	**1,861,343**	1,750,094
Share-based payment	**13,399**	18,705
	1,874,742	1,768,799

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 28 and 29.

10 Finance costs

	2017 $000	2016 $000
Interest charged on interest-bearing loans and borrowings	**3,043**	4,344
Finance charges on letters of credit	**33**	98
Unwinding of discount on provisions	**462**	493
	3,538	4,935

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 2017, $nil (2016: $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 2017 were $4,697,000 (2016: $19,162,000).

The major components of the income tax charge for the year ended 31 December are:

	2017 $000	2016 $000
Current income tax		
Current income tax charge	**—**	—
Deferred tax		
(Charge) relating to origination and reversal of temporary differences	**(3,164)**	(2,795)
Income tax (charge) for the year	**(3,164)**	(2,795)

Notes to the Group financial statements continued
year ended 31 December 2017

11 Taxation continued

Deferred income tax at 31 December relates to the following:

	Statement of financial position		Income statement	
	2017 $000	2016 $000	2017 $000	2016 $000
Deferred income tax liability				
Property, plant and equipment – accelerated depreciation	**(17,834)**	(19,453)	**1,619**	1,338
Non-current prepayments	**(280)**	(347)	**67**	(189)
Trade and other receivables	**(796)**	(1,466)	**670**	(772)
Inventories	**(9,435)**	(9,447)	**12**	(1,688)
Deferred income tax liability	**(28,345)**	(30,713)		
Deferred income tax asset				
Trade and other payables and provisions*	**2,367**	3,489	**(1,122)**	1,191
Asset retirement obligation*	**3,081**	3,013	**68**	276
Interest-bearing loans and borrowings*	**—**	(151)	**151**	(126)
Carry forward losses**	**1,503**	6,132	**(4,629)**	(2,825)
Deferred income tax asset	**6,951**	12,483		
Deferred income tax charge			**(3,164)**	(2,795)
Net deferred income tax liability	**(21,394)**	(18,230)		

* 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 and the total taxation charge for the years ended 31 December is as follows:

	2017 $000	2016 $000
Profit before tax	**5,684**	6,779
Theoretical tax charge at statutory rate of 32 per cent. for RVIG*	**1,819**	2,169
Effects of different tax rates for certain Group entities (20 per cent.)	**164**	127
Tax effect of items which are not deductible or assessable for taxation purposes:		
– losses in jurisdictions that are exempt from taxation	**1**	2
– non-deductible expenses	**1,231**	867
– non-taxable income	**(51)**	(370)
Income tax charge for the year	**3,164**	2,795

* 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 2017, the Group had unused tax losses available for offset against future profits of $22,032,000 (2016: 34,717,000). Unused tax losses in the Republic of Azerbaijan at 31 December 2017 were $4,697,000 (2016: $19,162,000). 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 per share

The calculation of basic and diluted profit per share is based upon the retained profit for the financial year of $2,520,000 (2016: $3,984,000).

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

	2017	2016
Basic	**113,134,175**	112,117,622
Diluted	**113,322,046**	112,295,664

At 31 December 2017 there were 545,000 unexercised share options that could potentially dilute basic earnings per share (2016: 1,100,000).

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 2016	—	3,860	41,925	498	46,283
Additions	191	168	—	—	359
31 December 2016	191	4,028	41,925	498	46,642
Additions	919	125	—	31	1,075
31 December 2017	**1,110**	**4,153**	**41,925**	**529**	**47,717**
Amortisation and impairment*					
1 January 2016	—	—	27,626	284	27,910
Charge for the year	—	—	1,843	41	1,884
31 December 2016	—	—	29,469	325	29,794
Charge for the year	—	—	1,738	40	1,778
31 December 2017	**—**	**—**	**31,207**	**365**	**31,572**
Net book value					
31 December 2016	191	4,028	12,456	173	16,848
31 December 2017	**1,110**	**4,153**	**10,718**	**164**	**16,145**

* 427,000 ounces of gold at 1 January 2017 were used to determine amortisation of producing mines, mining rights and other intangible assets (2016: 507,000 ounces). A 5 per cent. increase or decreased in the ounces of gold used to compute the amortisation of intangible assets would result in a decrease in amortisation of $82,000 and an increase in amortisation of $91,000 respectively.

14 Property, plant and equipment

	Plant and equipment and motor vehicles $000	Producing mines $000	Assets under construction $000	Total $000
Cost				
1 January 2016	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
Additions	434	4,559	5,175	10,168
Transfer to producing mines	—	1,229	(1,229)	—
Decrease in provision for rehabilitation	—	(249)	—	(249)
31 December 2017	**21,899**	**188,972**	**4,381**	**215,252**
Depreciation and impairment*				
1 January 2016	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
Charge for the year	1,765	19,243	—	21,008
31 December 2017	**16,421**	**111,444**	**—**	**127,865**
Net book value				
31 December 2016	6,809	91,232	435	98,476
31 December 2017	**5,478**	**77,528**	**4,381**	**87,387**

* 427,000 ounces of gold at 1 January 2017 were used to determine depreciation of producing mines, mining rights and other intangible assets (2016: 507,000 ounces). A 5 per cent. increase or decreased in the ounces of gold used to compute the depreciation of property plant and equipment would result in a decrease in depreciation of $628,000 and an increase in depreciation of $694,000 respectively.

The Ugur new open pit commenced production in 2017 with the development cost transferred to producing mines on 1 September 2017 with depreciation commencing from this date. Initial mining from the Ugur open pit was by free digging and September 2017 was the first month in which significant amounts of ore were extracted from the Ugur open pit. Gold doré from Ugur ore also commenced in September 2017. The development cost of Ugur was $1.1 million and the cost will be amortised using the unit of production method with 137,000 ounces of gold as the total resource to determine the amortisation.

Notes to the Group financial statements continued
year ended 31 December 2017

14 Property, plant and equipment continued

No impairment losses were recognised by the Group at 31 December 2017 or 31 December 2016.

The Group assesses at each balance sheet date whether any indicators exist of impairment of its fixed assets. Should any indicators exist, the Group will perform an impairment analysis at that 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.

The management assessed that there were no indicators of impairment at 31 December 2017. Accordingly, no impairment analysis was performed for the balance sheet at 31 December 2017. The management did assess that there were indicators of impairment at 31 December 2016 and performed an impairment analysis at that date. The assumptions used and the result of that analysis is as follows:

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 and estimated long-term copper prices of between $6,146 and $6,739 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. 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 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.

The capital commitments by the Group have been disclosed in note 26.

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 2017 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 2017.

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

16 Trade and other receivables

Non-current assets	2017 $000	2016 $000
Advances for fixed asset purchases	**860**	989
Loans	**15**	95
	875	1,084

Current assets	2017 $000	2016 $000
Gold held due to the Government of Azerbaijan	**7,445**	10,078
VAT refund due	**206**	339
Other tax receivable	**891**	926
Trade receivables	**440**	639
Prepayments and advances	**2,187**	4,218
Loans	**107**	50
	11,276	16,250

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

The VAT refund due at 31 December 2017 and 2016 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.

17 Inventory

Current assets	2017 $000	2016 $000
Cost		
Finished goods – bullion	**2,059**	903
Finished goods – metal in concentrate	**489**	240
Metal in circuit	**13,476**	12,119
Ore stockpiles	**6,753**	9,784
Spare parts and consumables	**11,203**	10,972
Total current inventories	**33,980**	34,018
Total inventories at the lower of cost and net realisable value	**33,980**	34,018

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.

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 2017 (including short-term cash deposits) comprised $117,000 and $2,417,000, respectively (2016: $118,000 and $1,261,000).

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

19 Trade and other payables

	2017 $000	2016 $000
Accruals and other payables	**3,979**	3,111
Trade creditors	**3,431**	7,815
Gold held due to the Government of Azerbaijan	**7,445**	10,078
Payable to the Government of Azerbaijan from copper concentrate joint sale	**315**	829
	15,170	21,833

19 Trade and other payables continued

Trade creditors primarily comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest bearing and the creditor days were 22 (2016: 42). 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

	2017 $000	2016 $000
International Bank of Azerbaijan – agitation leaching plant loan	**1,640**	5,385
International Bank of Azerbaijan – loan facilities	**481**	970
Amsterdam Trade Bank	**3,700**	17,307
Gazprombank (Switzerland)	**3,700**	—
Atlas Copco	**303**	801
Yapi Kredi Bank	**2,254**	672
Pasha Bank – loans	**3,713**	5,935
Kapital Bank	**1,000**	1,000
Director	**3,860**	3,860
	20,651	35,930
Loans repayable in less than one year	**20,051**	26,165
Loans repayable in more than one year	**600**	9,765
	20,651	35,930

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 was 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 interest rate on the outstanding loan agreements at 6 November 2017 was reduced to 7 per cent. from that date.

Loan facilities

During 2016, the Group entered into three 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 was 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 was payable in February 2018.
- $1.4 million at an annual interest rate of 12 per cent. for the purchase of the water treatment plant. $1.1 million of the loan was drawn down in 2017 and the amount of the loan outstanding at 31 December 2017 was $0.4 million. The balance of the loan at 31 December 2017 together with interest is repayable in equal monthly instalments on an annuity basis with the final payment in June 2018. The interest rate was reduced to 10 per cent. in September 2017 and to 7 per cent. on 6 November 2017.

Amsterdam Trade Bank ("ATB") and Gazprombank (Switzerland) Ltd

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 was 8.25 per cent. plus LIBOR. Principal was 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 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. In February 2017, a transaction was finalised to transfer 50 per cent. of the balance of the loan with ATB, being $8.6 million, to Gazprombank (Switzerland) Ltd ("GPBS"). The terms of the loan and security remained unchanged and ATB acted as agent to administer the loan on behalf of ATB and GPBS. In February 2018, the loans from ATB and GPBS were repaid from the proceeds of the Pasha Bank OJSC refinancing loan (note 28 – Post balance sheet event – Loan refinancing by Pasha Bank on page 64).

20 Interest-bearing loans and borrowings continued

Atlas Copco

The amounts outstanding are in respect of vendor equipment financing. During 2016, the Group entered into a 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")

In 2016 and 2017, the Group entered into several credit facilities with YCBA. The annual interest rate for each facility was 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 February 2018, the total outstanding balance of the loans of $2.2 million was repaid from the proceeds of the Pasha Bank refinancing loan (note 28 – Post balance sheet event – Loan refinancing by Pasha Bank on page 64).

Pasha Bank

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
419	2	18	2 equal instalments January and February 2017

All of the above loans were repaid in 2017 with the exception of the loan for $916,000 of which $713,000 was outstanding at 31 December 2017.

In 2017, the Group entered into a $3.0 million loan agreement with Pasha Bank at an interest rate of 8.5 per cent. The interest is payable monthly and the principal is repayable in 5 equal instalments of $600,000 payable in April, July, August and October 2018 and January 2019.

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. The loan was fully repaid by 31 December 2017. On 17 May 2017, the Group entered into a further $1 million loan facility with Kapital Bank. The term of the loan was for 18 months at an interest rate of 8 per cent. with the principal repayable at the end of the term.

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 was extended during 2016 and 2017 on the same terms until 8 January 2018. On 8 January 2018, the term of the loan was extended for one year until 8 January 2019. The interest rate on the loan was reduced to 7 per cent., and all other terms of the loan remained unchanged. In March 2018, the loan was repaid from the proceeds of the Pasha Bank OJSC refinancing loan (note 28 – Post balance sheet event – Loan refinancing by Pasha Bank on page 64).

Unused credit facilities

The Group had no credit facilities at 31 December 2017 which were not utilised (2016: $nil).

21 Changes in liabilities arising from financing activities

	2017			
	1 January $000	Cash flows $000	Other $000	31 December $000
Current interest-bearing loans and borrowings	**26,165**	**(15,879)**	**9,765**	**20,051**
Non-current interest-bearing loans and borrowings	**9,765**	**600**	**(9,765)**	**600**
Total liabilities from financing activities	**35,930**	**(15,279)**	**—**	**20,651**

	2016			
	1 January $000	Cash flows $000	Other $000	31 December $000
Current interest-bearing loans and borrowings	26,708	881	(1,424)	26,165
Non-current interest-bearing loans and borrowings	22,588	(14,247)	1,424	9,765
Total liabilities from financing activities	49,296	(13,366)	—	35,930

Other is the effect of reclassification of the non-current portion of interest bearing loans and borrowings to current at the end of the year due to the passage of time.

22 Provision for rehabilitation

	2017 $000	2016 $000
1 January	**9,416**	8,554
Additions	**557**	—
Accretion expense	**462**	493
Effect of passage of time and change in discount rate	**(806)**	369
31 December	**9,629**	9,416

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 2017 was $13,736,000 (2016: $15,314,000). The undiscounted liability was discounted using a risk-free rate of 5.05 per cent. (2016: 4.88 per cent.). Expenditures on restoration and rehabilitation works are expected between 2023 and 2025 (2016: between 2025 and 2027).

23 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 2017 and 2016 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 and 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.

	2017 $000	2016 $000
Interest-bearing loans and borrowings (note 20)	**20,651**	35,930
Less cash and cash equivalents (note 18)	**(2,534)**	(1,379)
Net debt	**18,117**	34,551
Equity	**85,353**	82,646
Capital and net debt	**103,470**	117,197
Gearing ratio (per cent.)	**18**	29

Interest rate risk

The Group's cash deposits, letters of credit, borrowings and interest-bearing loans subsequent to the loan refinancing by Pasha Bank in 2018 are at a fixed rate of interest.

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 2017 and 2016.

23 Financial instruments continued

Interest rate sensitivity analysis

The Group had no sensitivity to any movement in LIBOR rates in 2017. Interest rate sensitivity of the Group in 2016 from a reasonable possible movement in the three month LIBOR rate was limited to a negative $137,000 or a positive $18,000 impact on the Group's profit before taxation based on a 0.6 per cent. increase or a 0.08 per cent. 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 2017

	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	**—**	**9,962**	**10,089**	**600**	**20,651**
Trade and other payables	**—**	**15,170**	**—**	**—**	**15,170**
	—	**25,132**	**10,089**	**600**	**35,821**

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

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. These usually have a lower to upper medium grade credit rating. 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	
	2017 $000	2016 $000	**2017 $000**	2016 $000
UK Sterling	**1**	33	**2**	2
Azerbaijan Manats	**3,909**	4,379	**1,342**	1,390
Other	**151**	434	**4**	152

23 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 11 per cent., 12.5 per cent. and 11.3 per cent. (2016: 6 per cent., 10 per cent. and 20 per cent.) increase and a 7 per cent., 7.5 per cent. and 11.3 per cent. (2016: 18 per cent., 10 per cent. and 20 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	
	2017 $000	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Increase – effect on profit before tax	**—**	2	**290**	598	**18**	28
Decrease – effect on profit before tax	**—**	(6)	**(290)**	(598)	**(11)**	(28)

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 2017 would result in a reduction in revenue of $6.1 million 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 $0.04 million 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 $0.8 million and a 10 per cent. increase in copper price would have an equal and opposite effect.

24 Equity

	2017		2016	
	Number	£	Number	£
Authorised				
Ordinary shares of 1 pence each	**600,000,000**	**6,000,000**	600,000,000	6,000,000

	Shares	$000	Shares	$000
Ordinary shares issued and fully paid				
1 January	**112,661,024**	**1,993**	112,661,024	1,993
Exercise of share options	**1,100,000**	**15**	—	—
31 December	**113,761,024**	**2,008**	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 25).

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.

25 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:

	2017		2016	
	Number	**WAEP pence**	Number	WAEP pence
1 January	**1,745,000**	**14**	2,120,859	21
Granted during the year	**—**	**—**	120,000	10
Exercised during the year	**(1,100,000)**	**12**	—	—
Expired during the year	**(100,000)**	**16**	(495,859)	42
31 December	**545,000**	**17**	1,745,000	14

The following share options were exercisable at 31 December:

	2017		2016	
	Number	**WAEP pence**	Number	WAEP pence
	545,000	**17**	1,665,000	14

The weighted average remaining contractual life of the share options outstanding at 31 December 2017 was 7 years (2016: 3 years) and the range of their exercise prices was 10 pence to 35 pence (2016: 10 pence to 35 pence).

There were no share options issued in 2017.

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:

	2017*	2016
Weighted average share price (pence)	n/a	26
Weighted average exercise price (pence)	n/a	9.88
Expected volatility for six months' vesting period option (per cent.)	n/a	—
Expected volatility for one year's vesting period option (per cent.)	n/a	70
Expected volatility for two years' vesting period option (per cent.)	n/a	70
Expected life for six months' vesting period option (years)	n/a	2
Risk-free rate (per cent.)	n/a	2.23

* Not applicable as no options issued in 2017.

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 2017 of $13,000 (2016: $18,000).

26 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 Group and the Government are still discussing the formal approval of the development programme.

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 2017 was AZN125,750.

There were no significant operating lease and no capital lease commitments at 31 December 2017 (2016: $nil).

27 Related party transactions

Trading transactions

During the years ended 31 December 2016 and 2017, 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 28 and 29.

b Remuneration paid to directors is disclosed in the report on directors' remuneration on pages 28 and 29.

c During the year ended 31 December 2017, total payments of $1,400,000 (2016: $1,522,000) 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 2017 there is a payable in relation to the above related party transaction of $267,000 (2016: advanced payment of $34,000).

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 2017 was $655,000 (2016: $385,000). Details of the loan facility are disclosed in note 20 – 'Interest-bearing loans and borrowings'.

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

28 Post balance sheet event

Loan refinancing by Pasha Bank

On 8 February 2018 a subsidiary of the Group, Azerbaijan International Mining Company Limited, entered into a refinancing agreement with Pasha Bank OJSC, as arranger, for a syndicated loan facility for up to $15 million to refinance the majority of the Group's existing loans. The significant terms of the loan were as follows:

- Two-year term loan facility for up to $15 million at 7 per cent. per annum fixed interest rate;
- The loan facility is unsecured and there are no financial covenants;
- Total arrangement fee of 0.25 per cent. of the amount borrowed; and
- Early repayment is permitted.

A total of $13.5 million of the facility was drawn-down on the 9 and 12 of February 2018 and used to repay the following loans:

- $2.2 million to Yapi Credit Bank;
- $3.7 million to Amsterdam Trade Bank N. V.;
- $3.7 million to Gazprombank (Switzerland) Ltd; and
- $3.9 million to the Chief Executive.

The transaction was completed by the end of March 2018.

Company statement of financial position

31 December 2017

	Notes	2017 $000	2016 $000
Non-current assets			
Property, plant and equipment	3	**193**	219
Investments	4	**1,325**	1,325
Other receivables	6	**16**	70
		1,534	1,614
Current assets			
Other receivables	6	**14,768**	15,500
Cash and cash equivalents	7	**79**	424
		14,847	15,924
Total assets		**16,381**	17,538
Current liabilities			
Trade and other payables	8	**(389)**	(355)
Net current assets		**14,458**	15,569
Total liabilities		**(389)**	(355)
Net assets		**15,992**	17,183
Equity			
Share capital	10	**2,008**	1,993
Share premium account		**32,484**	32,325
Retained loss		**(18,500)**	(17,135)
Total equity		**15,992**	17,183

The loss dealt with in the financial statements of the Company is $1,378,000 (2016: $1,058,000).

These Company financial statements were approved by the board of directors and authorised for issue on 23 May 2018. They were signed on its behalf by:

Reza Vaziri
Chief executive

Company statement of changes in equity

year ended 31 December 2017

	Share capital $000	Share premium $000	Accumulated loss $000	Total equity $000
1 January 2016	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
Loss for the year	—	—	(1,378)	(1,378)
Shares issued	15	159	—	174
Share-based payment	—	—	13	13
31 December 2017	2,008	32,484	(18,500)	15,992

Notes to the Company financial statements

year ended 31 December 2017

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 23 May 2018.

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 2017

3 Property, plant and equipment

	Office equipment $000
Cost	
1 January 2016	349
Additions	3
31 December 2016 and 2017	352
Depreciation	
1 January 2016	108
Charge for the year	25
31 December 2016	133
Charge for the year	26
31 December 2017	**159**
Net book value	
31 December 2016	219
31 December 2017	**193**

4 Investments

	2017 $000	2016 $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 2017 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 2017.

6 Other receivables

	2017 $000	2016 $000
Non-current assets		
Loans	**16**	70
Current assets		
Prepayments	**35**	33
Loans	**107**	68
Advances	**91**	51
Amounts owed by subsidiary undertakings	**14,535**	15,348
	14,768	15,500

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

	2017 $000	2016 $000
Trade creditors	**48**	75
Accruals	**310**	272
HMRC	**31**	8
	389	355

9 Deferred taxation

	2017 $000	2016 $000
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**17,335**	15,555
Unrecognised deferred tax asset	**3,467**	3,111

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

	2017		2016	
	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 2017	112,661,024	1,993	112,661,024	1,993
Exercise of share options	1,100,000	15	—	—
31 December 2017	113,761,024	2,008	112,661,024	1,993

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

11 Share-based payments

Equity-settled share option scheme

Details of the Company's equity-settled share option scheme are given in note 25 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 (2016: $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

31 May 2018

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 2017 together with the attached notice of the annual general meeting to be held on 29 June 2018 (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 Reza Vaziri 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 23 May 2018 (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; or (ii) 30 June 2019 (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 K. Zamani

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 29 June 2018 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 2017 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 Reza Vaziri 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 £379,203*; and

(b) up to an aggregate nominal amount of £758,407** (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 2019, 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 £113,761†,

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 2019 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
31 May 2018

* Calculated as one third of the nominal value of the total issued ordinary share capital (i.e. 113,761,024 shares of nominal value £1,137,610.24).
** Calculated as two thirds of the nominal value of the total issued ordinary share capital (£1,137,610.24).
† 10 per cent. of the ordinary issued share capital of the Company (£1,137,610.24).

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 Link Asset Services, PXS, 34 Beckenham Road, Kent BR3 4TU not later than 10.30am on 27 June 2018.

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 27 June 2018 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 27 June 2018 shall be disregarded in determining the rights of any person to attend or vote at the AGM.

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