Gold, copper and silver production in Azerbaijan

Anglo Asian Mining PLC

Annual report and accounts 2018

Delivering returns to shareholders

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 reported record production of over 83,000 gold equivalent ounces in 2018 and has forecast that this will be sustained in 2019. The Company will pay a total of US 7 cents per share dividend in respect of 2018.

The Company 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. A three-year programme of geological exploration is currently underway to exploit their extensive 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

Discover more online

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

Cover photo: Aerial view of the Group's production facilities at Gedabek. The leach and thickener tanks of the agitation leaching plant are in the foreground with the flotation plant behind them.

Highlights

year ended 31 December 2018

Operational highlights

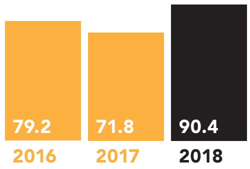
- Total production for 2018 was 83,736 gold equivalent ounces ("GEOs") compared to 71,461 GEOs in 2017
- Gold production for 2018 of 72,798 ounces, a 22 per cent. increase compared to 59,617 ounces produced in 2017
- Gold bullion sales in 2018 of 59,481 ounces (2017: 43,496 ounces) completed at an average of $1,265 per ounce (2017: $1,265 per ounce)
- Gold produced in 2018 at an all-in sustaining cost* net of by-product credits of $541 per ounce (2017: $604 per ounce). Lower all-in sustaining cost due to higher production
- Copper production for 2018 was 1,645 tonnes compared to 1,991 tonnes produced in 2017
- Silver production for 2018 totalled 210,184 ounces compared to 2017 production of 172,853 ounces
- Second crusher line for the flotation plant allowing processing independent of the agitation leaching plant commenced operation in July 2018
- Total production target of between 82,000 and 86,000 GEOs for 2019

* See definition on page 19.

Financial highlights

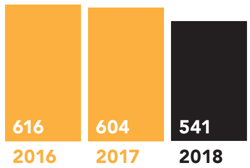
Revenue ($m)

$90.4m



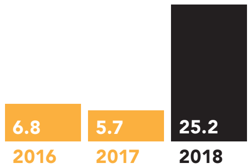
All-in sustaining cost ("AISC")*
($ per ounce)

$541 per oz



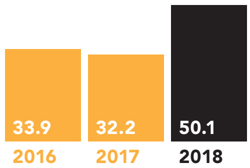
Profit before taxation ($m)

$25.2m



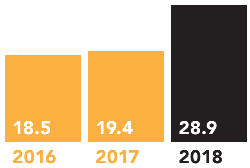
Operating cash flow before movements in working capital ($m)

$50.1m



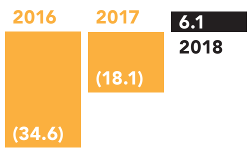
Free cash flow ($m)

$28.9m



Net (debt)/cash ($m)

$6.1m



Dividends per share for 2018 (2017: $nil):

- Interim dividend of 2.2864 pence (US$ 3 cents) paid on 8 November 2018
- Final dividend of US$ 4 cents will be paid on 25 July 2019*
  - Shareholders' record date of 28 June 2019 and shares will go ex-dividend on 27 June 2019
  - Payable in sterling at the average US dollar to pounds sterling rate on the 5 days from 1 to 5 July 2019

	US$ cents
Maiden (interim) paid	3.0
Final proposed*	4.0
Total for 2018	**7.0**

* Subject to approval at the annual general meeting.

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. An extensive programme of geological exploration is currently underway.

The historical centre of Baku

2009

Established – produced first gold in May 2009

41 per cent.

Experienced – highly qualified team with decades of experience in the industry – directors own 41 per cent. of the Company, fully aligning them with shareholders

First

First mover advantage – only listed miner in Azerbaijan

Cash generative – highly cash generative with net cash at the end of 2018

Fast track ability – Ugur mine brought into production in one year from discovery

Exploration potential – extensive geological exploration underway

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.

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

New discovery at the Asrikchay target area in 2018

Gedabek contract area

300 square

kilometre contract area

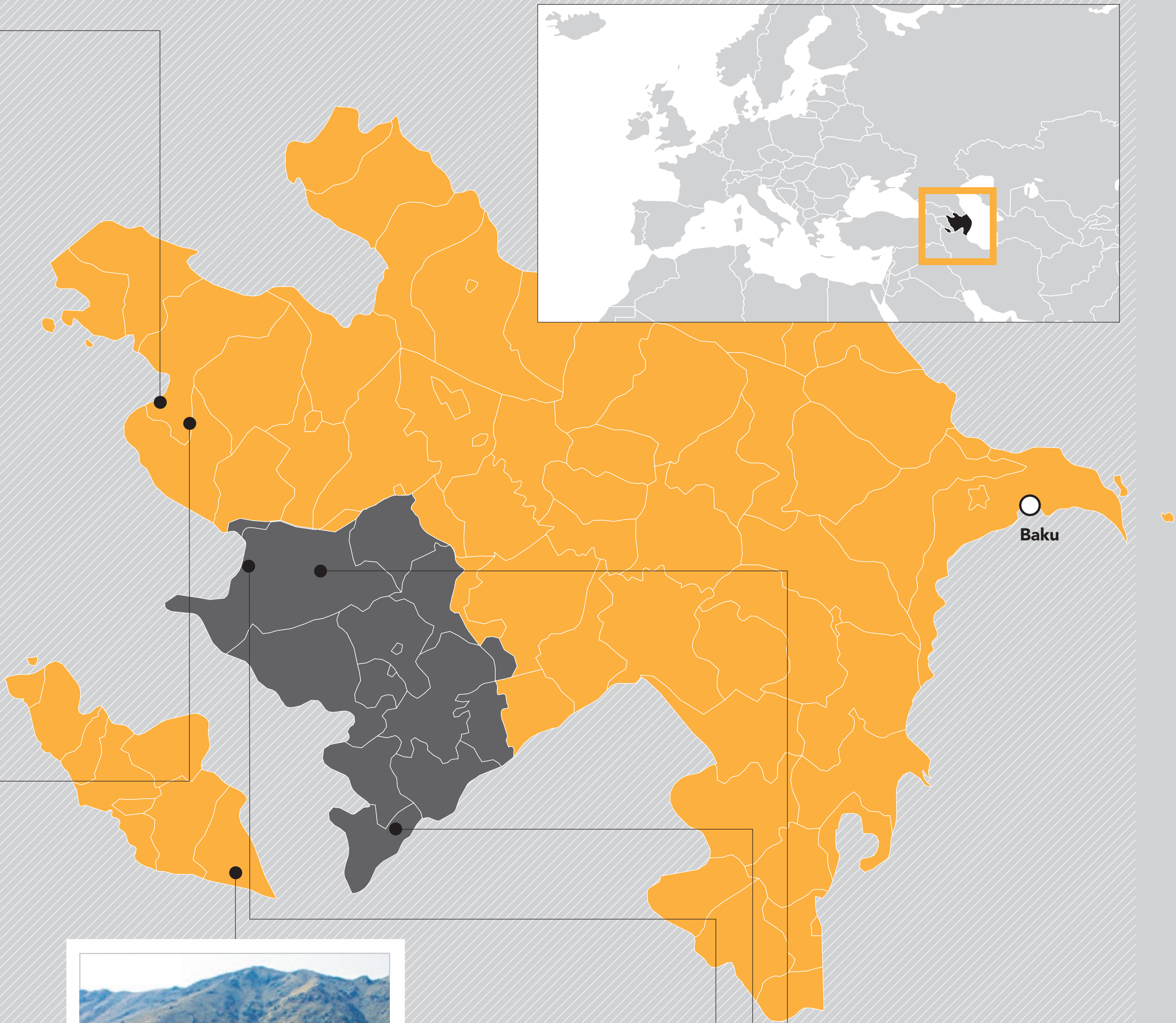
Mining and exploration rights until March 2022 which can be extended by ten years

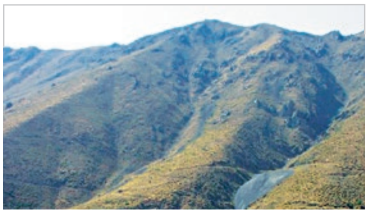
Gedabek open pit mine life based on current JORC reserves until 2024

Gadir underground mine situated 700 metres from the existing Gedabek open pit mine

New Ugur mine started in September 2017

All processing of ore carried out at Gedabek





Ordubad contract area

462 square kilometre contract area

Notice of discovery submitted for one project area comprising several targets

Main target is copper-gold mineralisation of epithermal and porphyry style

Expanded exploration programme planned in 2019 with budget of over $1.8 million

See page 20 for further information

Chairman's statement

Khosrow Zamani

"It is a great pleasure to report on a truly transformational year for Anglo Asian. All our hard work in previous years came to fruition and this delivered both record production and an outstanding financial performance."

It is a great pleasure to report on a truly transformational year for Anglo Asian. All our hard work in previous years came to fruition and this delivered both record production and an outstanding financial performance. I am also delighted that the Company paid its maiden dividend in 2018 and to announce a final dividend of US 4 cents per share. This gives a total dividend for the year of US 7 cents per share and means our shareholders share in our success.

Our main site at Gedabek is now a well-developed operation although we continue to invest to ensure it operates to the highest possible level of safety and efficiency. Gedabek produces gold at one of the lowest costs in the industry, and we are determined to maintain this position as we continue to extend its production life. The evaluation of the mineral resources and ore reserves of Gedabek's three mines in accordance with the JORC code is now also complete, which has extended the combined mine life until 2024.

We embarked upon an extensive three-year geological exploration programme in 2018 to further develop and grow the Company. Our goal is to open further mines which we can do rapidly and efficiently as demonstrated by the fast development of Ugur. The aerial geophysical survey identified many exciting targets at Gedabek and a new discovery has been made at Gosha.

We have also substantially increased our efforts at Ordubad which is a highly prospective region with great promise. Whilst still relatively early days, Ordubad has the potential to significantly grow the Company in future years.

Operational review

A total of 83,736 gold equivalent ounces was produced in 2018, a 17 per cent. increase compared to 2017 and a record for the Company. Gold production was 72,798 ounces compared to 59,617 ounces in 2017, which was a 22 per cent. increase largely due to gold doré production from processing Ugur ore throughout the year. Silver production also increased to 210,184 ounces, an increase of 22 per cent. compared to 2017.

Copper production decreased in 2018 to 1,645 tonnes. The flotation plant was mostly on planned care and maintenance in the first half of the year due to limited feedstock as the agitation leaching plant was processing Ugur ore which does not contain copper. A new, dedicated jaw crusher for the flotation plant commenced operation in July 2018. As a result, copper production increased significantly in the second half of the year as this capital investment enabled the independent operation of the flotation plant processing copper rich ore. As well as allowing the independent operation of the agitation leaching and flotation plants, the new jaw crusher increases the overall flexibility of our processing plants.

Gedabek's operational performance was strengthened in the year by the recruitment of several highly experienced managers in key areas which included blasting, transportation logistics and ore handling and equipment maintenance.

Centre of Gedabek

Many opportunities to improve working practices were actioned and these initiatives are all contributing to a more professional and efficient working environment. The Company also signed an off-take agreement in late 2018 for flotation concentrate with Trafigura PTE Ltd. on improved commercial terms.

The tragic collapse of the Brumadinho tailings dam in Brazil was unfortunately not an isolated incident in the last ten years. Safety is our number one priority and the Company's tailing dam has been constructed to the highest possible specification. The dam is constructed from hard rock and not tailings material, as is common in the industry, and the building and maintenance of the dam has been continuously supervised by one environmental and geotechnical consultancy. However, in light of the Brumadinho collapse, the Company has commissioned an inspection of the dam this summer by Knight Piésold, a leading environmental engineering company. Any actions highlighted by the inspection will be carried out immediately.

Financial results and dividend

Our financial performance in the year was exceptional and revenues increased by $18.6 million to $90.4 million. This improvement arose from increased gold doré production together with higher gold and copper prices. Revenues continued to be subject to an effective royalty of 12.75 per cent. in 2018. We anticipate this effective royalty rate will continue until at least 2023 and further details are in the financial review on pages 21 and 23. The all-in sustaining cost ("AISC") per ounce of gold produced decreased in the year to $541 from $604 in 2017. The Company's AISC has steadily reduced for the past five years and is considered to now be amongst the lowest in the industry.

The Company's balance sheet has been transformed in 2018 with increased cash flow. Cash from operations was $50.7 million and free cash flow was $28.9 million. The Company refinanced $13.5 million of its debt and repaid the remainder outstanding from internally generated funds during the year. At 7 per cent. fixed rate, the refinancing loan has a lower rate of interest than previous borrowings, has no covenants and is unsecured. The loan from the chief executive was repaid in full in March 2018 and I would like to take this opportunity to emphatically thank Reza for his confidence and commitment to the Company which has proven to be amply justified.

A key milestone for the Company was payment of a maiden dividend of US 3 cents per share in November 2018. In accordance with the Company's target of distributing approximately 25 per cent. of free cash flow to shareholders each year, I am delighted to announce a final dividend for the year ended 31 December 2018 of an additional US 4 cents per share. This makes a total dividend for 2018 of US 7 cents per share.

Mineral resources and geological exploration

The Company completed its goal of formalising mineral resource and ore reserves for its three mines at Gedabek by early 2019. In September 2018, an updated mineral resource and ore reserve estimate for the Gedabek open pit was published in accordance with the JORC code. The total mineral resource was around one million ounces of gold, which at this point in time has extended the life of mine of the Gedabek open pit by up to six years. In early 2019, a maiden mineral resource and ore reserve estimate for the Gadir underground mine was published in accordance with the JORC code which established an initial five-year life of mine.

In accordance with our commitment to be a long-term producer of precious metal and copper, a comprehensive three-year geological exploration programme commenced in the year. In the final quarter of 2018, a helicopter-borne electromagnetic survey was carried out over the entire Gedabek contract area which successfully identified many new targets for follow-up exploration work. This was the first such survey in Azerbaijan and was carried out with the assistance of the Azeri Government. Other on-going geological work has identified further copper and gold mineralisation beneath, and extending from, the Gedabek open pit that has the potential to further increase its life of mine.

We substantially increased our exploration efforts at Ordubad during 2018. Soviet era data indicate extensive mineralisation and the region is adjacent to significant copper deposits in neighbouring countries. We have identified several exciting targets all within a five kilometre radius. Extensive surface geological work was carried out in the year and core drilling has started. We were also pleased that a geological team from the Natural History Museum of London assisted our work as part of their "FAMOS" research programme. It is clear from its location and both the Soviet era and current work that Ordubad is a very promising region with widespread mineralisation.

We recently announced a new discovery within Gosha at the Asrikchay target area. This polymetallic discovery is exciting as it is the first indication of copper in the region.

Blast in the centre of the Gedabek open pit

Chairman's statement continued

Mineral resources and geological exploration continued

We have a track record of rapidly advancing discoveries as evidenced by Ugur, which progressed from discovery to production in just over a year, and we are confident that we can replicate this approach with any future discoveries.

Outlook

The success achieved in 2018 has placed Anglo Asian in an enviable position to move forward. Gedabek is now generating stable cash flow which provides funds for both investment and to pay dividends. The Company's solid balance sheet and excellent relationships with banks in Azerbaijan and elsewhere means loan finance can be easily obtained if required. Together, this means the Company has ample financial resources to seize any suitable opportunities that may arise.

The Company has over 1,000 square kilometers of land within its contract areas. As set out above and elsewhere in this annual report, the Company has a comprehensive exploration programme underway to extensively explore this land for new deposits. This programme is starting to yield results with the identification of several major targets at Gedabek and Gosha. We regard Ordubad as an untapped value opportunity and work there is now being ramped up. The Company will also aggressively pursue any suitable opportunities outside Azerbaijan which it believes can be made commercially successful.

During 2018, Anglo Asian made a concerted effort to meet with many existing and potential investors including organised roadshows, investor presentations and conferences. Our reputation as an attractive investment opportunity was evidenced by the press coverage received in 2018 with articles published both in trade publications and mainstream national newspapers in the United Kingdom. As the Company develops and grows, we firmly intend to maintain this reputation and increase the profile of the Company. We also intend to increase the Company's social media presence.

We have set a production target of between 82,000 and 86,000 gold equivalent ounces for 2019, which is an increase from 2018. This includes up to 67,500 ounces of gold and up to 3,300 tonnes of copper. We are on track to achieve this production target and I look forward to updating shareholders with our progress in the coming months.

I would like to conclude by saying that Anglo Asian accomplished a tremendous amount in 2018. We plan to build on our now very solid foundations to develop your Company into a mid-tier gold, copper and silver producer. It is therefore with continued optimism that I look forward to 2019 and beyond.

Appreciation

I would like to take this opportunity to thank the employees of Anglo Asian, our partners, the Government of Azerbaijan and our advisors for their continued support as we deliver on our strategy of becoming a leading gold, copper and silver producer. Finally, I wish to sincerely thank our shareholders for their continued investment and support in Anglo Asian. I look forward to sharing the successes of 2019 with you.

Khosrow K. Zamani

Khosrow Zamani
Non-executive chairman
15 May 2019

2018 – a year of record production

The Company achieved record production in 2018. Various initiatives undertaken in previous years came to fruition; however, two factors were key. A full year's production from the Ugur open pit mine and independent operation of the flotation plant. The Company also continued to invest in mining equipment and infrastructure to ensure safe, efficient and low cost operation.

Ugur open pit mine
2018 was the first full year of production from Ugur. 1.2 million tonnes of ore were mined containing on average 1.27 grammes per tonne of gold. Ugur ore does not contain copper and is a free-dig operation. This makes it low cost to both mine and process by leaching.

Investment in mining equipment
Significant investments were made in the year in mining and other equipment. This included excavators and other earth moving equipment.

Record production in 2018
83,736
gold equivalent ounces

Independent operation of the flotation plant
Until mid-2018, the flotation plant either treated ore prior to agitation leaching or processed the agitation leaching plant's tailings. In mid-2018, a second jaw crusher was installed for the flotation plant at a cost of US$2.8 million which enabled the flotation plant to treat ore independently of the agitation leaching plant. 357,497 tonnes of ore were treated by the flotation plant in 2018 producing 1,246 tonnes of copper with the majority of the production in the second half of the year following installation of the second jaw crusher.

Strategy and exploration

The Company continues to ensure the sustainability of its business through both formalising its existing resources and reserves and a programme of geological exploration.

- Objectives to replace existing mined ounces, extend mine life and increase the Company's resources
- Combined mine life from existing reserves now extended until 2024
- Further mineable copper and gold extensions confirmed at the northern and southern margins of the Gedabek open pit
- Additional mineralisation confirmed beneath the Gedabek open pit
- A helicopter-borne electromagnetic and magnetic survey completed over Gedabek in the fourth quarter of 2018 – many exciting targets identified
- A new discovery of polymetallic mineralisation within Gosha at the Asrikchay target area

Gedabek open pit

The revised JORC (2012) mineral resources and reserves estimates were published in 2018 (page 11). Geological work in 2018 included 58 surface diamond core drill-holes totalling 5,947 metres, 208 surface reverse circulation drill-holes totalling 11,340 metres and 7 underground diamond core drill-holes totalling 654 metres.

Gadir underground mine

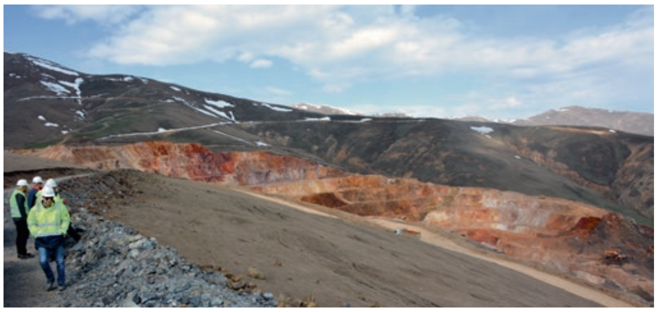
A maiden JORC (2012) mineral resources and reserves estimates were published in March 2019 (page 12 and 13). Geological work in 2018 included 19 surface diamond core drill-holes totalling 8,953 metres, 43 underground diamond core drill-holes totalling 4,735 metres and 105 BQ-size underground core drill-holes totalling 2,838 metres.

Gosha

A new discovery was made of polymetallic mineralisation at the Asrikchay target area. Significant polymetallic drill-hole intersection was found with weighted grade averages from 228.70 metres to 233.00 metres (4.30 metre downhole thickness) of 4.11 grammes per tonne of gold, 112.23 grammes per tonne of silver, 3.07 per cent. copper and 3.0 per cent. zinc.

Combined mine life extended to

2024



Ugur open pit

Geological work carried out in 2018 included 12 surface diamond core drill-holes totalling 3,875 metres, collection of 650 outcrop samples, 250 linear metres of trenching with 215 samples obtained and 40,000 square metres of detailed geological (lithological, alteration and structural) mapping.

"A helicopter-borne electromagnetic and magnetic survey was completed over Gedabek in the fourth quarter of 2018. The survey utilised the Z-Axis Tipper Electromagnetic system ("ZTEM") and a high sensitivity magnetometer."

- The survey was carried out with the co-operation and assistance of the Government of Azerbaijan and was the first of its kind in the country.
- This method employed is especially suitable for porphyry copper-gold and epithermal copper-gold-silver exploration.
- A total of 3,385 linear kilometres were flown over Gedabek.
- Results identified multiple promising and prospective mineral targets including:
  - 25 targets favourable for epithermal and porphyry mineralisation; and
  - Six magnetic targets consistent with porphyry systems.
- Planning for detailed investigation of targets identified now underway.

Strategic report

Reza Vaziri

"The total production target for the year to 31 December 2019 is 65,000 ounces to 67,500 ounces of gold and 3,100 tonnes to 3,300 tonnes of copper. This total production target expressed as gold equivalent ounces ("GEOs") is between 82,000 GEOs and 86,000 GEOs, compared to total production for the year to 31 December 2018 of 83,736 GEOs."

The directors present their strategic report for the year ended 31 December 2018.

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 2018 and 2019 to date and 2019 production target

In 2018, the Group built upon the successful results of the wide-ranging strategic review carried out in 2017 to ensure long term sustainable production at Gedabek:

- Mining was carried out throughout 2018 from the Ugur open pit which commenced operations in September 2017. 1.2 million tonnes of ore grading an average of 1.27 grammes of gold per tonne were mined from the Ugur open pit in 2018. A second jaw crusher line was installed for the flotation plant which commenced operation in July 2018. This enabled the agitation leaching plant and the flotation plant to operate independently.
- The Group continued to formalise all its resources and JORC mineral resources and ore reserves estimates were published for both the Gedabek open pit mine and the Gadir underground mine.
- A three-year geological exploration programme was commenced in 2018 which includes near mine, brownfield and greenfield exploration. As part of this programme, an airborne geophysical survey of the entire Gedabek contract area was carried out in quarter four 2018.

The Group has a production target for the year to 31 December 2019 of 65,000 ounces to 67,500 ounces of gold and 3,100 tonnes to 3,300 tonnes of copper. The total production target for the year to 31 December 2019 expressed as gold equivalent ounces ("GEOs") is between 82,000 GEOs and 86,000 GEOs, compared to total production for the year to 31 December 2018 of 83,736 GEOs.

Gedabek

Introduction

The Gedabek mining operation is located in a 300 square kilometre contract area in the Lesser 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 Gedabek open pit and processed by heap leaching in May 2009, with production fully commencing in September 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 at Gedabek 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. In July 2018, a second crusher line was added to the flotation plant to enable independent operation and processing by the agitation leaching plant and the flotation plant.

Mineral resources and ore reserves

Key to the future development of the Gedabek site is our knowledge of the mineral resources and ore reserves within our contract areas. The Group's most recent mineral resources and ore reserves estimates for the Gedabek open pit were published as of 18 September 2018. Full JORC (2012) reporting with unchanged mineral resources and ore reserves estimates was subsequently released on 14 March 2019. The mineral resource showed a total resource (at a cut-off grade of 0.3 grammes per tonne of gold) of approximately 986 thousand ounces of gold, 63.4 thousand tonnes of copper and 8,172 thousand ounces of silver. The economically mineable ore reserves are over 343,000 ounces of gold and more than 36,000 tonnes of copper, which has extended the current life of the Gedabek open pit until 2024. Table 1 shows the Gedabek open pit mineral resources estimate at 14 March 2019 and Table 2 shows the Gedabek open pit ore reserves estimate at 14 March 2019.

Table 1 – Gedabek open pit mineral resources estimate at 14 March 2019

Mineral resources	In situ (million of tonnes)	Gold grade (g/t)	Copper grade (per cent.)	Silver grade (g/t)	Gold (thousand of ounces)	Copper (thousand of tonnes)	Silver (thousand of ounces)
	Gold (and Copper) Mineral Resources (cut-off grade ≥ 0.3g/t gold)				Contained metal		
Measured	18.0	0.9	0.2	8.3	532	38.0	4,800
Indicated	11.1	0.7	0.1	5.6	264	15.7	2,011
Measured and Indicated	**29.1**	**0.9**	**0.2**	**7.3**	**796**	**53.7**	**6,811**
Inferred	8.5	0.7	0.1	5.0	189	9.7	1,361
Total	**37.6**	**0.8**	**0.2**	**6.8**	**986**	**63.4**	**8,172**

Some of the totals in the above table do not sum due to rounding.

Copper Mineral Resources (additional to gold mineral resource) (cut-off grade gold <0.3g/t and copper ≥ 0.3 per cent.)

Mineral resources	In situ (million of tonnes)	Gold grade (g/t)	Copper grade (per cent.)	Silver grade (g/t)	Gold (thousand of ounces)	Copper (thousand of tonnes)	Silver (thousand of ounces)
Measured	5.3	0.1	0.5	2.1	21	26.3	356
Indicated	0.9	0.1	0.5	1.6	3	4.4	48
Measured and Indicated	**6.2**	**0.1**	**0.5**	**2.0**	**24**	**30.7**	**404**
Inferred	0.5	0.1	0.4	1.5	1	1.9	23
Total	**6.7**	**0.1**	**0.5**	**2.0**	**25**	**32.6**	**426**

Some of the totals in the above table do not sum due to rounding.

Table 2 – Gedabek open pit ore reserves estimate at 14 March 2019

	Ore reserves						
		In situ grades			Contained metal		
Ore reserves	Tonnage (thousand of tonnes)	Gold grade (g/t)	Copper grade (per cent.)	Silver grade (g/t)	Gold (thousand of ounces)	Copper (thousand of tonnes)	Silver (thousand of ounces)
Proved	10.9	0.89	0.29	8.83	311	31.9	3,084
Probable	1.2	0.82	0.34	9.52	32	4.1	373
Proved and Probable	**12.1**	**0.88**	**0.30**	**8.90**	**343**	**36.0**	**3,457**

Some of the totals in the above table do not sum due to rounding.

The above proved and probable ore reserves estimate is based on that portion of the Measured and Indicated Mineral Resource of the deposit within the scheduled mine designs that may be economically extracted, considering all "Modifying Factors" in accordance with the JORC (2012) Code.

The latest JORC (2012) mineral resources and ore reserves statements for the Ugur deposit were completed in 2017. Table 3 shows the Ugur open pit mineral resources estimate at 1 August, 2017 and Table 4 shows the Ugur open pit ore reserves estimate at 1 August, 2017.

Gedabek continued

Mineral resources and ore reserves continued

Table 3 – Ugur open pit mineral resources estimate at 1 August 2017

Mineral resources	In situ. (million of tonnes)	Mineral resources (cut-off grade ≥ 0.2g/t gold) In situ grades Gold grade (g/t)	Silver grade (g/t)	Contained metal Gold (ounces)	Silver (ounces)
Measured	4.12	1.2	6.3	164,000	841,000
Indicated	0.34	0.8	3.9	8,000	44,000
Measured and Indicated	**4.46**	**1.2**	**6.2**	**172,000**	**884,000**
Inferred	2.50	0.3	2.1	27,000	165,000
Total	**6.96**	**0.9**	**4.7**	**199,000**	**1,049,000**

Some of the totals in the above table do not sum due to rounding.

Table 4 – Ugur open pit ore reserves estimate at 1 August 2017

Ore reserves	In situ. (million of tonnes)	Ore reserves In situ grades Gold grade (g/t)	Silver grade (g/t)	Contained metal Gold (ounces)	Silver (ounces)
Proved	3.37	1.3	7.2	142,000	779,000
Probable	0.22	0.8	4.1	5,000	29,000
Proved and Probable	**3.59**	**1.3**	**7.0**	**147,000**	**808,000**

The above proved and probable ore reserves estimate is based on that portion of the Measured and Indicated Mineral Resource of the deposit within the scheduled mine designs that may be economically extracted, considering all "Modifying Factors" in accordance with the JORC (2012) Code.

In March 2019, the Group published the JORC (2012) mineral resources statement and ore reserves estimate for its Gadir underground mine. The mineral resources statement showed measured plus indicated mineral resources (at a cut-off grade of 0.5 grammes per tonne of gold) of 1,775,000 tonnes containing 145,200 ounces of gold, 736,100 ounces of silver, 3,295 tonnes of copper and 14,470 tonnes of zinc. Table 5 shows the Gadir underground mine mineral resources estimate as at 20 August 2018. Table 6 shows the Gadir underground mine ore reserves estimate as at 20 August 2018.

Table 5 – Gadir underground mine mineral resources estimate at 20 August 2018

		Mineral Resources (cut-off grade ≥ 0.5g/t gold)							
		Gold		Silver		Copper		Zinc	
Mineral resources	In situ (thousand of tonnes)	(g/t)	(thousand of ounces)	(g/t)	(thousand of ounces)	(per cent.)	(tonnes)	(per cent.)	(tonnes)
Measured	540	3.70	64.2	17.49	303.6	0.29	1,566	1.01	5,454
Indicated	1,235	2.04	81.0	10.89	432.4	0.14	1,729	0.73	9,016
Measured and Indicated	**1,775**	**2.54**	**145.2**	**12.90**	**736.1**	**0.21**	**3,295**	**0.84**	**14,470**
Inferred	571	1.48	27.2	5.68	104.4	0.10	571	0.52	2,972
Total	**2,347**	**2.29**	**172.4**	**11.14**	**840.4**	**0.19**	**3,866**	**0.78**	**17,442**

Some of the totals in the above table do not sum due to rounding.

Table 6 – Gadir underground mine ore reserves estimate at 20 August 2018

	Ore reserves						
		Gold		Silver		Copper	
One reserves	In situ (thousand of tonnes)	(g/t)	(thousand of ounces)	(g/t)	(thousand of ounces)	(per cent.)	(tonnes)
Proved	222	2.81	25	14.13	101	0.24	535
Probable	575	2.41	45	10.99	203	0.15	852
Proved and Probable	**797**	**2.73**	**70**	**11.86**	**304**	**0.17**	**1,387**

Some of the totals in the above table do not sum due to rounding.

The above proved and probable ore reserves estimate is based on that portion of the Measured and Indicated Mineral Resource of the deposit within the scheduled mine designs that may be economically extracted, considering all "Modifying Factors" in accordance with the JORC (2012) Code. Zinc was not estimated as part of this reserve as is under study as resource level currently.

Mining operations

The principal mining operation at the Gedabek contract area is conventional open-cast mining using truck and shovel from the Gedabek open pit (which comprises several contiguous smaller open pits) and the 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, medical and HSE offices, hygiene facilities, a mechanical workshop, lubricants and spares stores, a weighbridge and a diesel store was also constructed at the mine site. Due to the composition of the Ugur ore, mining of ore in the first few months of operation was by free digging, with drilling and blasting not required. Ore was mined from the Ugur open pit mine throughout 2018.

Ore is also mined from the Gadir underground mine which is situated approximately one kilometre from the Gedabek open pit. Table 7 shows the ore mined in 2018 from all the Company's mines at Gedabek and Gosha.

Table 7 – Ore mined at Gedabek from all mines (including Gosha) for the year ended 31 December 2018

	Total ore mined (12 months to 31 December 2018)	
Mine	Ore mined (tonnes)	Average gold grade (g/t)
Gedabek open pit	362,412	1.06
Ugur – open pit	1,245,104	1.27
Gadir – underground	125,806	4.53
Gosha – underground	10,988	3.44
Total	**1,744,310**	**1.47**

Various initiatives were undertaken at Gedabek during 2018 to improve efficiency and working practices of its mining operations. These included the following:

- The Company reconfigured its ROM stockpile pads. This is to enable more efficient (and therefore lower cost) handling of plant feed as well as optimising ore blending.
- Transportation logistics were improved with a new spur road link constructed between the Gedabek open pit mine and processing plant. This new road reduces haulage distances between the mine and the processing plant.
- An expansion of the on-site maintenance facilities and workshop commenced.
- Several specialist managers were recruited to improve working practices in the areas of mining, drill and blast, equipment operation and maintenance.
- A diesel filtration system has been installed to improve the quality of fuel used which improves the efficient operation of equipment.
- A new solution sprinkling system has been installed which better distributes cyanide on heaps that are being leached.

Strategic report continued

Gedabek continued

Processing operations

Ore is processed at Gedabek to produce either gold doré (an alloy of gold and silver with small amounts of impurities, mainly copper) 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 by the impervious base under the pad.
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. This process is used for very low grade ores.
3. **Agitation leaching.** Ore is crushed and then milled in a grinding circuit. The finely ground ore is placed in stirred (agitation) tanks containing cyanide solution and the contained metal is dissolved in the solution. Depending on the composition of the ore, an option is available to process the finely ground ore through the flotation plant prior to, or after treatment by, the agitation leaching plant. However, since installation of the second crusher line for the flotation plant in 2018, the two plants have been operating independently. Any coarse, free gold is separated using a centrifugal type Knelson concentrator.

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 mixed 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.
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 topography of the Gedabek site, this is 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.

In 2018, a second crusher line was installed for the flotation plant. This has a budgeted capacity of 95 tonnes per hour compared to the original crusher of up to 120 tonnes per hour. This removed a large bottleneck and enabled independent operation of the agitation leaching and flotation plants from separate sources of feedstock. The addition of this second crusher not only significantly increases the capacity of our processing plants, but also their flexibility.

Production and sales

For the year ended 31 December 2018, total gold production as doré bars and as a constituent of the copper and precious metal concentrate totalled 72,798 ounces, which was an increase of 13,181 ounces in comparison to the production of 59,617 ounces for the year ended 31 December 2017.

Table 8 summarises the amount of ore and its gold grade processed by leaching at Gedabek for the year ended 31 December 2018.

Table 8 – Ore and its gold grade processed by leaching at Gedabek for the year ended 31 December 2018

Quarter ended	Ore processed (tonnes) Heap leach pad (crushed ore)	Heap leach pad (ROM ore)	Agitation leaching plant	Gold grade of ore processed (g/t) Heap leach pad (crushed ore)	Heap leach pad (ROM ore)	Agitation leaching plant
31 March 2018	170,655	188,364	184,846	0.92	0.51	2.07
30 June 2018	150,573	77,493	196,107	0.91	0.51	2.19
30 September 2018	195,957	136,595	196,700	0.91	0.40	2.39
31 December 2018	154,901	131,861	173,332	0.81	0.48	2.26
Total for the year	**672,086**	**534,313**	**750,985**	**0.89**	**0.47**	**2.23**

Table 9 summarises the amount of ore and its gold, silver and copper content processed by flotation for the year ended 31 December 2018.

Table 9 – Ore and its gold, silver and copper content processed by flotation for the year ended 31 December 2018

Quarter ended	Ore processed (tonnes)	Gold content (ounces)	Silver content (ounces)	Copper content (tonnes)
31 March 2018*	43,159	1,790	21,979	199
30 June 2018*	54,134	2,415	29,236	237
30 September 2018**	131,102	4,818	62,472	587
31 December 2018**	129,102	4,625	70,292	690
Total for the year	**357,497**	**13,648**	**183,979**	**1,713**

* During this time the flotation plant was operated in series with the agitation leaching plant processing its tailings.

** During this time the flotation plant was operated independently in parallel to the agitation leaching plant following installation of the second jaw crusher.

Table 10 summarises the gold and silver bullion produced from doré bars and sales of gold bullion for the year ended 31 December 2018.

Table 10 – Gold and silver bullion produced from doré bars and sales of gold bullion for the year ended 31 December 2018

Quarter ended	Gold produced* (ounces)	Silver produced* (ounces)	Gold sales** (ounces)	Gold sales price ($/ounce)
31 March 2018	15,750	7,110	14,956	1,328
30 June 2018	15,537	6,014	10,822	1,307
30 September 2018	18,885	7,416	18,637	1,216
31 December 2018	15,444	5,646	15,066	1,231
Total for the year	**65,616**	**26,186**	**59,481**	**1,265**

* Including Government of Azerbaijan's share.

** Excluding Government of Azerbaijan's share.

Table 11 summarises the total copper, gold and silver produced as concentrate by both SART and flotation processing for the year ended 31 December 2018.

Table 11 – Total copper, gold and silver produced as concentrate by both SART and flotation processing for the year ended 31 December 2018

	Copper (tonnes)			Gold (ounces)			Silver (ounces)		
Quarter ended	SART	Flotation	Total	SART	Flotation	Total	SART	Flotation	Total
31 March 2018	114	141	255	6	735	741	22,118	11,587	33,705
30 June 2018	137	195	332	6	1,226	1,232	21,800	16,387	38,187
30 September 2018	81	389	470	7	2,437	2,444	17,357	34,573	51,930
31 December 2018	67	521	588	13	2,752	2,765	14,229	45,947	60,176
Total for the year	**399**	**1,246**	**1,645**	**32**	**7,150**	**7,182**	**75,504**	**108,494**	**183,998**

Strategic report continued

Gedabek continued

Production and sales continued

Table 12 summarises the total copper concentrate (including gold and silver) production and sales from both SART and flotation processing for the year ended 31 December 2018.

Table 12 – Total copper concentrate (including gold and silver) production and sales from both SART and flotation processing for the year ended 31 December 2018

Quarter ended	Concentrate production* (dmt)	Copper content* (tonnes)	Gold content* (ounces)	Silver content* (ounces)	Concentrate sales (dmt)	Concentrate sales** ($000)
31 March 2018	1,042	255	741	33,705	608	1,715
30 June 2018	1,396	332	1,232	38,187	1,736	4,221
30 September 2018	2,663	470	2,444	51,930	1,557	3,368
31 December 2018	3,706	588	2,765	60,176	3,774	6,131
Total for the year	**8,807**	**1,645**	**7,182**	**183,998**	**7,675**	**15,435**

* Including the Government of Azerbaijan's share.

** These are invoiced sales before any accounting adjustments in respect of IFRS 15. The total for the year does not therefore agree to the revenue disclosed in note 6 – "Revenue" to the Group financial statements.

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

The Gedabek site has its own water treatment plant which was constructed in 2017 and 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 using water from the tailings dam, which is being used in Gedabek's processing facilities.

Wastewater evaporation equipment is 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.

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 flow 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. There are two pipelines from the Company's processing facilities to the tailings dam to increase capacity and provide redundancy.

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 a team of 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 2018, there were 44 reportable safety incidents (2017: 45), of which nine involved injuries to personnel. Five of these cases were minor injuries, but four (2017: two) were lost time incidents (LTI), where the casualty had to take time off work. A formal Permit-to-Work system has now been fully implemented for all maintenance activities carried out in high-risk areas, to ensure the safety of the personnel engaged in these activities, which are closely monitored by staff from the Health and Safety department.

An HSE encouragement programme has been introduced, which awards bonuses to members of the workforce for outstanding HSE or housekeeping activities, on the recommendation of HSE or supervisory staff. Good HSE performance is publicly recognised on posters in the canteen and other public places.

Training for the HSE staff is on-going. In 2018, all the department's staff successfully passed the "IOSH Managing Safely" training course provided by the Institution of Occupational Safety and Health from the United Kingdom.

Geological exploration activity

The Group's geological programme at Gedabek in 2018 formed part of a rolling three-year exploration plan and was designed to achieve the following main objectives:

- To establish the gold and copper-gold distribution of the Gedabek open pit to update the resource and reserve estimate.
- To assess the extent of the further mineralisation of the Gadir underground mine and confirm ongoing mineable ore through the publication of a resource and reserve estimate, in accordance with the JORC (2012) Code.
- To commence exploration of the mineral potential below the Gedabek main open pit from underground.
- To bring new mineral occurrence targets into the resource and reserve pipeline.
- To identify new areas of mineralisation and targets which can be fast tracked into production as standalone mines.

The major results of geological exploration for the year ended 31 December 2018 are as follows:

- A clear understanding was obtained of the combined production profile of all operating mines that gave a mine life until the end of 2024 from the current reserves.
- A helicopter-borne electromagnetic and magnetic survey was completed over Gedabek. The initial results indicated several targets for follow-up exploration activity.
- Drilling at the northern and southern margins of the Gedabek open pit confirmed the existence of further mineable copper and gold extensions. Additional mineralisation was also confirmed beneath the Gedabek open pit.

The detailed work carried out at Gedabek in 2018 by location is as follows:

Gedabek regional

- 3,385 metres of airborne ZTEM and magnetic geophysics were completed on a 200 metre line spacing. Twenty five targets favourable for epithermal and porphyry mineralisation and six magnetic targets consistent with porphyry systems were identified for more detailed exploration.
- 2 surface diamond core drill-holes over the Umid area (located about 1.5 kilometres west of the Company's heap leach processing area) ("Umid") were completed totalling 1,177 metres.
- 3 surface reverse circulation drill-holes were drilled over Umid totalling 587 metres.
- 25 outcrop samples were collected over the Duzyurd area.

Gedabek open pit (and underground)

- 58 surface diamond core drill-holes were completed totalling 5,947 metres.
- 208 surface reverse circulation drill-holes were completed totalling 11,340 metres.
- 7 underground diamond core drill-holes were completed totalling 655 metres.
- 718 metres of tunnel development were completed from the Gadir decline to below Gedabek 'Pit 4'. This will create drilling platforms to better assess the potential for underground development of the Gedabek deposit.

Gadir

- 19 surface diamond core drill-holes were completed totalling 8,953 metres.
- 43 underground diamond core drill-holes (HQ/NQ in size) were completed totalling 4,735 metres.
- An additional 105 BQ-size underground core drill-holes were completed totalling 2,838 metres.
- 2,703 metres of underground geological mapping from the mine tunnels were completed.
- Surface induced polarisation ("IP") and ground magnetics over the Gadir footprint completed covering 3.7 square kilometres (results are expected shortly).

Ugur

- 12 surface diamond core drill-holes were completed totalling 3,875 metres.
- 650 outcrop samples were collected.
- 250 linear metres of trenching, with 215 samples obtained.
- 40,000 square metres of detailed geological (lithological, alteration and structural) mapping were completed.

Söydülü

- 146 outcrop samples were collected.
- 8 stream sediment samples were collected.

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.

Production

A total of 10,988 tonnes of ore of average gold grade 3.44 grammes per tonne were mined at Gosha in the year ended 31 December 2018.

Exploration activity

A new discovery of polymetallic mineralisation was made at the Asrikchay target area 7 kilometres north from the Gosha underground mine. A significant polymetallic drill-hole intersection was found with weighted grade averages from 228.70 metres to 233.00 meters (4.30 metre downhole thickness) of 4.11 grammes per tonne of gold, 112.23 grammes per tonne of silver, 3.07 per cent. copper and 3.0 per cent. zinc. Preliminary follow-up surface geophysics has been completed over Asrikchay to identify the deposit geometry and the results are awaited.

Ordubad

The 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 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 approximately 120,000 ounces of gold, 280,000 ounces of silver and 4.01 tonnes of copper, but these estimates have never been substantiated.

The geological exploration programme at Ordubad was significantly expanded in 2018, compared to previous years. The work was to assess the extent of the copper, gold and associated mineralisation and to verify the Soviet era data which indicates extensive potential mineralisation.

Ordubad continued

A summary of the work carried out in 2018 is as follows:

- Completion of a surface geochemical sampling programme covering the Shakardara and Dirnis areas, for a total area of 26.7 square kilometres, following up on porphyry-style alteration zones and surface outcrops of malachite mineralisation. A total of 5,504 samples were collected and sent for analysis to ALS Minerals 'OMAC' (ALS Loughrea) in Ireland; results are expected in the second quarter of 2019.
- A geological research team from the Natural History Museum ('NHM') of London worked with the Company at Ordubad for two weeks in November 2018, collecting 83 samples for X-Ray Diffraction analysis ('XRD') and petrographic studies, among others.
- 1,488 metres of linear trenching were completed at Shakardara, with 916 trench samples collected and over 989 metres sampled.
- 42 stream sediment samples were collected at Piyazbashi.
- Detailed geological (lithological, alteration and structural) mapping was completed over the 26.7 square kilometre Shakardara geochemical study area.
- 5,500 metres of road clearing was completed by bulldozer to access mineral occurrences and deposits.
- Preliminary review of primary historical geological reports and initial target selection.
- Drill-hole planning for 2019 at the copper target of Dirnis and the gold targets at Keleki.

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 the majority 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 can be settled within one to two days of receipt of the doré or the Group, at its discretion, can sell the resulting refined gold bullion to MKS Finance SA following refining of the doré. The Group has not experienced in 2018 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. One trial shipment was made in 2018 to an alternative refiner in Switzerland as the refiner was offering better commercial terms than MKS Finance SA.

The Gedabek mine site has good road transportation links and our copper and precious metal concentrate is collected by truck from the Gedabek site by the purchaser. In 2014, the Group commenced selling its copper concentrate produced by SART processing to Industrial Minerals SA, a Swiss-based integrated trading, mining and logistics group under an exclusive three year contract. This contract has been subsequently renewed and expanded to include copper concentrate produced by flotation, in addition to the SART concentrate. The latest renewal of the contract was signed on 1 January 2019 for a period of one year, but the contract will automatically extend unless terminated by either party.

In June 2018, the Group signed a contract with Trafigura Pte. Limited ("Trafigura") for the sale of copper concentrates produced by flotation processing. The contract has no expiry date unless terminated by either party and the first shipment of concentrate was made under the contract in September 2018.

It is intended that Trafigura will purchase all concentrate produced by flotation and Industrial Minerals SA those produced by SART processing. The Group has experienced no delays in the shipment of copper concentrates in 2018.

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 expenditure 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 Group financial statements.

Tailing dam
Aeriel view of the tailings dam showing its wall and the reed bed at the bottom of the wall. Following the Brumadinho dam collapse, independent environmental consultants have been appointed to inspect the dam.

Liquidity and interest rate risk
During 2018, 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 2018, but this recourse is reviewed on a periodic basis. Information on the exposure to changing interest rates is disclosed in note 23 to the Group financial statements. The approval of the board of directors is required for all new borrowing facilities.

The Group's surplus cash deposits have been steadily increasing since the beginning of 2018. The Group places these on deposit with a range of banks to both ensure it obtains the best return on these deposits and to minimise counterparty risk. The amount of interest received on these deposits is not material to the financial results of the Company and therefore any decrease in interest rates would not have any adverse effect.

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
15 May 2019

Ordubad

"We have also substantially increased our efforts at Ordubad which is a highly prospective region with great promise. Whilst still relatively early days, Ordubad has the potential to significantly grow the Company in future years."

Misdag, Agyurt and Shalala
Ordubad contains numerous mineral deposits all located within a five-kilometre radius. This is a view of the Misdag, Agyurt and Shalala region.

Piyazbashi
View of the Piyazbashi target. In the bottom centre of the picture is a portal to an adit which was driven during the Soviet era.

Exploration budget for 2019

over $1.8m

Budget includes satellite and geological mapping, surface geological sampling and around 6,000 metres of core drilling.

Dirnis and Keleki
Drilling has now started at the Dirnis copper target and Keleki gold target.

Financial review

Reza Vaziri and William Morgan

"The Group recorded a profit before taxation in 2018 of $25.2m compared to $5.7m in 2017. This was due to higher revenues, a lower all-in sustaining cost of gold production and lower finance costs."

The directors present their financial review for the year ended 31 December 2018. This financial review forms part of the strategic report on pages 10 to 19.

Group statement of income

The Group generated revenues in 2018 of $90.4m (2017: $71.8m) from the sales of gold and silver bullion and copper and precious metal concentrate.

The revenues in 2018 included $75.5m (2017: $55.4m) generated from the sales of gold and silver bullion from the Group's share of the production of doré bars. Bullion sales in 2018 were 59,481 ounces of gold and 25,394 ounces of silver (2017: 43,496 ounces of gold and 18,442 ounces of silver) at an average price of $1,265 per ounce and $16 per ounce respectively (2017: $1,265 per ounce and $17 per ounce respectively). In addition, the Group generated revenue of $14.9m (2017: $16.4m) from the sale of 7,675 (2017: 8,497) dry metric tonnes of copper and precious metal concentrate. The Group's revenue benefited in the year from both a higher average price of gold at $1,269 per ounce (2017: $1,258 per ounce) and a higher average price of copper at $6,527 per metric tonne (2017: $6,200 per metric tonne).

The Group did not hedge any metal sales during 2017 or 2018.

The Group incurred cost of sales in 2018 of $56.5m (2017: $56.8m). Higher cash costs, depreciation and stockpile movement were offset by an increased credit in respect of deferred stripping costs which in 2018 were $4.7m compared to $0.5m in 2017. The cash cost of mining and processing increased marginally by $1.4m from $39.1m in 2017 to $40.5m in 2018 despite the increase in production. The cost of reagents decreased by $2.8m due to operational efficiencies and the processing of Ugur ores which do not contain copper. Excavation and haulage costs increased by $2.1m and employee costs by $0.9m following the recruitment of specialised managers in the year.

Depreciation and amortisation in 2018 was slightly higher at $22.9m compared to $22.8m in 2017. 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 impact of the higher production of gold in 2018 was offset by an increase in the amount of economically recoverable reserves used to determine the depreciation and amortisation.

The Group had other income in 2018 of $0.1m (2017: $0.6m). The Group incurred administration expenses in 2018 of $5.3m (2017: $4.7m). 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 United Kingdom pounds sterling. United Kingdom pounds sterling strengthened against the US dollar in 2018 compared to 2017 whilst the Azerbaijan New Manat was relatively stable. This resulted in higher administration costs when the costs were translated into United States dollars. Finance costs in 2018 were $1.6m (2017: $3.5m) 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 significant reduction in the average debt in 2018 and a reduction in the average interest rate on the debt.

The Group recorded a profit before taxation in 2018 of $25.2m compared to $5.7m in 2017. This was due to higher revenues, a lower all-in sustaining cost of gold production and lower finance costs.

The Group had a taxation charge in 2018 of $8.9m (2017: $3.2m). This comprised a current income tax charge of $7.3m (2017: $nil) and a deferred tax charge of $1.6m (2017: $3.2m). The current income tax charge of $7.3m was incurred by R.V. Investment Group Services ("RVIG") in Azerbaijan. RVIG generated taxable profits in 2018 of $27.5m of which $4.7m were offset against tax losses brought forward. The balance of the taxable profits of $22.8m were taxed at 32 per cent. (the corporation tax rate stipulated in the Group's production sharing agreement) resulting in the income tax charge of $7.3m. RVIG had no tax losses carried forward at 31 December 2018.

The taxable profits of the operating company in Azerbaijan are taxed at 32 per cent. However, the Group's overall tax rate in 2018 was 35 per cent. (2017: 56 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 2018 totalled $3.3m (2017: $3.1m).

All-in sustaining cost of gold production

The Group produced gold at an all-in sustaining cost ("AISC") per ounce of $541 in 2018 compared to $604 in 2017. 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 decrease in 2018 compared to 2017 was the higher level of production. Although total costs increased, many of the Company's costs are fixed or semi-fixed and did not increase in direct proportion to the revenue.

Financial review continued

Group statement of financial position

Non-current assets decreased from $104.4m at the end of 2017 to $98.6m at the end of 2018. The main reason for the decrease was property, plant and equipment being lower by $6.2m due to depreciation in the year. Intangible assets increased from $16.2m at the end of 2017 to $17.0m at the end of 2018 due to expenditure on geological exploration and evaluation of $2.9m offset by amortisation.

There were net current assets of $33.5m at the end of 2018 compared to $12.6m at the end of 2017. The main reason for the increase in net current assets was an increase in cash of $12.0m and a decrease in the current portion of loans payable of $13.3m. The Group's cash balances at 31 December 2018 were $14.5m (2017: $2.5m). Surplus cash is maintained in US dollars and placed on fixed deposit with several banks at tenors of between one to three months at interest rates of around 2.5 to 3.0 per cent.

Net assets of the Group at the end of 2018 were $98.4m (2017: $85.4m). The increase was due to the retained earnings increasing and the issue of shares during the year. During 2018, 631,000 ordinary shares were issued in respect of share options that were held by employees at prices between 9.9 pence and 35.5 pence per share. This increased the net assets of the Group by $0.1m.

The Group is financed by a mixture of equity and debt. The Group's total debt at 31 December 2018 was $8.4m, a significant reduction from $20.7m in 2017 following strong cash generation in the year. The Group also refinanced $13.5m of its outstanding debt during 2018 with a 3 year refinancing loan. This loan carries a fixed interest rate of 7 per cent. and is unsecured and contains no covenants. The refinancing loan is the only outstanding borrowing at 31 December 2018.

The Group continues to reduce the 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 interest rate on its only outstanding loan at 31 December 2018 was 7 per cent. (2017: weighted average interest rate on debt of 8 per cent.).

The Group's holding company, Anglo Asian Mining PLC, reduced its share premium account to $nil in 2018. Accordingly, the reduction of $32.6m was transferred to retained earnings. The reduction was approved by the Court and was to create distributable reserves to allow the holding company to pay dividends. This gave the Group the capacity to pay dividends to its shareholders of up to a total of $13.5m. This amount can be increased by operating profits in subsidiaries being transferred to Anglo Asian Mining PLC by way of dividend. The share premium account had a balance at the end of 2018 of $33,000. This was in respect of the premium on 75,000 shares issued at 35.44 pence subsequent to the reduction in the share premium account.

Group cash flow statement

Operating cash inflow before movements in working capital for 2018 was $50.1m (2017: $32.2m). The main source of operating cash flow was operating profit before the non-cash charges of depreciation and amortisation in 2018 of $49.8m (2017: $32.0m) after adding back finance cost.

Working capital movements generated cash of $0.6m (2017: absorbed cash of $2.4m) largely due to an increase in trade and other payables of $2.7m (2017: decrease of $4.6m).

Cash from operations in 2018 was $50.7m compared to $29.8m in 2017 due to higher operating cash inflow before movements in working capital.

The Company paid corporation tax in 2018 of $3.6m (2017: $nil) in Azerbaijan in accordance with local requirements. These were payments on account of its liability for the year ended 31 December 2018 which is discussed above.

Expenditure on property, plant and equipment and mine development was $15.3m (2017: $9.4m). The main items of expenditure in 2018 were capitalisation of deferred stripping costs of the main open pit and the Ugur open pit of $7.2m, the Jaw crusher and associated equipment for the flotation plant of $2.8m, Gadir and Gedabek development of $3.0m and mining and other equipment of $2.3m.

Exploration and evaluation expenditure in 2018 of $2.9m (2017: $1.0m) was incurred and capitalised. This arose on exploration at the Gedabek, Gosha and Ordubad contract areas.

Dividends

The Group paid its first dividend in 2018 of $0.03 per share. The dividend was declared in United States dollars but paid in United Kingdom pounds sterling in the amount of 2.2864 pence. The dividend was converted to United Kingdom pounds sterling using the average of the sterling closing mid-price using the exchange rate published by the Bank of England at 4pm each day from the 15 to 19 October 2018. The total cost of the dividend was $3.4m. The directors have announced a final dividend of $0.04 per share in respect of the financial year ended 31 December 2018. This is subject to the approval of the shareholders and will cost $4.6m but has not been accrued in the 2018 financial statements.

The directors have announced a policy to target a distribution to shareholders each year comprising approximately 25 per cent. of the Group's free cash flow. This distribution will be made in two approximately equal installments comprising an interim and final dividend. The amounts and timing of payment of the interim and final dividends will be announced each year along with the Group's interim and final results respectively. The board will review this policy each year taking into account the financing needs of the business at that time. Free cash flow is defined as net cash flow from operating activities less capital expenditure and in 2018 was $28.9m (2017: $19.4m).

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 2018. The Government's share of production in 2018 (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 2018 of 12.75 per cent. (2017: 12.75 per cent.) of the value of its production.

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 31 December 2018 were $76.9m and $23.3m respectively (2017: $94.6m and $21.8m respectively).

The Group's 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.

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 2020 and satisfying themselves that the Group will have sufficient funds on hand to meet its obligations as and when they fall due over the period of their assessment. Appropriate rigour and diligence has been applied by the directors who believe the assumptions are prepared on a realistic basis using the best available information.

The Group had cash balances of $17.7 million and debt of $6.9 million at 31 March 2019. The Group is able to fund its working capital requirements and service its borrowings from cash generated from its operations at Gedabek. The Group's borrowings are unsecured and without any financial covenants and all payments of interest and principal in 2018 and 2019 to date have been made in accordance with the terms of the relevant loan agreements. The Group has access to local sources of both short and long term finance should this be required.

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found within the chairman's statement on pages 4 to 6 and within the strategic report on pages 10 to 19. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed within this 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 directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Reza Vaziri
President and chief executive
15 May 2019

W R Morgan

William Morgan
Chief financial officer
15 May 2019

Board of directors

Mr Khosrow Zamani*

Non-executive chairman, age 76

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 was formerly a non-executive board member and chairman of the corporate governance committee of Sekerbank A.S., a publicly listed commercial bank in Turkey, and a non-executive board member and a member of the compensation committee of Komercijalna Bank, Serbia.

Mr Richard Round*

Non-executive director, age 61

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 76

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 66

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 79

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

Prior to 2018, the rules of AIM did not require the Company to comply with the United Kingdom Corporate Governance Code (the "Code"). However, the Company fully supported the principles set out in the Code and complied wherever possible given both the size and the resources available to the Company.

In 2018, the board of directors (the "Board") adopted the principles of the 2018 Quoted Companies Alliance Corporate Governance Code (the "QCA Code") to support the Company's corporate governance framework. The directors acknowledge the importance of the ten principles set out in the QCA Code. The QCA Code is a code of best practice for AIM companies.

Set out below are the ten principles of corporate governance in the QCA Code, the Company's compliance with each of the ten principles and the required annual report and accounts disclosure. A table of the ten principles is also available on the Company website (http://www.angloasianmining.com/media/pdf/CORPORATE_GOVERNANCE.pdf) which also sets out the Company's compliance, or an explanation for any non-compliance, with the QCA Code.

Compliance with the principles of the QCA code

1 Establish a strategy and business model which promote long-term value for shareholders

The Company has a portfolio of gold, copper and silver exploration and production assets in Azerbaijan. The Company has a clear strategy of growing a sustainable mining business in Azerbaijan which is fully set out in the chairman's statement, strategic report and other sections of this annual report. As with any other company in the extractive industries, a key challenge is to replace the mineral resources mined. This is being addressed by the Company commencing in 2018 a three-year programme of geological exploration for new mineral resources. A further key challenge is the safe working of its operations and this annual report sets out measures adopted by the Company in 2018 to address this challenge.

2 Seek to understand and meet shareholders' needs and expectations

The Board maintains an extensive two-way dialogue with its shareholders. The Board meets shareholders at its annual general meeting each year. Directors and senior management regularly meet shareholders at investor events and other forums. Individual meetings are held with larger shareholders who occasionally visit the Company's operations in Azerbaijan. The Company also regularly updates shareholders on its activities through press releases via the LSE RNS system. Podcasts and video interviews by senior management are also disseminated via well-known investor websites such as Proactive and Vox. The Company has an active and effective investor relations programme that includes institutional roadshows and presentations. The Company website is monitored and regularly updated to be a current and comprehensive source of information to stakeholders.

3 Take into account wider stakeholder and social responsibilities and their implications for long term success

The Company takes its wider responsibilities for corporate and social responsibilities very seriously and has contributed to the economic and social development of the local communities in which it operates. This includes refurbishing schools and building infrastructure in the region and assisting local agriculture. The Company regularly meets with community leaders in the areas in which it operates. 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 and wider stakeholders.

4 Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company and its directors have identified and keep under consideration the risks facing the Company. It has an established framework of internal financial controls including an audit committee to address financial risks. The Company does not have a formal corporate risk management programme for non-financial risks although the Board regularly discuss and review exposure and management of all risks. The requirement for a formal risk management programme is kept under review and the Company may reassess the need to establish such a programme in the future.

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 Group and the Board review the adequacy of the cover regularly.

The principal risks and uncertainties section of this annual report details a number of other risks which the Company is subject to and how these are addressed. In particular:

a. country risk;

b. operational risk;

c. commodity price risk;

d. foreign currency risk; and

e. liquidity and interest rate risk.

One of the main corporate risks is the safe operation of its mines and processing operations. To address this specific risk, the Company has a well-developed and adequately staffed Health, Safety and Environment ("HSE") department to ensure safe and clean working at its mines and processing sites. The Company also has a Health, Safety, Environment and Technology ("HSET") committee comprising John Monhemius and Reza Vaziri. The committee's primary function is to assist the Board in fulfilling its HSE oversight responsibilities. Its oversight responsibilities are set out in section 9 below.

The HSET committee, chaired by John Monhemius, convened twice during 2018 at the Company's main Gedabek operating site. The committee discussed all aspects of the safe operation of its mines and processing plants and any reportable safety incidents together with recommendations and follow-up actions from previous meetings.

5 Maintain the Board as a well-functioning, balanced team led by the chair

The Board is a well-balanced team including specialists of the major technical disciplines required in the mining industry. Their names and biographies are set out in this annual report on page 24. Three of the five directors, being Khosrow Zamani, Richard Round and Professor John Monhemius are independent. Anglo Asian's board composition complies with the QCA Code and each independent director has been assessed and is considered to be independent by the Board. The biographies of Board members of the Company are also available on the Company website at http://www.angloasianmining.com/about_us/board_of_directors/.

All directors are expected to devote the necessary time commitments required by their position and are expected to attend at least six board meetings each year.

Compliance with the principles of the QCA code continued

5 Maintain the Board as a well-functioning, balanced team led by the chair continued

The number of board meetings held during 2018 and the attendance of the directors are as follows:

	Number of board meetings each director attended				
Number of board meetings in 2018	John Monhemius	Richard Round	John Sununu	Reza Vaziri	Khosrow Zamani
6	6	6	6	6	6

The role and duties of the audit, nomination and remuneration committees are set out in the respective reports of the committees in section 10 below. The respective reports also set out the number of times the committees met in the year and the attendance of the directors.

The meetings of the health, safety, environmental and technological committee are set out in section 4 above.

6 Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The directors are all highly experienced with a total over 200 years of experience in all areas of business, particularly the natural resource industries. All directors are able to seek outside advice wherever necessary. Throughout the majority of 2018, the Company had an external company secretary. The Board has a nominations committee which reviews and considers the Board structure and composition. The nominations committee meets as required to consider and make recommendations on the appointment of directors to the Board and senior management as well as recommendations in relation to professional training and development. The biographies of the directors can be found on page 24 of this annual report and on the Company website at http://www.angloasianmining.com/about_us/board_of_directors.

There is no formal process to keep directors' skill sets up-to-date given their wealth of experience.

The Board obtained tax advice from Ernst & Young LLP and was advised by its solicitors (Squire Patton Boggs (UK) LLP) on the financial and legal aspects of the Company paying its maiden dividend in 2018. The external company secretary also provided advice on this matter. The Company's broker and NOMAD (S P Angel Corporate Finance LLP) also advised the Board on various regulatory and commercial matters during 2018.

7 Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board believes its clear objective is the financial performance of the business whilst closely ensuring the interests of all other stakeholders are properly upheld. The financial performance of the business is closely monitored. The Company reviews board, committee and individual director performance on an on-going basis in the context of their contribution to the Company's financial performance. The chairperson will normally take leadership of the performance assessment process and allows for feedback from other board members about their performance.

8 Promote a corporate culture that is based on ethical values and behaviours

The Company operates to the highest ethical standards. The Board is very mindful that it operates in the extractive industries in an emerging market economy. Accordingly, the Board takes every opportunity, including the induction process of senior management, to reinforce its high ethical standards. A large part of the Company's activities is centred upon what needs to be an open and respectful dialogue with employees, clients and other stakeholders. Therefore, the importance of sound ethical values and behaviour is crucial to the ability of the Company to successfully achieve its corporate objectives. The Company is also aware that the safe operation of its mines and processing plants is determined in large part by a culture which is highly "safety conscious". The Board has taken actions during the year to promote this culture of safe working such as strengthening its HSE department and regular safety reviews.

There is no formal mechanism to monitor the Company's corporate culture which the Board believes is appropriate given the size of the business. However, the Board investigates very thoroughly any instance of serious malpractice etc. which is brought to its attention. There were no instances during 2018 of any failing of the Company due to poor culture brought to the attention of the Board.

The effectiveness of the "safety conscious" culture can be monitored directly by the HSET committee and indirectly through the number of reported safety incidents etc. These showed that the safe working of its operations had improved during the year.

The Company has adopted, with effect from the date on which its shares were admitted to AIM, a code for directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM and is in accordance with AIM Rule 21 of the requirements of the Market Abuse Regulation which came into effect in 2016.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The Company's governance structures are appropriate for a company of its size and all necessary committees such as audit and remuneration regularly meet. The Board also meets regularly and the directors continuously maintain an informal dialogue between themselves.

The Board has audit, nomination and remuneration committees. The role and duties of the audit, nomination and remuneration committees are set out in the respective reports of the committees in section 10 below.

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.

10 Communicate how the Company is governed by maintaining a dialogue with shareholders and other relevant stakeholders

The Company maintains an adequate dialogue with its shareholders as set out in section 2 above. Anglo Asian is committed to providing full and transparent disclosure of its activities, via the RNS system of the London Stock Exchange. Furthermore the historical annual reports and interim accounts are available on the Company website at http://www.angloasianmining.com.

Details of all shareholder communications are provided on the Company website. The Board holds meetings with larger shareholders and regards the annual general meeting as a good opportunity to communicate directly with all shareholders, including presentations on current business that are subsequently made available on the website.

The outcome of each vote in the annual general meeting is always reported to shareholders and released as an RNS on the market announcements platform. It can also be obtained on the Company website.

There is a formal process of maintaining the relationship between the Company and the Government of Azerbaijan led by the Company's Vice President for Government affairs who regularly meets Government officials.

10.1 Report of the audit committee

Members of the audit committee

The audit committee comprises Richard Round and John Sununu. The non-executive chairman and the chief financial officer are invited to all meetings.

Meetings of the audit committee held in 2018

The audit committee met twice in 2018, to approve the financial statements for the year ended 31 December 2017 and to approve the financial statements for the six months ended 30 June 2018. Richard Round, John Sununu, Khosrow Zamani and William Morgan attended both meetings. The external auditor attended the meeting approving the financial statements for the year ended 31 December 2017.

Role of the audit committee

The main duties of the audit committee are as follows:

- provide formal and transparent arrangements for considering the application of all applicable financial reporting standards;
- ensure the interim and full year financial statements are properly prepared in accordance with all applicable accounting standards, legal and all other requirements and reflect best practice;
- review the findings of any management letter or other communication from the external auditor regarding internal controls;
- ensure the full year financial statements are audited by the external auditor in accordance with all applicable audit standards, legal and other requirements;
- assessment of the need for an internal audit function; and
- ensure the independence and objectivity of the external auditor and approve all non-audit work by the external auditor.

Non-audit work

The external auditor performed certain tax compliance work and gave tax advice as set out in section 6 above and note 8 to the Group financial statements. This work was approved by the audit committee as it did not affect the independence or objectivity of the external auditor.

Internal audit

The Group does not currently have an internal audit function due to the small size of the Group and limited resources available. The requirement for an internal audit function is kept under review.

Whistleblowing

The Group does not currently have a formal whistleblowing policy due to the small size of the Group. The Group maintains a very open dialogue with all its employees which gives every opportunity for employees to raise concerns about possible improprieties in financial reporting or other matters.

10.2 Report of the remuneration committee

The remuneration committee 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.

There were no changes in senior management or directors or to their remuneration in 2018 and therefore the committee did not meet in the year.

10.3 Report of the nomination committee

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

There were no changes to directors in 2018 and therefore the committee did not meet in the year.

Directors' report

year ended 31 December 2018

Annual report and financial statements

The directors present their annual report together with the audited Group financial statements on pages 38 to 70.

Principal activities

The Group's principal activity during the year was the production of gold and silver doré and copper 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 15 May 2019 is set out in the chairman's statement on pages 4 to 6 and the strategic report on pages 10 to 19 which includes information on the Group's risks, uncertainties and key performance indicators. These sections are incorporated in this directors' report by reference.

Dividends

Full details of the Company's dividend policy and dividend payments paid and proposed for the year ended 31 December 2018 are set out in the chairman's statement on pages 4 to 6, the financial review on pages 21 to 23 and note 27 to the Group financial statements.

Capital structure

Details of the Company's authorised and issued share capital, together with the movements for the years ended 31 December 2017 and 2018 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.

During the year ended 31 December 2018, the Company's share premium account was reduced and the amount of the reduction transferred to retained earnings. Full details of the reduction are set out in note 26 to the Group financial statements.

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.

Each director owns 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 Quoted Companies Alliance Corporate Governance Code. 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 pages 25 to 27.

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 15 May 2019 are set out on page 24.

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

Company secretary

William Morgan
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH
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 2018 and their connected parties in the share capital of the Company at 31 December were as follows:

	2018 Number of ordinary shares	2017 Number of ordinary shares
John Monhemius	**341,890**	341,890
Richard Round	**361,680**	361,680
John Sununu	**10,734,540**	10,734,540
Reza Vaziri	**32,796,830**	32,796,830
Khosrow Zamani	**1,418,352**	1,418,352

All directors' interests are beneficially held.

Directors' insurance

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

Substantial shareholders

The Company has been notified of the following interests of 3 per cent. or more in its issued share capital as at 14 May 2019:

	Number of ordinary shares	Per cent.
Reza Vaziri	**32,796,830**	**28.7**
John Sununu	**10,734,540**	**9.4**
Limelight Industrial Developments	**4,038,600**	**3.5**

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 2020 and satisfying themselves that the Group will have sufficient funds on hand to meet its obligations as and when they fall due over the period of their assessment. Appropriate rigour and diligence has been applied by the directors who believe the assumptions are prepared on a realistic basis using the best available information.

The Group had cash balances of $17.7 million and debt of $6.9 million at 31 March 2019. The Group is able to fund its working capital requirements and service its borrowings from cash generated from its operations at Gedabek. The Group's borrowings are unsecured and without any financial covenants and all payments of interest and principal in 2018 and 2019 to date have been made in accordance with the terms of the relevant loan agreements. The Group has access to local sources of both short and long term finance should this be required.

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found within the chairman's statement on pages 4 to 6 and within the strategic report on pages 10 to 19. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review on pages 21 to 23. 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 directors continue 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.

Directors' report continued
year ended 31 December 2018

Corporate governance
A report on corporate governance is set out on pages 25 to 27.

Annual general meeting
The Company will hold its annual general meeting for 2019 on 20 June 2019. 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 31 December 2018 was 90.18 pence (2017: 32.00 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. The Company 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 (2017: $nil). Political donations of $nil (2017: $nil) were made.

Research and development
There was no expenditure on research and development during the year (2017: $nil).

Related party transactions
Related party transactions are disclosed in note 29 – '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

W R Morgan

William Morgan
Company secretary
15 May 2019

Report on directors' remuneration

year ended 31 December 2018

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 2018	Consultancy $	Fees $	Benefits $	Total $
John Monhemius	**10,329**	**53,183**	**—**	**63,512**
Richard Round	**—**	**53,183**	**—**	**53,183**
John Sununu	**—**	**78,224**	**—**	**78,224**
Reza Vaziri	**576,913**	**53,183**	**33,095**	**663,191**
Khosrow Zamani	**—**	**130,906**	**—**	**130,906**
	587,242	**368,679**	**33,095**	**989,016**

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

Directors' fees and consultancy fees for 2017 and 2018 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.

No director held or exercised any share options during the year ended 31 December 2018.

The Company's share price has ranged from 32.00 pence at 29 December 2017 to a high of 95.50 pence and a low of 32.50 pence during the year ended 31 December 2018 with a closing price of 90.18 pence at 28 December 2018.

By order of the board of directors

W R Morgan

William Morgan
Company secretary
15 May 2019

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
15 May 2019

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 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 2018 and of the Group's profit and loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Group	Parent company
Consolidated balance sheet as at 31 December 2018	Balance sheet as at 31 December 2018
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 15 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 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.

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 – management override risk.
Audit scope	• We performed an audit of the complete financial information of 2 components. • The components where we performed full audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall Group materiality of $1.3m which represents 5% of Profit before tax.

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 (pages 46 and 47); and note 6 of the consolidated financial statements (page 57) For the year ended 31 December 2018 the Group recognised revenue from operations of US$90.4m (2017: US$71.8m). 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 the government's 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; • 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, including any relevant impacts from the implementation of IFRS 15. The audit procedures over this risk area were performed by the component team in one full scope audit component, covering 100% of the reported revenues.	As a result of the procedures performed, we reported to the Audit Committee that the Group's revenue transactions have been properly recognised and the government's portion of production has been appropriately accounted for in accordance with IFRS.

Key audit matters continued

Risk

Impairment of mining assets- management override risk

Refer to the accounting policies (page 50); and notes 13 and 14 of the consolidated financial statements (pages 60 and 61)

At 31 December 2018 the carrying value of the Group's mining assets were:

- Property, plant and equipment: US$81.2m (2017: US$87.4m);
- Intangible assets: US$17.0m (2017: US$16.1m).

IFRS requires impairment testing to be undertaken when there are indicators that an impairment may exist. There is a risk that management will not identify impairment indicators when they exist, and/or use assumptions, as part of their impairment assessment, that are not appropriate.

Consistent with prior year, the Group's CGUs are:

- Operating mines (property, plant and equipment): one CGU that combines Gedabek, Gadir, Gosha and Ugur; and
- Exploration asset (intangible asset): Ordubad

This risk has not changed as compared to prior year as there have been no adverse operational or other relevant factors impacting the Group's mining assets.

Our response to the risk

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 2018, following the requirements of IAS 36 and IFRS 6. 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 2018 by comparing against management's budget and prior year actuals, and evaluate 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.

Key observations communicated to the Audit Committee

As a result of the audit procedures performed, we are satisfied with management's conclusion that there are no impairment indicators in relation to the Group's mining assets as of 31 December 2018.

As part of our audit, we also addressed the risk of management override of internal controls over other accounting estimates, including evaluating whether there is evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

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 100% (2017: 99%) of the Group's Profit before tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total assets.

The remaining 4 components together and individually represent less than 1% of the Group's Profit before tax. 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 Azerbaijan. This visit involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, undertaking a mine visit and reviewing key audit working papers on the identified risk areas. The primary team interacted regularly with the component teams 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 $1.3 million (2017: $540k), which is 5% of Profit before tax (2017: 0.75% of the Group's Revenue). We believe that Profit before tax provides us with a reliable measure that is significant to users since it is one of the main key performance indicators for operating entities. Materiality has increased in 2018 following the improved operating results of the Group.

We determined materiality for the Parent Company to be $110k (2017: $160k), which is 1% (2017: 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% (2017: 50%) of our planning materiality, namely $630k (2017: $270k). 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 $245k to $630k (2017: $105k to $270k).

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 $63k (2017: $27k), 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 32, 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 32, 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.

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.

Ernst & Young LLP

Andrew Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 May 2019

Group statement of income

year ended 31 December 2018

Continuing operations	Notes	2018 $000	2017 $000
Revenue	6	**90,354**	71,806
Cost of sales	8	**(56,530)**	(56,825)
Gross profit		**33,824**	14,981
Other income	7	**68**	584
Administrative expenses		**(5,291)**	(4,745)
Other operating expenses	7	**(1,777)**	(1,598)
Operating profit	8	**26,824**	9,222
Finance costs	10	**(1,642)**	(3,538)
Finance income		**64**	—
Profit before tax		**25,246**	5,684
Income tax expense	11	**(8,911)**	(3,164)
Profit attributable to the equity holders of the parent		**16,335**	2,520
Profit per share attributable to the equity holders of the parent			
Basic (US cents per share)	12	**14.32**	2.23
Diluted (US cents per share)	12	**14.32**	2.22

Group statement of comprehensive income

year ended 31 December 2018

	2018 $000	2017 $000
Profit for the year	**16,335**	2,520
Total comprehensive profit	**16,335**	2,520
Attributable to the equity holders of the parent	**16,335**	2,520

Group statement of financial position

31 December 2018

	Notes	2018 $000	2017 $000
Non-current assets			
Intangible assets	13	**17,031**	16,145
Property, plant and equipment	14	**81,150**	87,387
Other receivables	16	**436**	875
		98,617	104,407
Current assets			
Inventory	17	**34,159**	33,980
Trade and other receivables	16	**8,496**	11,276
Cash and cash equivalents	18	**14,540**	2,534
		57,195	47,790
Total assets		**155,812**	152,197
Current liabilities			
Trade and other payables	19	**(13,224)**	(15,170)
Income tax payable		**(3,700)**	—
Interest-bearing loans and borrowings	20	**(6,750)**	(20,051)
		(23,674)	(35,221)
Net current assets		**33,521**	12,569
Non-current liabilities			
Provision for rehabilitation	22	**(9,028)**	(9,629)
Interest-bearing loans and borrowings	20	**(1,688)**	(600)
Deferred tax liability	11	**(23,017)**	(21,394)
		(33,733)	(31,623)
Total liabilities		**(57,407)**	(66,844)
Net assets		**98,405**	85,353
Equity			
Share capital	24	**2,016**	2,008
Share premium account	26	**33**	32,484
Share-based payment reserve		**—**	74
Merger reserve	24	**46,206**	46,206
Retained earnings		**50,150**	4,581
Total equity		**98,405**	85,353

The Group financial statements were approved by the board of directors and authorised for issue on 15 May 2019. They were signed on its behalf by:

Reza Vaziri
Chief executive

Group statement of cash flows

year ended 31 December 2018

	Notes	2018 $000	2017 $000
Cash flows from operating activities			
Profit before tax		**25,246**	5,684
Adjustments to reconcile profit before tax to net cash flows:			
Finance costs	10	**1,642**	3,538
Finance income		**(64)**	—
Depreciation of property, plant and equipment	14	**20,957**	21,008
Amortisation of mining rights and other intangible assets	13	**1,990**	1,778
Share-based payment expense	25	**—**	13
Disposal of obsolete equipment	7	**209**	—
Write down of unrecoverable inventory		**136**	179
Operating cash flow before movements in working capital		**50,116**	32,200
(Increase)/decrease in trade and other receivables		**(1,767)**	2,342
Increase in inventories		**(314)**	(142)
Increase/(decrease) in trade and other payables		**2,670**	(4,565)
Cash from operations		**50,705**	29,835
Income taxes paid		**(3,588)**	—
Net cash flow from operating activities		**47,117**	29,835
Cash flows from investing activities			
Expenditure on property, plant and equipment and mine development		**(15,324)**	(9,397)
Investment in exploration and evaluation assets including other intangible assets		**(2,875)**	(1,075)
Interest received		**64**	—
Net cash used in investing activities		**(18,135)**	(10,472)
Cash flows from financing activities			
Proceeds from issue of shares	24	**149**	174
Dividend paid	27	**(3,432)**	—
Proceeds from borrowings	21	**13,995**	8,796
Repayments of borrowings	21	**(26,208)**	(24,116)
Interest paid		**(1,480)**	(3,062)
Net cash used in financing activities		**(16,976)**	(18,208)
Net increase in cash and cash equivalents		**12,006**	1,155
Cash and cash equivalents at the beginning of the year	18	**2,534**	1,379
Cash and cash equivalents at the end of the year	18	**14,540**	2,534

Group statement of changes in equity

year ended 31 December 2018

	Notes	Share capital $000	Share premium $000	Share-based payment reserve $000	Merger reserve $000	Retained earnings $000	Total equity $000
1 January 2017		1,993	32,325	154	46,206	1,968	82,646
Profit for the year		—	—	—	—	2,520	2,520
Shares issued	24 & 26	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
Profit for the year		—	—	—	—	16,335	16,335
Shares issued	24 & 26	8	141	—	—	—	149
Share options exercised	25	—	—	(74)	—	74	—
Share premium reduction	26	—	(32,592)	—	—	32,592	—
Cash dividends paid	27	—	—	—	—	(3,432)	(3,432)
31 December 2018		**2,016**	**33**	**—**	**46,206**	**50,150**	**98,405**

Notes to the Group financial statements

year ended 31 December 2018

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 80 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 10 to 19 of this annual report.

2 Basis of preparation

The Group's annual report is for the year ended 31 December 2018 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 and trade receivables at fair value. 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 29, 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 2020 and satisfying themselves that the Group will have sufficient funds on hand to meet its obligations as and when they fall due over the period of their assessment. Appropriate rigour and diligence has been applied by the directors who believe the assumptions are prepared on a realistic basis using the best available information.

The Group had cash balances of $17.7 million and debt of $6.9 million at 31 March 2019. The Group is able to fund its working capital requirements and service its borrowings from cash generated from its operations at Gedabek. The Group's borrowings are unsecured and without any financial covenants and all payments of interest and principal in 2018 and 2019 to date have been made in accordance with the terms of the relevant loan agreements. The Group has access to local sources of both short and long term finance should this be required.

The Group's business activities, together with the factors likely to affect its future development, performance and position, can be found within the chairman's statement on pages 4 to 6 and within the strategic report on pages 10 to 19. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are discussed in the financial review on pages 21 to 23. 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 directors continue to adopt the going concern basis in preparing the annual report and financial statements.

3 Adoption of new and revised standards

3.1 New and amended standards and interpretations

The Group applied IFRS 9 – 'Financial Instruments' and IFRS 15 – 'Revenue from contracts with customers' for the first time from 1 January 2018. The nature and effect of the changes on the consolidated financial statements of the Group as a result of the adoption of these two new standards are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations applied for the first time in 2018. 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 Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3 Adoption of new and revised standards continued

3.1 New and amended standards and interpretations continued

i) IFRS 9 'Financial Instruments'

IFRS 9 – 'Financial Instruments' replaces IAS 39 – 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and has adjusted the comparative information for the period beginning 1 January 2017. There were no material impacts on the comparative balances other than a change in classification and separate disclosure of some trade receivables. There was no impact on hedging as the Group did not hedge in 2017 and 2018 or apply hedge accounting.

The effects of adopting IFRS 9 are set out below.

a) Classification and measurement

Under IFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under IFRS 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

For debt instruments, the classification is based on two criteria: the Group's business model for managing the assets and whether the contractual cash flows of the financial instruments represent 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding. A financial asset can only be measured at amortised cost if both of the following are satisfied:

- ***Business model:*** the objective of the business model is to hold the financial asset for the collection of the contractual cash flows.
- ***Contractual cash flows:*** the contractual cash flows under the instrument relate solely to payments of principal and interest.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are SPPI was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group other than to change the presentation of trade debtors relating to provisionally priced sales (explained in more detail below).

Financial assets

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following are the changes in the classification of the Group's financial assets:

- ***Trade receivables (not subject to provisional pricing) and other current financial assets (i.e., other receivables and loans) previously classified as loans and receivables:*** these were assessed as being held to collect contractual cash flows and give rise to cash flows representing SPPI. Although now classified as debt instruments at amortised cost, their measurement has not changed.
- ***Trade receivables (subject to provisional pricing) and quotational period ("QP") derivatives:*** prior to the adoption of IFRS 9, the exposure of provisionally priced sales to commodity price movements over the QP, required embedded derivatives to be separated from the host trade receivable and accounted for separately. Under IFRS 9, embedded derivatives are no longer separated from financial assets. Instead, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at fair value through profit or loss, with subsequent changes in fair value recognised in the statement of profit or loss and other comprehensive income each period until final settlement. The Group did not previously account separately for the embedded derivative in each transaction as the short one to four month transaction cycle would result in any change to the Group's financial statements being immaterial and this policy continued to be applied from 1 January 2018. The key impact of IFRS 9 was to require the separate disclosure of trade receivables between those classified at amortised cost and those at fair value in the Group's balance sheets at 31 December 2016, 2017 and 2018.

Financial liabilities

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement of the Group's financial liabilities.

3 Adoption of new and revised standards continued

3.1 New and amended standards and interpretations continued

i) IFRS 9 'Financial Instruments' continued

b) Other impacts

The change did not have any impact on the Group's statement of cash flows and the basic and diluted EPS.

c) Impairment

The adoption of IFRS 9 has changed accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets in the scope of IFRS 15.

All of the Group's trade receivables (not subject to provisional pricing) and other current receivables which the Group measures at amortised cost are short term (i.e., less than 12 months) and the Group does not consider that any impairment provision is required. The change to a forward-looking ECL approach did therefore not have any impact on any amount in the financial statements.

d) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. However, the changes introduced by IFRS 9 relating to hedge accounting currently have no impact, as the Group does not carry out any hedge transactions in 2017 and 2018 or apply hedge accounting.

ii) IFRS 15 – 'Revenue from contracts with customers'

IFRS 15 – 'Revenue from contracts with customers' and its related amendments supersede IAS 11 – 'Construction Contracts' and IAS 18 – 'Revenue' and related Interpretations. It applies to all revenue arising from contracts with its customers and became effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognised when (or as) control of a good or service transfers to a customer 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.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Group adopted IFRS 15 using the modified retrospective method of adoption and, therefore, has not restated its comparative information which is prepared using the accounting policies applicable in the prior year. Modified retrospective adoption of IFRS 15 does not give rise to any material changes to the consolidated financial statements for the years ended 31 December 2017 and 2018. The Group has not applied any practical expedients to effect the transition to IFRS 15.

a) Overall impact

The Group's revenue from contracts with customers comprises two streams being the sale of gold (contained within gold doré and refined bullion) and silver bullion to its refiner and sale of gold and copper concentrates. The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its two revenue streams with the primary focus being to understand whether the timing and amount of revenue recognised could differ under IFRS 15. For both of the Group's revenue streams, the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognised under IFRS 15, is the same as that under IAS 18.

b) Impact on statement of profit or loss and other comprehensive income

Gold and silver sales to its refiner

There were no changes identified with respect to the timing or amount of revenue recognition. This was because all of the Group's gold and silver sold to its refiner are sold under a spot sale arrangement and the timing between contract inception and the satisfaction of the performance obligation (being delivery of gold and silver) is very short, i.e., several days, and the pricing is determined based on the gold price on the London Metal Exchange at the date specified in each spot contract.

Gold and copper concentrate (metal in concentrate) sales

There were no changes identified with respect to the timing of revenue recognition in relation to metal in concentrate, as control transfers to customers at the date at which the customer takes delivery of the concentrate at the mine site, which is consistent with the point in time when risks and rewards passed under IAS 18.

The Group's sales of metal in concentrate to customers contain terms which allow for price adjustments based on the market price at the end of a quotational period ("QP") stipulated in the contract – these are referred to as "provisionally priced sales".

Under previous accounting standards (IAS 18 and IAS 39), provisionally priced sales were considered to contain an embedded derivative ("ED"), which was required to be separated from the host contract for accounting purposes at the date the customer collected the metal concentrate from the mine site ("Shipment Date"). Revenue was initially recognised for these sales at the Shipment Date (which was when the risks and rewards passed) and was based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the estimated forward price which the entity expected to receive at the end of the QP, determined at the Shipment Date. Subsequent changes in the fair value of the ED were recognised in the statement of profit or loss and other comprehensive income each period until the end of the QP, and were included within, and presented as, gold and copper concentrate revenue.

3 Adoption of new and revised standards continued

3.1 New and amended standards and interpretations continued

ii) IFRS 15 – 'Revenue from contracts with customers' continued

b) Impact on statement of profit or loss and other comprehensive income continued

Gold and copper concentrate (metal in concentrate) sales continued

Under IFRS 15, the accounting for this revenue will remain unchanged in that revenue will be recognised when control passes to the customer (which will continue to be the Shipment Date) and will be measured at the amount to which the Group expects to be entitled. This will be the estimate of the price expected to be received at the end of the QP, i.e., the forward price. It will be the impact of the requirements of IFRS 9 that will lead to a change to the Group's accounting (see IFRS 9 note above and accounting policy 4.12 for further discussion).

While the Group will be able to continue to present such movements as part of consolidated revenue on the face of the statement of profit or loss and other comprehensive income, IFRS 15 requires separate disclosure of sales of metal concentrate. This is because the movements throughout the QP are not within the scope of IFRS 15, and therefore this revenue is required to be disclosed separately from revenue from contracts with customers within the scope of IFRS 15 in the notes to the accounts. The Group already separately discloses these amounts and will continue to do so and there will therefore be no change to the disclosures of the Group. There will be no impact on the net profit or loss of the Group arising from this change.

3.2 Standards issued but not yet effective

i) IFRS 16 'Leases'

IFRS 16 – 'Leases' 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 'Evaluation 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.

The Group has various operating leases. These are the rental of light vehicles, industrial and residential land, buildings and office accommodation and working animals. The total annual rental of the operating leases is approximately $600,000 per annum of which the majority is land and buildings and vehicles. The Group will account for these leases in accordance with IFRS 16 from 1 January 2019. However, the amounts of the leases are not material, and the change of policy will therefore not result in a material difference to the Group financial statements or additional disclosures.

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 2018. 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.

Notes to the Group financial statements continued

year ended 31 December 2018

4 Significant accounting policies continued

4.1 Basis of consolidation continued

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.

4.2 Revenue

The Group is principally engaged in the business of producing gold and silver bullion and gold and copper concentrate. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

The Group has generally concluded that it is the principal in its revenue contracts because it typically controls the goods before transferring them to the customer.

i) Contract balances

a) Contract assets

A contract asset is the right to consideration in exchange for goods transferred to the customer. If the Group performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

b) Trade receivables

A trade receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policy 4.12 for the accounting policies for financial assets and accounting policy 4.13 for the accounting policy for trade receivables.

c) Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

ii) Gold and silver sales to the refiner

For gold sales, these are sold under spot sales contracts with the Company's gold refiner. The Group initially sends its unrefined doré to the refiner. The refiner is contracted by the Company to perform two separate and distinct functions, to process the doré into gold and silver bullion and to purchase gold and silver. The gold contained in the doré may be purchased at two different times at the discretion of the Company and instruction is given to the refiner as to the method of sale on a shipment-by-shipment basis:

- Upon receipt of the doré. In this circumstance, the refiner will purchase 90 per cent. of the estimated gold content of the doré. The balance of the gold will be sold to the refiner as gold bullion following refining and agreement of final gold content of the doré with the refiner.
- Following production of gold bullion by the refining process. During the refining process ownership (i.e., control of the gold) does not pass to the refiner, it is simply providing refining services to the Group.

There is no formal sales agreement for each sale of gold. Instead, there is a deal confirmation, which sets out the terms of the sale including the applicable spot price and this is considered to be the enforceable contract. The only performance obligation is the sale of gold within the doré or as bullion.

Silver is only sold to the refiner as silver bullion following the refining process. The process of sale of the silver bullion is the same as for gold bullion.

Revenue is recognised at a point in time when control passes to the refiner. As the gold and silver is at this time already on the premises of the refiner, physical delivery has already taken place when the sales are made.

With these arrangements, there are no advance payments received from the refiner, no conditional rights to consideration, i.e., no contract assets are recognised. A trade receivable is recognised at the date of sale and there are only several days between recognition of revenue and payment. The contract is entered into and the transaction price is determined at outturn by virtue of the deal confirmation and there are no further adjustments to this price. Also, given each spot sale represents the enforceable contract and all performance obligations are satisfied at that time, there are no remaining performance obligations (unsatisfied or partially unsatisfied) requiring disclosure. Refer to note 16 – 'Trade and other receivables' for details of payment terms.

iii) Gold and copper in concentrate (metal in concentrate) sales

For gold and copper in concentrate (metal in concentrate) sales, the enforceable contract is each purchase order, which is an individual, short-term contract. The performance obligation is the delivery of the concentrate to the customer.

4 Significant accounting policies continued

4.2 Revenue from contracts with customers continued

iii) Gold and copper in concentrate (metal in concentrate) sales continued

The Group's sales of metal in concentrate allow for price adjustments based on the market price at the end of the relevant quotational period ("QP") stipulated in the contract. These are referred to as provisional pricing arrangements and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date (or average of future spot prices over a defined period, usually a week) after shipment to the customer. Adjustments to the sales price occur based on movements in quoted market prices up to the end of the QP. The period between provisional invoicing and the end of the QP can be between one and four months.

Revenue is recognised when control passes to the customer, which occurs at a point in time when the metal in concentrate is physically delivered to the customer at the mine site. The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP, i.e., the forward price, and a corresponding trade receivable is recognised.

For these provisional pricing arrangements, any future change that occur over the QP is an embedded derivative within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. The Group does not separately account for the embedded derivative in each transaction as the short transaction cycle of one to four months would result in any changes to the Group's financial statements being immaterial. Any difference between the provisional and final price is adjusted through revenue from from contracts with customers. Changes in fair value over, and until the end of, the QP, are estimated by reference to updated forward market prices for gold and copper as well as taking into account relevant other fair value considerations as set out in IFRS 13, including interest rate and credit risk adjustments. See accounting policy 4.10 for further discussion on fair value. Refer to note 16 for details of payments terms for trade receivables.

As noted above, as the enforceable contract for most arrangements is the purchase order, the transaction price is determined at the date of each sale (i.e., for each separate contract) and, therefore, there is no future variability within scope of IFRS 15 and no further remaining performance obligations under those contracts.

iv) 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 2018 and 2017.

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 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.

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

4 Significant accounting policies continued

4.7 Intangible assets continued

iii) Other intangible assets continued

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 (2017: eight years)
- Plant and equipment – eight years (2017: eight years)
- Motor vehicles – four years (2017: four years)
- Office equipment – four years (2017: four years)
- Leasehold improvements – eight years (2017: 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.

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.

Notes to the Group financial statements continued

year ended 31 December 2018

4 Significant accounting policies continued

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.

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 Significant accounting policies continued

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, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), or fair value through profit or loss.

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15. Refer to the accounting policy 4.2 – 'Revenue from contracts with customers'.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

4 Significant accounting policies continued

4.12 Financial instruments – initial recognition and subsequent measurement continued

a) Financial assets continued

iii) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the 'effective interest rate' ("EIR") method and are subject to impairment. Interest received is recognised as part of finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables (not subject to provisional pricing) and other receivables. Refer below to 'Financial assets at fair value through profit or loss' for a discussion of trade receivables (subject to provisional pricing).

iv) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, e.g., derivative instruments, financial assets designated upon initial recognition at fair value through profit or loss, e.g., debt or equity instruments, or financial assets mandatorily required to be measured at fair value, i.e., where they fail the SPPI test. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that do not pass the SPPI test are required to be classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss account.

A derivative embedded in a hybrid contract with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

As IFRS 9 now has the SPPI test for financial assets, the requirements relating to the separation of embedded derivatives is no longer needed for financial assets. An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at fair value through profit or loss in its entirety. This is applicable to the Group's trade receivables (subject to provisional pricing). These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant QP stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at fair value through profit or loss from the date of recognition of the corresponding sale, with subsequent movements being recognised in 'fair value gains/losses on provisionally priced trade receivables' in the statement of profit or loss and other comprehensive income.

The Group does not currently account separately for embedded derivatives in its trade receivables subject to provisional pricing. The short one to four month transaction cycle would result in any change to the Group's financial statements being immaterial. Any adjustment to the trade receivable subsequent to initial recording is adjusted through revenue.

v) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- 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.

4 Significant accounting policies continued

4.12 Financial instruments – initial recognition and subsequent measurement continued

a) Financial assets continued

v) Derecognition of financial assets continued

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

vi) Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosure of significant assumptions: accounting policy 4.20
- Trade and other receivables: accounting policy 4.13 and note 16

The Group recognises an allowance for expected credit loss ("ECL") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date. For any other financial assets carried at amortised cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit- impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

b) Financial liabilities

i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss,loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

ii) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.

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 and trade and other payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

iii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income.

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less, but exclude any restricted cash. Restricted cash is not available for use by the Group and therefore is not considered highly liquid, for example, cash set aside to cover rehabilitation obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

4.13 Trade and other receivables

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

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

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

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

4.14 Inventories

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

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

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

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

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

4 Significant accounting policies continued

4.15 Equity instruments

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

4.16 Deferred stripping costs

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

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

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

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

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

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

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

4.17 Employee leave benefits

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

4.18 Retirement benefit costs

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

4.19 Share-based payments

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

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

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

4.20 Significant accounting judgements

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.

i) 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.

ii) Exploration and evaluation expenditure (note 13)

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely from future exploitation. If 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.

Notes to the Group financial statements continued

year ended 31 December 2018

4 Significant accounting policies continued

4.20 Significant accounting judgements continued

iii) 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 cost to dispose ("FVLCD") 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 FVLCD 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.

iv) 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.

v) Renewal of Production Sharing Agreement ("PSA") (note 28)

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.

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

Once an intangible or tangible asset has been judged as impaired, an estimate is made of its 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.

ii) 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 Significant accounting policies continued

4.21 Significant accounting estimates continued

iii) 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.

iv) 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.

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.

6 Revenue

The Group's revenue consists of sales to third parties of:

- gold contained within doré and gold and silver bullion to the Group's refiner; and
- gold and copper concentrate.

	2018 $000	2017 $000
Gold within doré and gold bullion	**75,078**	55,099
Silver bullion	**403**	311
Gold and copper concentrate	**14,873**	16,396
	90,354	71,806

All revenue from sales of gold within doré and gold and silver bullion and gold and copper concentrate is recognised at the time when control passes to the customer.

The majority of sales of gold within doré and gold and silver bullion were made to one customer, the Group's gold refiner, MKS Finance SA, based in Switzerland. One trial shipment of gold doré was made to a second refiner in 2018 but the sale amount was immaterial.

The gold and copper concentrate was sold in 2018 to Industrial Minerals SA and Trafigura PTE Ltd. (2017: Industrial Minerals SA).

7 Other income and operating expenses

	2018 $000	2017 $000
Other income		
Interest receivable	**5**	13
Recovery of advances previously written off	**—**	175
Provisions no longer required	**63**	396
	68	584
Other operating expenses		
Transportation and refining costs	**647**	754
Foreign exchange loss	**704**	484
Advances and inventory written off	**217**	360
Disposal of obsolete equipment	**209**	—
	1,777	1,598

Notes to the Group financial statements continued

year ended 31 December 2018

8 Operating profit

	Notes	2018 $000	2017 $000
Operating profit is stated after charging:			
Depreciation on property, plant and equipment – owned	14	**20,957**	21,008
Amortisation of mining rights and other intangible assets	13	**1,990**	1,778
Employee benefits and expenses	9	**8,708**	7,305
Foreign currency exchange net loss		**704**	484
Inventory expensed during the year		**19,270**	21,502
Operating lease expenses		**1,058**	591
Fees payable to the Company's auditor for:			
The audit of the Group's annual accounts		**135**	135
The audit of the Group's subsidiaries pursuant to legislation		**119**	119
Audit related assurance services – half year review		**2**	2
Total audit services		**256**	256
Amounts paid to auditor for other services:			
Tax compliance services		**13**	14
Tax advice regarding dividend and share premium reduction		**39**	—
Total non-audit services		**52**	14
Total		**308**	270

There were no non-cancellable operating lease and no sublease arrangements during 2018 and 2017.

The audit fees for the parent company were $107,000 (2017: $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:

	2018	2017
Management and administration	**47**	49
Exploration	**42**	19
Mine operations	**656**	626
	745	694

The aggregate payroll costs of these persons were as follows:

	2018 $000	2017 $000
Wages and salaries	**7,559**	6,043
Share-based payments	**—**	13
Social security costs	**1,580**	1,249
Costs capitalised as exploration	**(431)**	—
	8,708	7,305

Remuneration of key management personnel

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

	2018 $	2017 $
Short-term employee benefits	**1,943,329**	1,861,343
Share-based payment	**—**	13,399
	1,943,329	1,874,742

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 page 31.

10 Finance costs

	2018 $000	2017 $000
Interest charged on interest-bearing loans and borrowings	**1,150**	3,043
Finance charges on letters of credit	**3**	33
Unwinding of discount on provisions	**489**	462
	1,642	3,538

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 2018, $nil (2017: $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 2018 were $nil (2017: $4,697,000).

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

	2018 $000	2017 $000
Current income tax		
Current income tax charge	**7,288**	—
Deferred tax		
Charge relating to origination and reversal of temporary differences	**1,623**	3,164
Income tax charge for the year	**8,911**	3,164

Deferred income tax at 31 December relates to the following:

	Statement of financial position		Income statement	
	2018 $000	2017 $000	2018 $000	2017 $000
Deferred income tax liability				
Property, plant and equipment – accelerated depreciation	**(18,165)**	(17,834)	**(331)**	1,619
Non-current prepayments	**(139)**	(280)	**141**	67
Trade and other receivables	**(1,280)**	(796)	**(484)**	670
Inventories	**(9,493)**	(9,435)	**(58)**	12
Deferred income tax liability	**(29,077)**	(28,345)		
Deferred income tax asset				
Trade and other payables and provisions*	**3,171**	2,367	**804**	(1,122)
Asset retirement obligation*	**2,889**	3,081	**(192)**	68
Interest-bearing loans and borrowings*	**—**	—	**—**	151
Carry forward losses**	**—**	1,503	**(1,503)**	(4,629)
Deferred income tax asset	**6,060**	6,951		
Deferred income tax charge			**(1,623)**	(3,164)
Net deferred income tax liability	**(23,017)**	(21,394)		

* 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.

Notes to the Group financial statements continued

year ended 31 December 2018

11 Taxation continued

A reconciliation between the accounting profit and the total taxation charge for the years ended 31 December is as follows:

	2018 $000	2017 $000
Profit before tax	**25,246**	5,684
Theoretical tax charge at statutory rate of 32 per cent. for RVIG*	**8,079**	1,819
Effects of different tax rates for certain Group entities (20 per cent.)	**161**	164
Tax effect of items which are not deductible or assessable for taxation purposes:		
– losses in jurisdictions that are exempt from taxation	**—**	1
– non-deductible expenses	**732**	1,231
– non-taxable income	**(61)**	(51)
Income tax charge for the year	**8,911**	3,164

* This is the tax rate stipulated in RVIG's production sharing agreement.

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 2018, the Group had unused tax losses available for offset against future profits of $18,648,000 (2017: $22,032,000). Unused tax losses in the Republic of Azerbaijan at 31 December 2018 were $nil (2017: $4,697,000). 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 $16,335,000 (2017: $2,520,000).

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:

	2018	2017
Basic	**114,047,503**	113,134,175
Diluted	**114,047,503**	113,322,046

At 31 December 2018 there were no unexercised share options that could potentially dilute basic earnings per share (2017: 631,000).

13 Intangible assets

	Exploration and evaluation Gedabek $000	Exploration and evaluation Gosha $000	Exploration and evaluation Ordubad $000	Mining rights $000	Other intangible assets $000	Total $000
Cost						
1 January 2017	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
Additions	2,326	350	192	—	8	2,876
31 December 2018	**3,436**	**350**	**4,345**	**41,925**	**537**	**50,593**
Amortisation and impairment*						
1 January 2017	—	—	—	29,469	325	29,794
Charge for the year	—	—	—	1,738	40	1,778
31 December 2017	—	—	—	31,207	365	31,572
Charge for the year	—	—	—	1,948	42	1,990
31 December 2018	**—**	**—**	**—**	**33,155**	**407**	**33,562**
Net book value						
31 December 2017	1,110	—	4,153	10,718	164	16,145
31 December 2018	**3,436**	**350**	**4,345**	**8,770**	**130**	**17,031**

* 367,000 ounces of gold at 1 January 2018 were used to determine amortisation of producing mines, mining rights and other intangible assets (2017: 427,000 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 $57,000 and an increase in amortisation of $61,000 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 2017	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
Additions	2,205	10,091	3,722	16,018
Transfer to producing mines	—	7,581	(7,581)	—
Disposal	—	—	(209)	(209)
Decrease in provision for rehabilitation	—	(1,089)	—	(1,089)
31 December 2018	**24,104**	**205,555**	**313**	**229,972**
Depreciation and impairment*				
1 January 2017	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
Charge for the year	1,751	19,206	—	20,957
31 December 2018	**18,172**	**130,650**	**—**	**148,822**
Net book value				
31 December 2017	5,478	77,528	4,381	87,387
31 December 2018	**5,932**	**74,905**	**313**	**81,150**

* 367,000 ounces of gold at 1 January 2018 were used to determine depreciation of producing mines, mining rights and other intangible assets (2017: 427,000 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 $461,000 and an increase in depreciation of $510,000 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.

No impairment losses were recognised by the Group at 31 December 2018 or 31 December 2017.

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 and 31 December 2018. Accordingly, no impairment analysis was performed for the balance sheet at 31 December 2017 and 31 December 2018.

The capital commitments by the Group have been disclosed in note 28.

Notes to the Group financial statements continued

year ended 31 December 2018

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 2018 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 2018.

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

16 Trade and other receivables

Non-current assets	2018 $000	2017 $000	1 January 2017 $000
Advances for fixed asset purchases	**436**	860	989
Loans	**—**	15	95
	436	875	1,084

Current assets	2018 $000	2017 $000	1 January 2017 $000
Gold held due to the Government of Azerbaijan	**2,898**	7,445	10,078
VAT refund due	**312**	206	339
Other tax receivable	**1,016**	891	926
Trade receivables – amortised cost*	**250**	440	—
Trade receivables – fair value**	**1,988**	—	639
Prepayments and advances	**1,927**	2,187	4,218
Loans	**105**	107	50
	8,496	11,276	16,250

* Trade receivables not subject to provisional pricing.

** Trade receivables subject to provisional pricing.

Trade receivables (not subject to provisional pricing) are for sales of gold and silver to the refiner and are non interest-bearing and payment is usually received one to two days after the date of sale.

Trade receivables (subject to provisional pricing) are for sales of gold and copper concentrate and are non interest-bearing, but as discussed in accounting policy 4.2, are exposed to future commodity price movements over the 'quotational period' ("QP") and, hence, fail the 'solely payments of principal and interest' test and are measured at fair value up until the date of settlement. These trade receivables are initially measured at the amount which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the QP. Approximately 90 per cent. of the provisional invoice (based on the provisional price) is received in cash within one to two weeks from when the concentrate is collected from site, which reduces the initial receivable recognised under IFRS 15. The QPs can range between one and four months post shipment and final payment is due between 30-90 days from the end of the QP. Refer to accounting policy 4.10 for details of fair value measurement.

The Group does not consider any trade or other receivable as past due or impaired. All receivables at amortised cost have been received shortly after the balance sheet date and therefore the Group does not consider that there is any credit risk exposure. No provision for any expected credit loss has therefore been established in 2017 or 2018.

The VAT refund due at 31 December 2018, 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.

17 Inventory

Current assets	2018 $000	2017 $000
Cost		
Finished goods – bullion	**319**	2,059
Finished goods – metal in concentrate	**458**	489
Metal in circuit	**14,105**	13,476
Ore stockpiles	**6,371**	6,753
Spare parts and consumables	**12,906**	11,203
Total current inventories	**34,159**	33,980
Total inventories at the lower of cost and net realisable value	**34,159**	33,980

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 2018 (including short-term cash deposits) comprised $39,000 and $14,501,000 respectively (2017: $117,000 and $2,417,000).

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

19 Trade and other payables

	2018 $000	2017 $000
Accruals and other payables	**5,581**	3,979
Trade creditors	**3,065**	3,431
Gold held due to the Government of Azerbaijan	**2,898**	7,445
Payable to the Government of Azerbaijan from copper concentrate joint sale	**1,680**	315
	13,224	15,170

Trade creditors primarily comprise amounts outstanding for trade purchases and ongoing costs. Trade creditors are non-interest bearing and the creditor days were 18 (2017: 22). 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 increase of accruals in 2018 mainly relate to the increase in exploration activity. 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

	2018 $000	2017 $000
International Bank of Azerbaijan – agitation leaching plant loan	—	1,640
International Bank of Azerbaijan – loan facilities	—	481
Amsterdam Trade Bank	—	3,700
Gazprombank (Switzerland)	—	3,700
Atlas Copco	—	303
Yapi Kredi Bank	—	2,254
Pasha Bank – loans	—	3,713
Kapital Bank	—	1,000
Director	—	3,860
Pasha Bank – refinancing loan	**8,438**	—
	8,438	20,651
Loans repayable in less than one year	**6,750**	20,051
Loans repayable in more than one year	**1,688**	600
	8,438	20,651

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

20 Interest-bearing loans and borrowings continued

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. The loans were fully repaid during the year ended 31 December 2018.

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. The loan was fully repaid during the year ended 31 December 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. The loan was fully repaid during the year ended 31 December 2018.

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 refinancing loan.

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. The vendor financing was fully repaid during the year ended 31 December 2018.

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.

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.

All of the above loans were fully repaid in the year ended 31 December 2018.

20 Interest-bearing loans and borrowings continued

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. The loan was fully repaid during the year ended 31 December 2018.

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 refinancing loan.

Pasha Bank – refinancing loan

In 2018, the Group 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 facility is for two years with a fixed interest rate of 7 per cent. and early repayment is permitted. Loan principal is repayable in 8 equal, quarterly instalments. The loan facility is unsecured and there are no financial covenants.

A total of $13.5 million of the facility was drawn-down in 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 loan refinancing was completed by the end of March 2018.

Unused credit facilities

The Group had a $2.0 million credit facility from Yapi Credit Bank at 31 December 2018 which was not utilised (2017: $nil).

21 Changes in liabilities arising from financing activities

	2018			
	1 January $000	Cash flows $000	Other $000	31 December $000
Current interest-bearing loans and borrowings	**20,051**	**(13,301)**	**—**	**6,750**
Non-current interest-bearing loans and borrowings	**600**	**1,088**	**—**	**1,688**
Total liabilities from financing activities	**20,651**	**(12,213)**	**—**	**8,438**

	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

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, the effect of accrued but not yet paid interest on interest-bearing loans and borrowings and other adjustments.

22 Provision for rehabilitation

	2018 $000	2017 $000
1 January	**9,629**	9,416
Change in estimate	**—**	—
Additions	**654**	557
Accretion expense	**489**	462
Effect of passage of time and change in discount rate	**(1,744)**	(806)
31 December	**9,028**	9,629

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 2018 was $12,100,000 (2017: $13,736,000). The undiscounted liability was discounted using a risk-free rate of 4.83 per cent. (2017: 5.05 per cent.). Expenditures on restoration and rehabilitation works are expected between 2023 and 2025 (2017: between 2023 and 2025).

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 2018 and 2017 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 banks in Azerbaijan and elsewhere. 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.

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 2018 and 2017.

23 Financial instruments continued

Interest rate sensitivity analysis

The Group had no sensitivity to any movement in LIBOR rates in 2018 and 2017.

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 2018

	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	**—**	**1,688**	**5,062**	**1,688**	**8,438**
Trade and other payables	**—**	**13,224**	**—**	**—**	**13,224**
	—	**14,912**	**5,062**	**1,688**	**21,662**

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

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. The majority of the sales of gold and silver bullion are made to MKS Finance SA, a Switzerland-based gold refinery, and copper concentrate is sold to Industrial Minerals SA and Trafigura PTE Ltd. 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	
	2018 $000	2017 $000	**2018 $000**	2017 $000
UK Sterling	**1**	1	**334**	2
Azerbaijan Manats	**3,228**	3,909	**1,784**	1,342
Other	**297**	151	**3**	4

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 8 per cent., 7 per cent. and 12 per cent. (2017: 11 per cent., 12.5 per cent. and 11.3 per cent.) increase and a 11 per cent., 11 per cent. and 3 per cent. (2017: 7 per cent., 7.5 per cent. and 11.3 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	
	2018 $000	2017 $000	**2018 $000**	2017 $000	**2018 $000**	2017 $000
Increase – effect on profit before tax	**(27)**	—	**173**	290	**21**	18
Decrease – effect on profit before tax	**37**	—	**(43)**	(290)	**(32)**	(11)

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 2018 would result in a reduction in revenue of $8.1 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 $0.3 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 $0.7 million and a 10 per cent. increase in copper price would have an equal and opposite effect.

24 Equity

	2018		2017	
	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	**113,761,024**	**2,008**	112,661,024	1,993
Exercise of share options	**631,000**	**8**	1,100,000	15
31 December	**114,392,024**	**2,016**	113,761,024	2,008

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.

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:

	2018		2017	
	Number	WAEP pence	Number	WAEP pence
1 January	**631,000**	**17**	1,745,000	14
Granted prior to 2017	—	—	86,000	22
Exercised during the year	**(631,000)**	**17**	(1,100,000)	12
Expired during the year	—	—	(100,000)	16
31 December	—	—	631,000	17

The following share options were exercisable at 31 December:

	2018		2017	
	Number	WAEP pence	Number	WAEP pence
	—	—	631,000	17

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

There were no share options issued in 2017 or 2018.

The Group recognised total expense related to equity-settled share-based payment transactions for the year ended 31 December 2018 of $nil (2017: $13,000).

26 Share premium account

	2018 $000	2017 $000
1 January	**32,484**	32,325
Issue of shares	**141**	159
Court approved reduction	**(32,592)**	—
31 December	**33**	32,484

On 13 July 2018, the Company issued a circular to its shareholders proposing a resolution to reduce its share premium account to $nil. This resolution was passed by its shareholders at a meeting of its shareholders on 30 July 2018.

The reduction in the share premium account to $nil was approved by the court on 28 August 2018. The share premium account of $33,000 at 31 December 2018 is the share premium on shares issued subsequent to the court approved reduction.

27 Distributions made and proposed

	2018 $000	2017 $000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2018: 3 US cents* per share	**3,432**	—
Proposed dividends on ordinary shares:		
Final dividend for 2018: 4 US cents** per share	**4,576**	—

* The dividend was declared in United States dollars but paid in Sterling in the amount of 2.2864 pence per ordinary share. The dividend was converted into Sterling at the rate of £1 = $1.3121 being the average of the sterling closing mid-price using the exchange rate published by the Bank of England at 4pm each day from the 15 to 19 October 2018.

** To be paid in Sterling at a rate to be announced.

The proposed final dividend on ordinary shares is subject to the approval by shareholders at the annual general meeting for 2019 and not recognised as a liability in the Group statement of financial position at 31 December 2018.

Notes to the Group financial statements continued

year ended 31 December 2018

28 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.

There were no significant operating lease and no capital lease commitments at 31 December 2018 (2017: $nil).

29 Related party transactions

Trading transactions

During the years ended 31 December 2017 and 2018, 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 Remuneration paid to directors is disclosed in the report on directors' remuneration on page 31.

b During the year ended 31 December 2018, total payments of $2,563,000 (2017: $1,400,000) 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 2018 there is a payable in relation to the above related party transaction of $51,000 (2017: $267,000).

c On 20 May 2015, the chief executive made a $4 million loan facility available to the Group. The principle of the loan was fully repaid during the year ended 31 December 2018. The interest accrued and unpaid at 31 December 2018 was $325,000 (2017: $655,000). 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.

Company statement of financial position

31 December 2018

	Notes	2018 $000	2017 $000
Non-current assets			
Property, plant and equipment	3	**168**	193
Investments	4	**1,325**	1,325
Other receivables	6	**—**	16
		1,493	1,534
Current assets			
Other receivables	6	**270**	14,768
Cash and cash equivalents	7	**13,428**	79
		13,698	14,847
Total assets		**15,191**	16,381
Current liabilities			
Trade and other payables	8	**(3,821)**	(389)
Net current assets		**9,877**	14,458
Total liabilities		**(3,821)**	(389)
Net assets		**11,370**	15,992
Equity			
Share capital	10	**2,016**	2,008
Share premium account	12	**33**	32,484
Retained profit/(loss)		**9,321**	(18,500)
Total equity		**11,370**	15,992

The loss dealt with in the financial statements of the Company is $1,339,000 (2017: $1,378,000).

These Company financial statements were approved by the board of directors and authorised for issue on 15 May 2019. They were signed on its behalf by:

Reza Vaziri
Chief executive

Company statement of changes in equity

year ended 31 December 2018

	Notes	Share capital $000	Share premium $000	Accumulated profit/(loss) $000	Total equity $000
1 January 2017		1,993	32,325	(17,135)	17,183
Loss for the year		—	—	(1,378)	(1,378)
Shares issued	10	15	159	—	174
Share-based payment		—	—	13	13
31 December 2017		2,008	32,484	(18,500)	15,992
Loss for the year		—	—	(1,339)	(1,339)
Share premium reduction	12	—	(32,592)	32,592	—
Cash dividends paid	13	—	—	(3,432)	(3,432)
Shares issued	10	8	141	—	149
31 December 2018		**2,016**	**33**	**9,321**	**11,370**

Notes to the Company financial statements

year ended 31 December 2018

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 15 May 2019.

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 2018

3 Property, plant and equipment

	Office equipment $000
Cost	
31 December 2017 and 2018	352
Depreciation	
1 January 2017	133
Charge for the year	26
31 December 2017	159
Charge for the year	25
31 December 2018	**184**
Net book value	
31 December 2017	193
31 December 2018	**168**

4 Investments

	2018 $000	2017 $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 2018 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 2018.

6 Other receivables

	2018 $000	2017 $000
Non-current assets		
Loans	**—**	16
Current assets		
Prepayments	**23**	35
Loans	**105**	107
Advances	**142**	91
Amounts owed by subsidiary undertakings	**—**	14,535
	270	14,768

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

	2018 $000	2017 $000
Trade creditors	**97**	48
Accruals	**335**	310
HMRC	**30**	31
Amounts owed to subsidiary undertakings	**3,359**	—
	3,821	389

9 Deferred taxation

	2018 $000	2017 $000
The elements of unrecognised deferred taxation are as follows:		
Tax losses	**18,648**	17,335
Unrecognised deferred tax asset	**3,730**	3,467

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

	2018		2017	
	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	113,761,024	2,008	112,661,024	1,993
Exercise of share options	631,000	8	1,100,000	15
31 December	114,392,024	2,016	113,761,024	2,008

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.

Notes to the Company financial statements continued

year ended 31 December 2018

12 Share premium account

	2018 $000	2017 $000
1 January	**32,484**	32,325
Issue of shares	**141**	159
Court approved reduction	**(32,592)**	—
31 December	**33**	32,484

On 13 July 2018, the Company issued a circular to its shareholders proposing a resolution to reduce its share premium account to $nil. This resolution was passed by its shareholders at a meeting of its shareholders on 30 July 2018.

The reduction in the share premium account to $nil was approved by the court on 28 August 2018. The share premium account of $33,000 at 31 December 2018 is the share premium on shares issued subsequent to the court approved reduction.

13 Distributions made and proposed

	2018 $000	2017 $000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2018: 3 US cents* per share	**3,432**	—
Proposed dividends on ordinary shares:		
Final dividend for 2018: 4 US cents** per share	**4,576**	—

* The dividend was declared in United States dollars but paid in Sterling in the amount of 2.2864 pence per ordinary share. The dividend was converted into Sterling at the rate of £1 = $1.3121 being the average of the sterling closing mid-price using the exchange rate published by the Bank of England at 4pm each day from the 15 to 19 October 2018.

** To be paid in Sterling at a rate to be announced.

The proposed final dividend on ordinary shares is subject to the approval by shareholders at the annual general meeting for 2019 and not recognised as a liability in the Group statement of financial position at 31 December 2018.

14 Subsequent events

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

15 Auditor's remuneration

The Company paid $107,000 (2017: $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 from the Chairman

Anglo Asian Mining PLC

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

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

28 May 2019

To the holders of ordinary shares 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 2018 together with the attached notice of the annual general meeting to be held on 20 June 2019 (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 Richard Round is retiring in accordance with the Company's articles of association and is seeking re-election at the Meeting.

Resolution 4 – Declaration of a Dividend
This is an ordinary resolution to declare a dividend as recommended by the directors. The payment of a dividend is payable is out of distributable profits available for the purpose and set aside by the Company for the payment of a dividend. The directors have a responsibility to examine the accounts of the Company to ensure that a distribution can be made to the shareholders without placing the Company into any difficulties.

Resolution 5 – 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 5 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 15 May 2019 (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 2020 (being six months after the Company's accounting reference date).

Resolution 6 – 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 5 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 20 June 2019 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 5 (inclusive) will be proposed as ordinary resolutions and resolution 6 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 2018 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 Richard Round be re-elected as a director, having retired by rotation in accordance with the Company's articles of association.

4. THAT a dividend shall be declared of 4 US cents per issued share to the ordinary shareholders on the registrar of members on the 28 June 2019.

5 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 £381,307*; and

(b) up to an aggregate nominal amount of £762,613** (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 2020, 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

6 THAT subject to the passing of resolution 5 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 5 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

Special resolution continued

(b) otherwise than pursuant to sub-paragraph (a) of this resolution up to an aggregate nominal amount of £114,392[†],

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 2020 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

W R Morgan

William Morgan
7 Devonshire Square
Culters Gardens
London EC2M 4YH
United Kingdom
28 May 2019

* Calculated as one third of the nominal value of the total issued ordinary share capital (i.e. 114,392,024 shares of nominal value £1,143,920.24).
** Calculated as two thirds of the nominal value of the total issued ordinary share capital (£1,143,920.24).
† 10 per cent. of the ordinary issued share capital of the Company (£1,143,920.24).

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 18 June 2019.

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 18 June 2019 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 18 June 2019 shall be disregarded in determining the rights of any person to attend or vote at the AGM.

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Company secretary
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VAT registration number
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