“AzerGold” Closed Joint Stock Company

Financial statements

Year ended 31 December 2017 and 31 December 2016
with independent auditor’s report

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Independent auditor's report

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Independent auditor's report

To Management and the Supervisory Board of AzerGold CJSC

Opinion

We have audited the financial statements of AzerGold CJSC (the "Company"), which comprise the statements of financial position as at 31 December 2017 and 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines 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, management is responsible for assessing the 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

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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 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.

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

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

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

Ernst & Young Holdings (CIS) B.V.

Ernst & Young Holdings (CIS) B.V.
Branch in the Republic of Azerbaijan

22 February 2019

Azerbaijan, Baku, 153 Neftchilar avenue

Statements of financial position

(Amounts presented are in US dollars, unless otherwise stated)

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Intangible assets	4	77,535,204	74,310,616
Exploration and evaluation assets	5	665,271	–
Property, plant and equipment	6	20,883,896	24,490,813
Prepayments	7	1,514,513	–
Deferred tax assets	12	2,332,414	1,132,032
Total non-current assets		**102,931,298**	**99,933,461**
Current assets			
Cash and cash equivalents	8	4,972,134	174,294
Trade and other receivables	10	127,732	–
Prepayments	7	1,045,346	511,929
Inventories	9	7,993,852	40,143,536
Other current assets	11	715,418	91,688
Total current assets		**14,854,482**	**40,921,447**
Total assets		**117,785,780**	**140,854,908**
Equity and liabilities			
Equity			
Share capital	13	1,296,600	1,296,600
Accumulated loss		(94,069)	(22,151,793)
Total equity		**1,202,531**	**(20,855,193)**
Non-current liabilities			
Interest-bearing loans and borrowings	14	104,940,321	133,098,386
Provision for rehabilitation	15	2,561,269	1,776,805
Total non-current liabilities		**107,501,590**	**134,875,191**
Current liabilities			
Trade and other payables	16	2,234,723	136,991
Consideration payable	17	700,000	26,200,000
Interest-bearing loans and borrowings	14	5,254,063	424,441
Other current liabilities	11	892,873	73,478
Total current liabilities		**9,081,659**	**26,834,910**
Total shareholder's equity and liabilities		**117,785,780**	**140,854,908**

Signed and authorized on behalf of the Company:

Zakir Ibrahimov, Chairman of the Executive Board 22 February 2019

Teymur Naghiyev, Head of Finance department 22 February 2019

Statements of profit or loss and other comprehensive income

(Amounts presented are in US dollars, unless otherwise stated)

	Notes	Year ended 31 December 2017	From 5 July 2016 (inception) to 31 December 2016
Revenue	18	77,306,206	–
Cost of sales		(62,288,074)	–
Gross profit		**15,018,132**	**–**
Other income		150,494	3,063
Other operating expenses	20	(391,157)	(10,191)
Write-down of inventories	9	–	(1,102,561)
Impairment of exploration rights	4, 19	–	(21,096,737)
Reversal of previously impaired exploration rights	4, 19	14,081,026	–
General and administrative expenses	21	(2,756,109)	(542,960)
Operating profit/(loss)		**26,102,386**	**(22,749,386)**
Finance costs	22	(5,245,044)	(534,439)
Profit/(loss) before income tax		**20,857,342**	**(23,283,825)**
Income tax benefit	12	1,200,382	1,132,032
Profit/(loss) for the year		**22,057,724**	**(22,151,793)**
Other comprehensive income		–	–
Total comprehensive income/(loss)		**22,057,724**	**(22,151,793)**

The accompanying notes are an integral part of these financial statements.

Statements of cash flows

(Amounts presented are in US dollars, unless otherwise stated)

	Notes	Year ended 31 December 2017	From 5 July 2016 (inception) to 31 December 2016
Cash flows from operating activities			
Profit/(loss) before income tax		20,857,342	(23,283,825)
Adjustments to reconcile profit/(loss) before income tax to net cash flows			
Interest expense	22	5,158,337	534,439
Depreciation and depletion of property, plant and equipment	19	5,067,981	93,357
Amortization and depletion of intangible assets	19	10,231,602	287
Impairment of exploration rights	19	–	21,096,737
Reversal of previously impaired exploration rights	19	(14,081,026)	–
Write-down of inventories	19	–	1,102,561
Unwinding of discount on rehabilitation provision	22	86,707	–
Other non-cash transactions		46,521	48,354
Operating cash flows before working capital changes		**27,367,464**	**(408,090)**
Working capital changes			
Increase in trade and other receivables	10	(127,732)	–
Increase in other current assets	11	(623,730)	(91,688)
Decrease/(increase) in inventories		33,152,140	(973,972)
Increase in current prepayments		(533,417)	(511,929)
Increase in trade and other payables		1,642,923	136,991
Increase in other current liabilities		772,874	25,124
Cash generated from / (used in) operations		**61,650,522**	**(1,823,564)**
Income taxes paid		–	–
Net cash flows from / (used in) operating activities		**61,650,522**	**(1,823,564)**
Cash flows from investing activities			
Expenditure on property, plant, equipment and mine development		(2,227,719)	(483,896)
Investment in exploration and evaluation assets		(581,921)	–
Investment in other intangible assets		(56,262)	(3,234)
Acquisition of group of assets from Ex-contractors	17	(25,500,000)	(131,800,000)
Net cash used in investing activities		**(28,365,902)**	**(132,287,130)**
Cash flows from financing activities			
Proceeds from issuance of shares	13	–	1,296,600
Proceeds from loans and borrowings	23	11,802,681	133,430,000
Repayments of loans and borrowings	23	(35,131,969)	–
Interest paid	23	(5,157,492)	(441,612)
Net cash flows (used in) / from financing activities		**(28,486,780)**	**134,284,988**
Net increase in cash and cash equivalents		**4,797,840**	**174,294**
Cash and cash equivalents at the beginning of the year / at inception (5 July 2016)	8	174,294	–
Cash and cash equivalents at the end of the year	8	**4,972,134**	**174,294**

The accompanying notes are an integral part of these financial statements.

Statements of changes in equity

(Amounts presented are in US dollars, unless otherwise stated)

	Notes	Share capital	Accumulated loss	Total equity
As at 5 July 2016 (inception date)		**–**	**–**	**–**
Loss for the year		–	(22,151,793)	**(22,151,793)**
Other comprehensive income		–	–	**–**
Total comprehensive loss		**–**	**(22,151,793)**	**(22,151,793)**
Issue of shares	13	1,296,600	–	**1,296,600**
As at 31 December 2016		**1,296,600**	**(22,151,793)**	**(20,855,193)**
Profit for the year		–	22,057,724	**22,057,724**
Other comprehensive income		–	–	**–**
Total comprehensive income		**–**	**22,057,724**	**22,057,724**
As at 31 December 2017		**1,296,600**	**(94,069)**	**1,202,531**

The accompanying notes are an integral part of these financial statements.

(Amounts presented are in US dollars, unless otherwise stated)

1. Corporate information

AzerGold Closed Joint-Stock Company (the "Company" or "AzerGold CJSC") was established by the Presidential Decree No. 1047 dated 11 February 2015 and was incorporated on 5 July 2016 in accordance with legislation of the Republic of Azerbaijan. The Company is 100% owned by the Government of the Republic of Azerbaijan (the "Government"), which is represented by the Ministry of Economy, Ministry of Ecology and Natural Resources ("MENR") and the State Committee on Property Issues of the Republic of Azerbaijan.

The Company is domiciled in the Republic of Azerbaijan. The Company's registered legal address is Uzeyir Hajibeyov Str., 40, Government House, AZ1000 Baku, the Republic of Azerbaijan.

The Company was established for studying, research, exploration, management, as well as extraction, processing and sale of precious and non-ferrous metal ore deposits, implementation of new technologies in this field, modernization and efficient use of material and technical base, performance of other activities related to the development of the industry.

On 25 May 2016, based on the Presidential Decree No. 2065, the Company was assigned to purchase 100% participating interest of Londex Resources S.A, Willys&Meyris S.A, Fargate Mining Corporation and Globex International LLP (hereinafter all together referred to as "Ex-contractors") in the agreement on the investigation, prospecting, exploration and production sharing for Garadagh, Chovdar, Goydagh, Dashkesen ore-bearing areas, Kohnemedan area and deposits of the Kurekchay basin (the "PSA"), which was enacted by the legislature of the Republic of Azerbaijan and which became effective on 30 December 2006 with a 30-year validity.

As discussed in Note 3, on 4 August 2016, the Company signed the Sale and Purchase Agreement with Ex-contractors (hereinafter "SPA") and acquired 100% participation interest in the PSA.

On 8 August 2016, based on the Presidential Decree No. 2065 dated 25 May 2016, the Company signed the PSA termination agreement with MENR and terminated the PSA. The Company operates under non-PSA legislation environment since then.

2. Basis of preparation and significant accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements are the Company's first financial statements and cover the accounting period from 5 July 2016 (inception) to 31 December 2016 and the year ended 31 December 2017. The financial statements have been prepared under the historical cost convention unless described otherwise in the accounting policy below. The financial statements are presented in US dollars ("$").

Significant accounting policies

Foreign currency translation

The official currency of the Republic of Azerbaijan is the Azerbaijani manat. However, according to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, and its interpretations, the Company's functional currency, which reflects the economic substance of the underlying events and circumstances of the Company, is the US dollars as the majority of the Company's receivables, revenue, costs and interest-bearing loans and borrowings are either priced, incurred, payable or otherwise measured in US dollars.

Accordingly, transactions and balances not already measured in US dollars have been re-measured into US dollars in accordance with the relevant provisions of IAS 21, where revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the statement of financial position date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in US dollars are credited or charged to the statement of profit or loss and other comprehensive income.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Financial instruments − key measurement terms

Depending on their classification, financial instruments are carried at fair value, or amortized cost as described below.

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a 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. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.

Amortized cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, are not presented separately and are included in the carrying values of related statement of financial position items.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Financial instruments − key measurement terms (continued)

Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets

Initial recognition and measurement

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

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, or as derivatives.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

<u>Trade and other receivables</u>

Trade and other receivables, which generally have 30-180 days' terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash on hand, current accounts with commercial banks and amounts due from banks on demand or with an original maturity of three months or less.

Derecognition

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

- The rights to receive cash flows from the asset have expired.
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

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

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Financial instruments − key measurement terms (continued)

Financial assets (continued)

Financial assets carried at amortized cost

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, interest-bearing 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 interest-bearing loans and borrowings, plus directly attributable transaction costs.

The Company has not designated any financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings, which have a fixed contractual repayment schedule are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance cost in the statement of profit or loss and other comprehensive income.

Trade and other payables, consideration payable to Ex-contractors

Trade and other payables and consideration payable to Ex-contractors are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Financial instruments − key measurement terms (continued)

Financial liabilities (continued)

Derecognition

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

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

Refer to Note 23 for further details on financial assets and financial liabilities.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 from funds 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 Company during the period. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred to the buyer.

The following criteria are also met in specific revenue transaction:

Gold bullion sales

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

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The Company accrues and pays its income tax at the rate of 20% in accordance with the Tax Code of Republic of Azerbaijan.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Taxation (continued)

Deferred income tax

Deferred income tax is provided, using the balance sheet method, on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in other comprehensive income.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Taxation (continued)

Value added tax

The tax authorities permit the settlement of sales and purchases value added taxes ("VAT") on a net basis.

VAT recoverable

VAT recoverable relates to purchases, which have not been settled at the statement of financial position date. VAT recoverable is reclaimable against sales VAT upon payment for the purchases. Management periodically reviews the recoverability of VAT receivable balance.

VAT payable

VAT payable represents VAT related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases, which have been settled at the statement of financial position date. In addition, VAT related to sales, which have not been settled at the statement of financial position date (VAT deferred), is also included in VAT payable.

Social and pension contributions

In accordance with the Law on Social Insurance of the Republic of Azerbaijan, as amended, the Company is obligated to contribute to the State Social Protection Fund on behalf of its employees. The Company's contributions represented 22% of employees' salaries as reflected in the statutory records in 2017 and 2016.

Prepayments

Prepayments are recognised and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Prepayments are classified as either current or non-current depending on the expected period of expiration and the nature of goods and services purchased.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Leases (continued)

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Acquisition of a group of assets that does not constitute a business

When the Company acquires a group of assets that is not a business, it allocates the cost of acquisition between the individual identifiable assets and liabilities as following:

- For identifiable asset and liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS standard;
- The entity deducts from the transaction price of the acquired group of assets the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Property, plant and equipment

Upon completion of mine construction, the assets initially charged to "Assets under construction" are transferred into "Plant, equipment and vehicles" or "Producing mines". Items of "Plant, equipment and vehicles" 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 asset is ready to be put into operation. When an asset put into operation, it is transferred to "Plant, equipment and vehicles" or "Producing mines". Additional capitalised costs performed subsequent to the date of commencement of operation of the asset are charged directly to "Plant, equipment and vehicles" 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 cost 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 construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions, improvements or new developments, underground mine development or mineable reserve development.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation, depletion and amortisation

Accumulated mine development costs within producing mines are depleted 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 depletion of mine development cost takes into account expenditures incurred to date.

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

- Buildings seven years (2016: seven years);
- Vehicles three years (2016: three years);
- Machinery equipment four years (2016: four years);
- Furniture and fixture five years (2016: five years);
- Computer equipment four years (2016: four 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 Company's statement of profit or loss and other comprehensive income when the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation and amortisation are reviewed at each reporting date and adjusted prospectively if appropriate. Assets under construction are not depreciated.

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 Company 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.

Exploration and evaluation assets

Pre-licence costs

Pre-licence costs relate to costs incurred before the Company has obtained legal rights to explore in a specific area. Such costs may include the acquisition of exploration data and the associated costs of analysing that data. These costs are expensed in the period in which they are incurred.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Exploration and evaluation assets (continued)

Exploration and evaluation expenditure

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 capitalized as exploration and evaluation assets.

Exploration and evaluation activity includes:

- Researching and analyzing historical exploration data;
- Gathering exploration data through geophysical studies;
- Exploring drilling and sampling;
- Determining and examining the volume and the grade of the resource;
- Surveying transportation and infrastructure requirement;
- Conducting mining and finance studies.

Exploration and evaluation assets are carried forward during the exploration and evaluation stage and are written off unless commercial reserves have been established or the determination process has not been completed.

Exploration and evaluation assets are assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. No amortization is charged during the Exploration and evaluation phase.

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

For capitalized exploration and evaluation expenditure, an assessment 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 Company makes an estimate of the recoverable amount.

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

When commercial production commences, exploration, evaluation and development costs previously capitalised are transferred to producing mines and depleted 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. Once there is evidence that reserves are increased, such costs are tested for impairment and transferred to producing mines.

Intangible assets

Mining and exploration rights acquired

As discussed in Note 1, as part of the SPA, the Company acquired a group of assets from Ex-contractors, which included mining and exploration rights.

The Company used a discounted cash flow model to determine fair values of mining and exploration rights and estimated the expected future cash flows of the mines, based on the life-of-mine plans. Expected future cash flows are based on estimates of future production and commodity prices, operating costs, and forecast capital expenditures using the life-of-mine plan as at the acquisition date.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Intangible assets (continued)

Mining and exploration rights acquired (continued)

Mining and exploration rights acquired are initially recognised at cost to the Company. The cost was determined by allocating cost of acquisition of the group of assets to mining and exploration rights based on their relative fair values at the date of the acquisition.

Mining and exploration rights carried at cost less any provisions for impairments, which result from evaluations and assessments of potential mineral recoveries and accumulated depletion. Mining and exploration rights are depleted on the units-of-production basis over the total reserves of the relevant area. Depletion starts upon commencement of production phase in the relevant area.

Other intangible assets

Other intangible assets mostly represent computer software, which is amortized over their useful economic lives of four years.

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

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 producing mine assets, 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 charged to the Company's statement of profit and loss or other comprehensive income as operating costs in accordance with the principles of IAS 2 *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 within stripping and development capital expenditure. 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 orebody. Components are specific volumes of a mine's orebody 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 capitalized in respect of waste removal are depleted using the unit of production method based on the ore reserves of the component of the orebody 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.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. 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.

Provisions

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, 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 current pre-tax 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.

Provision for rehabilitation

The Company makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred between 2028 and 2030, which is when the producing mine properties are expected to cease operations. These provisions have been created based on the Company's internal estimates.

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 Company's statement of profit or loss and other comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the rehabilitation liability and the corresponding assets 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 Company's statement of profit or loss and other comprehensive income.

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 Company 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 exceeds 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 Company's statement of profit or loss and other comprehensive income.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Inventories

Finished goods, metal in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Finished goods consist of dore bars that have been refined and assayed and are in a form that allows them to be sold on international bullion markets. 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, and site administration costs) and allocated indirect costs (including depreciation, depletion and amortisation of producing mines assets).

Metal in circuit consists of in-circuit material at properties with milling or processing operations and doré awaiting refinement, and 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 assets).

Ore stockpiles consist of stockpiled ore and are valued at the lower of average cost and net realisable value. Ore stockpile costs consist of direct production costs (including mining, blasting and transportation costs). If the ore stockpile is not expected to be processed in 12 months after the reporting date, it is included in non-current assets and the net realisable value is calculated on a discounted cash flow basis.

Inventory costs are charged to operations on the basis of ounces of gold sold. The Company 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.

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

Significant accounting judgments

The preparation of the 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 Company financial statements and reported amounts of revenues and expenses during the reporting period. In particular, information about significant areas of judgments considered by management in preparing the Company financial statements is described below.

Exploration and evaluation expenditure

The application of the Company’s accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely from future exploitation. This deferral policy requires management to make certain judgements about future events or circumstances, in particular whether an economically viable extraction operation can be established. Judgements made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Significant accounting judgments (continued)

Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognised within the Company statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company 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 Azerbaijani jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

Production start date

The Company assesses the stage of each mine under development/construction to determine when a mine moves into the production phase, this being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine development/construction project, such as the complexity of the project and its location. The Company considers various relevant criteria to assess when the production phase is considered to have commenced. At this point, all related amounts are reclassified from 'Assets under construction' to 'Property, plant and equipment'. Some of the criteria used to identify the production start date include, but are not limited to:

- Level of capital expenditure incurred compared with the original construction cost estimate;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to produce metal in saleable from (within specifications);
- Ability to sustain ongoing production of metal.

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

Significant accounting estimates

The preparation of the Company 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 Company 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 Company financial statements is described below.

Ore reserve and resources

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company 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, intangible assets, property, plant and equipment, provision for rehabilitation and depreciation, depletion and amortisation charges.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Significant accounting estimates (continued)

Mine rehabilitation provision

The ultimate rehabilitation costs are uncertain, and cost estimates can vary in response to many factors, including estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Therefore, significant estimates and assumptions are made in determining the provision for mine rehabilitation. As a result of the subjectivity of this provision, there is uncertainty regarding both the amount and estimated timing of incurring such costs.

Estimated rehabilitation provision amounted to $2,561,269 as at 31 December 2017 (2016: $1,776,805). Changes in any of these conditions may result in adjustments to provisions recorded by the Company. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required.

The discount rate used in the calculation of the provision as at 31 December 2017 equaled 5.05% (2016: 4.88%).

If the estimated discount rate used in the calculation had been 1% higher/lower than management's estimate, the carrying amount of the provision would have been $276,905 lower / $313,797 higher (2016: $207,368 lower / $237,288 higher), respectively.

Inventory

Net realisable value tests are performed at each reporting date and represent the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

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

Useful life of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impairment of intangible and tangible assets

In accordance with its accounting policies, the Company assesses at each reporting date, whether there is an indication that tangible and intangible assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company performs a formal estimates of the asset's recoverable amount. The recoverable amount is determined as the higher of the fair value less costs of disposal ("FVLCD") for the asset and the asset's value in use ("VIU").

The recoverable amount 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 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 Company evaluating its non-financial assets on a geographical or license basis.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Significant accounting estimates (continued)

Impairment of intangible and tangible assets (continued)

Given the nature of the Company's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, the FVLCD for each CGU is estimated based on discounted future estimated cash flows (expressed in real terms) expected to be generated from the continued use of the CGUs using market based commodity price, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, including any expansion projects, and its eventual disposal, based on financial budget and latest life of mine (LOM) plans approved by management.

These cash flows were discounted using a real post-tax discount rate that reflected current market assessments of the time value of money and the risks specific to the CGU.

Estimates of quantities of recoverable minerals, production levels, operating costs and capital requirements are sourced from planning process, including the LOM plans, financial budget and CGU-specific studies.

The determination of FVLCD for each CGU are considered to be Level 3 fair value measurements, as they are derived from valuation techniques that include inputs that are not based on observable market data. The Company considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

For assets/CGUs excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognized and separately presented in the statement of profit or loss and other comprehensive income.

Summary of impairment

Management assessed that there were indicators of impairment as at 31 December 2017 and 2016 and performed an impairment analysis at those dates. As a result of impairment analysis, total impairment losses of $21,096,737 were recognised in 2016 in relation to Chovdar Sulphide exploration right. The trigger for the impairment test was primarily due to decrease in gold price as of 31 December 2016 since the acquisition date of the group of assets, 4 August 2016.

During the year ended 31 December 2017, the Company recognized an impairment reversal of $14,081,026. This reversal related to a previously recognized impairment loss of the Chovdar Sulphide exploration right. This reversal resulted from a positive change in the estimates used to determine the mining right's recoverable amounts since the impairment loss was recognised, specifically the long-term price estimates for gold.

No impairment losses or reversals have been recognised in relation to impairment analysis of Chovdar Oxide CGU and Filizchay CGU during the year ended 31 December 2017 and 2016. The recoverable amount of the Chovdar Oxide, Chovdar Sulphide and Filizchay CGUs was based on management's estimate of FVLCD.

The determination of FVLCD is most sensitive to the following key assumptions:

- Production volumes;
- Commodity prices;
- Discount rates.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

Significant accounting estimates (continued)

Summary of impairment (continued)

Production volumes: In calculating the FVLCD, estimated production volumes incorporated into the cash flow models were based on detailed life-of-mine plans and took into account development plans for the mines agreed by management as part of the long-term planning process.

Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted. As each producing mine has specific reserve characteristics and economic circumstances, the cash flows of the mines are computed using appropriate individual economic models and key assumptions established by management. The production profiles used were consistent with the reserves and resource volumes approved as part of the Company's process for the estimation of proved and probable reserves, resource estimates and in certain circumstances, include expansion projects. These are then assessed to ensure they are consistent with what a market participant would estimate.

Commodity prices: Forecast precious metal and commodity prices are based on management estimates. Estimated long-term precious metal prices incorporated in cash flow models were as following:

	Gold $/oz.	Silver $/oz.	Copper $/lb.	Lead $/lb.	Zinc $/lb.
2017	1,302.50	16.91	3.09	1.12	1.43
2016	1,159.10	16.24	2.53	1.08	1.29

Discount rates: In calculating the FVLCD, a post-tax discount rate of 12 per cent was applied to the post-tax cash flows expressed in real terms. This discount rate is derived from the Company's post-tax weighted average cost of capital ("WACC"), which takes into account both equity and debt, and is then adjusted to reflect the Company's assessment of a discount rate that other market participants would consider when evaluating the assets. If the estimated WACC used in cash flow model had been 1 per cent higher than management's estimate, $2,644,875 less impairment reversal would be recognised during the year (2016: $1,523,728 additional impairment loss) in relation to Chovdar Sulphide exploration right. No impairment loss (reversal) would be recognised both in 2017 and 2016 for Chovdar Oxide and Filizchay CGUs if the estimated WACC used in cash flow models had been 1 per cent higher than management's estimate.

Sensitivity analysis: With the exception of Chovdar Sulphide exploration right, which was impaired during 2016 and partially reversed during 2017, management believes that currently there are no reasonably possible changes in any of the above assumptions, which would lead to an impairment for Chovdar Oxide and Filizchay CGUs not impaired during 2017 and 2016. In relation to the Chovdar Sulphide exploration right that was impaired during 2016, any variation in the key assumptions above would either result in further impairment or lead to a decrease in impairment reversal. Effect of the possible change in discount rates was quantified above.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

New standards and amendments issued, but not yet effective

Standards issued, but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Company is assessing the impact of the changes required by IFRS 9, but these are not expected to be materially significant.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Company plans to adopt the new standard on the required effective date using modified retrospective method. The Company has assessed the impacts of implementing IFRS 15 and the changes required and concluded that these are not expected to be significant.

The only significant revenues of the Company are sales of gold and silver bullions to its gold refiner. In both cases, sales are recognised when the buyer takes physical possession of the goods and are priced at the spot price of metal sale date.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize 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 recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

(Amounts presented are in US dollars, unless otherwise stated)

2. Basis of preparation and significant accounting policies (continued)

New standards and amendments issued, but not yet effective (continued)

IFRS 16 Leases (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

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

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

In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period in Note 23.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company applied amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

3. Acquisition of participating interest in the PSA

As disclosed in Note 1, the Company acquired 100% participation interest of Ex-contractors in the PSA. Total consideration under this agreement was agreed in the amount of $158,000,000. The Company recognised this purchase as acquisition of a group of assets that is not a separate business and allocated the cost of acquisition between the individual identifiable assets and liabilities, on the basis of their relative fair values. This approach was in line with the Company's policy (see Note 2).

At the date of the acquisition, allocation of the acquisition cost to the identifiable assets and liabilities was as following:

	Allocated cost
Mining and exploration rights	95,404,406
Property, plant and equipment	24,159,181
Inventories	40,272,125
Provision for rehabilitation	(1,835,712)
Total acquisition cost of group of assets	**158,000,000**

(Amounts presented are in US dollars, unless otherwise stated)

4. Intangible assets

Movements in the carrying amount of intangible assets were as follows:

Cost	Mining rights	Exploration rights	Other intangible assets	Total
At 5 July 2016 (inception date)	**–**	**–**	**–**	**–**
Acquisition of group of assets (Note 3)	52,081,248	43,323,158	–	**95,404,406**
Additions	–	–	3,234	**3,234**
At 31 December 2016	**52,081,248**	**43,323,158**	**3,234**	**95,407,640**
Additions	–	–	8,343	**8,343**
At 31 December 2017	**52,081,248**	**43,323,158**	**11,577**	**95,415,983**
Amortization and depletion*				
At 5 July 2016 (inception date)	**–**	**–**	**–**	**–**
Amortization and depletion charge for the year	–	–	(287)	**(287)**
Impairment of exploration rights	–	(21,096,737)	–	**(21,096,737)**
At 31 December 2016	**–**	**(21,096,737)**	**(287)**	**(21,097,024)**
Amortization and depletion charge for the year	(10,862,809)	–	(1,972)	**(10,864,781)**
Reversal of previously impaired exploration rights	–	14,081,026	–	**14,081,026**
At 31 December 2017	**(10,862,809)**	**(7,015,711)**	**(2,259)**	**(17,880,779)**
Net book value				
At 31 December 2016	**52,081,248**	**22,226,421**	**2,947**	**74,310,616**
At 31 December 2017	**41,218,439**	**36,307,447**	**9,318**	**77,535,204**

* *Depletion charge represents depletion of mining rights for Chovdar Oxide field. Depletion started upon commencement of commercial production in this field during 2017.*

As disclosed in Note 3, the Company acquired the group of assets from Ex-contractors, which included mining rights for Chovdar Oxide field amounting $52,081,248 and exploration rights for Chovdar Sulphide and Filizchay fields amounting $22,620,465 and $20,702,693, respectively. As disclosed in Note 2, the Company performed impairment analysis and recognized impairment loss of $21,096,737 and impairment reversal of $14,081,026 in relation to Chovdar Sulphide exploration rights as of 31 December 2016 and 31 December 2017, respectively.

On 5 December 2016, subsequent to termination of the PSA, the Company acquired mining license for Chovdar Oxide field from MENR in order to commence production. On 11 May 2017, the Company acquired licenses for explorations at Chovdar Sulfide (maturing in May 2021), Filizchay and Mazimchay (both maturing in May 2018) fields from MENR. No license cost incurred or capitalized by the Company for the mentioned mining properties.

5. Exploration and evaluation assets

Movements in the carrying amount of exploration and evaluation assets were as follows:

Cost	Chovdar Sulphide	Filizchay	Mazimchay	Total
At 5 July 2016 (inception date)	**–**	**–**	**–**	**–**
Additions	–	–	–	**–**
At 31 December 2016	**–**	**–**	**–**	**–**
Additions	267,542	245,121	152,608	**665,271**
At 31 December 2017	**267,542**	**245,121**	**152,608**	**665,271**

(Amounts presented are in US dollars, unless otherwise stated)

5. Exploration and evaluation assets (continued)

Subsequent to acquisition of exploration licences from MENR, the Company started exploration activities at Chovdar Sulphide, Filizchay and Mazimchay fields during 2017. Current year exploration expenditures include surveying costs, drilling costs and payments made to contractors for scoping and pre-feasibility studies. No impairment loss recognised for exploration and evaluation assets as at 31 December 2017 (2016: nil).

6. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	**Plant, equipment and vehicles**	**Buildings**	**Producing mines**	**Asset under construction**	**Other**	**Total**
At 5 July 2016 (inception date)	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of group of assets (Note 3)	915,892	188,117	22,954,357	–	100,815	**24,159,181**
Additions	309,468	–	36,373	9,947	128,108	**483,896**
Change in estimate in rehabilitation provision (Note 15)	–	–	(58,907)	–	–	**(58,907)**
At 31 December 2016	**1,225,360**	**188,117**	**22,931,823**	**9,947**	**228,923**	**24,584,170**
Additions	140,787	–	1,434,532	125,844	205,344	**1,906,507**
Change in estimate in rehabilitation provision (Note 15)	–	–	(76,166)	–	–	**(76,166)**
At 31 December 2017	**1,366,147**	**188,117**	**24,290,189**	**135,791**	**434,267**	**26,414,511**
Depreciation, depletion and Impairment*						
At 5 July 2016 (inception date)	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation and depletion charge for the year	(76,232)	(6,434)	–	–	(10,691)	**(93,357)**
Impairment	–	–	–	–	–	**–**
At 31 December 2016	**(76,232)**	**(6,434)**	**–**	**–**	**(10,691)**	**(93,357)**
Depreciation and depletion charge for the year	(320,026)	(13,168)	(5,033,294)	–	(70,770)	**(5,437,258)**
Impairment	–	–	–	–	–	**–**
At 31 December 2017	**(396,258)**	**(19,602)**	**(5,033,294)**	**–**	**(81,461)**	**(5,530,615)**
Net book value						
At 31 December 2016	**1,149,128**	**181,683**	**22,931,823**	**9,947**	**218,232**	**24,490,813**
At 31 December 2017	**969,889**	**168,515**	**19,256,895**	**135,791**	**352,806**	**20,883,896**

* *Producing mines relates to Chovdar Oxide field and are depleted based on unit-of-production method. Depletion started upon commencement of commercial production in this field during 2017.*

As disclosed in Note 3, the Company acquired property, plant and equipment as part of purchase of the group of assets from Ex-contractors. Property, plant and equipment mainly comprised producing mines and related rehabilitation cost at Chovdar Oxide field.

As at 31 December 2017, net book value of producing mines included capitalized rehabilitation cost of $1,958,431 (2016: $1,776,805).

(Amounts presented are in US dollars, unless otherwise stated)

7. Prepayments

As at 31 December 2017, current prepayments comprised payments made to suppliers for mining activities, material supplies, repair and maintenance works, head office rent and other services and totalled $1,045,346 (2016: $511,929). These prepayments are expected to be utilized within the next year.

As at 31 December 2017, non-current prepayments of $1,514,513 (2016: nil) mainly comprised payments made to suppliers for the construction of heap leaching system, drainage network and cyanide pad in Chovdar Oxide field.

8. Cash and cash equivalents

Cash and cash equivalents comprised the following as at 31 December:

	2017	2016
Cash at bank, US dollars	4,963,994	95,585
Cash at bank, Azerbaijani manat ("AZN")	3,157	77,236
Cash on hand, AZN	2,386	1,473
VAT deposit account, AZN	2,597	–
Total cash and cash equivalents	**4,972,134**	**174,294**

Effective 1 January 2008 the state tax authorities introduced VAT deposit accounts and enforced payments of input and output VAT via these accounts. In order to comply with new tax regulation, the Company has opened a VAT deposit account. In accordance with this regulation, the balance on VAT deposit account may only be withdrawn with a 45 day notice to the tax authorities. Cash at banks is non-interest-bearing.

9. Inventories

Inventories comprised the following as at 31 December:

	2017	2016
Gold bullions	4,944,088	34,810,717
Ore stockpiles	1,756,411	492,904
Materials and supplies	787,540	2,068,829
Metal in circuit	505,813	2,771,086
Total inventories	**7,993,852**	**40,143,536**

As discussed in Note 3, as part of acquisition of the group of assets from Ex-contractors, the Company acquired inventories of $40,272,125, which comprised gold bullions of $34,810,717, ore stockpiles of $934,473, material and supplies of $2,222,784 and metal in circuit of $2,304,151.

During 2016, the Company recognised overhead cost of $1,127,927 and movement from ore stockpiles of $441,569 in metal in circuit. Gold bullions acquired as part of acquisition of the group of assets were sold by the Company during 2017.

The Company recognizes inventory at lower of cost and net realizable value. As at 31 December 2016, the Company recognised inventory write-downs of $1,102,561, which was entirely related to metal in circuit balance. The Company had no inventory write-downs as at 31 December 2017.

10. Trade and other receivables

Trade receivables are non-interest-bearing and are generally on terms of 30 days. As at 31 December 2017 and 2016, the Company had no trade receivables. As at 31 December 2017, other receivables of $127,732 (2016: nil) comprised the sale of inventories to third party.

(Amounts presented are in US dollars, unless otherwise stated)

11. Other current assets / other current liabilities

As at 31 December 2017, other current assets of $715,418 (2016: $91,688) mainly comprised recoverable VAT of the Company.

VAT recoverable relates to purchases, which have not been settled at the reporting date. This amount is recoverable from the tax authorities via offset against VAT payable or direct refunds. Management periodically reviews the recoverability of the balance of taxes receivable and believes they are recoverable within one year.

As at 31 December 2017, other current liabilities represent VAT accrual of $70,605 (2016: nil), land tax accrual of $388,014 (2016: nil), property tax accrual of $194,007 (2016: nil) and other current liabilities of $240,247 (2016: $73,478).

12. Income tax

The major components of the income tax benefit for the years ended 31 December are:

	2017	2016
Current income tax		
Current income tax expense	–	–
Deferred income tax		
Benefit relating to origination and reversal of temporary differences	1,200,382	1,132,032
Total income tax benefit reported in the statement of profit or loss and other comprehensive income	**1,200,382**	**1,132,032**

A reconciliation between the accounting profit/(loss) and the total income tax benefit for the years ended 31 December is as follow:

	2017	2016
Accounting profit/(loss) before income tax	**20,857,342**	**(23,283,825)**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory tax rate	**4,171,468**	**(4,656,765)**
Unrecognized temporary differences	(5,312,395)	3,441,643
Income/(expense) not recognized in IFRS	1,316,792	(3,136,425)
Translation difference	(1,154,496)	3,115,187
Other	(221,751)	104,328
Total income tax benefit reported in the statement of profit or loss and other comprehensive income	**(1,200,382)**	**(1,132,032)**

As discussed in Note 3, the Company acquired 100% participation interest of Ex-contractors in the PSA and treated this transaction as acquisition of a group of assets. The Company did not recognize deferred tax for temporary differences arising from acquisition of the group of assets, since those temporary differences satisfied the conditions, disclosed in Note 2, of initial recognition exception.

Unrecognized temporary differences for the years ended 31 December 2017 and 2016 relates to the tax effects of subsequent changes in temporary differences subject to initial recognition exception.

Income/(expense) not recognized in the IFRS relates to the income of $6,583,959 (2016: loss of $15,682,123) reported in the statutory profit tax return that arose from the change in foreign exchange rate of AZN against USD. Loans obtained from local banks and consideration payable to Ex-contractors denominated in USD and led to foreign exchange rate difference during preparation of statutory profit tax return in AZN. As a result, income tax benefit or expense not recognized in IFRS reflected in above reconciliation.

(Amounts presented are in US dollars, unless otherwise stated)

12. Income tax (continued)

Translation differences as at 31 December 2017 and 2016, relates to income tax benefit and expense, respectively, were due to the exchange differences arising on translation of the statutory profit tax return in AZN into functional currency of the Company, USD.

Deferred tax at 31 December relates to the following:

	Statement of financial position		Statement of profit or loss and other comprehensive income	
	2017	**2016**	**2017**	**2016**
Property, plant and equipment	(411,905)	(926,051)	514,146	(926,051)
Intangible assets	(1,095,698)	(806,268)	(289,430)	(806,268)
Exploration and evaluation assets	(24,489)	–	(24,489)	–
Inventories	–	(976,715)	976,715	(976,715)
Prepayments	(38,998)	–	(38,998)	–
Deferred tax liability	**(1,571,090)**	**(2,709,034)**		
Carry-forward tax losses	2,817,561	3,466,840	(649,279)	3,466,840
Provision for rehabilitation	512,254	355,361	156,893	355,361
Inventories	231,854	–	231,854	–
Prepayments	–	8,794	(8,794)	8,794
Trade and other payables	341,835	10,071	331,764	10,071
Deferred tax asset	**3,903,504**	**3,841,066**		
Deferred tax benefit			**1,200,382**	**1,132,032**
Net deferred tax asset	**2,332,414**	**1,132,032**		

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.

The Company offset deferred tax assets and liabilities since there is a legally enforceable right to set off current tax assets against current tax liabilities if they relate to income taxes levied by the same taxation authority. Therefore, the Company intends to settle its current tax assets and liabilities on a net basis in the Republic of Azerbaijan.

Deferred tax assets are 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.

At 31 December 2017, the Company had unused tax losses of $14,087,807 (2016: $17,334,198) available for offset against future profits. The Company recognized deferred tax asset for these unused tax losses.

13. Share capital

Authorized and fully paid up share capital as at 31 December 2017 and 2016 consists of 2,000,000 ordinary shares, each with nominal value of AZN 1. Share capital is translated into reporting currency at a historical rate of exchange and equals to $1,296,600.

(Amounts presented are in US dollars, unless otherwise stated)

14. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings represent loans obtained from Xalq Bank and Pasha Bank to pay consideration payable to Ex-contractors and finance daily operations. Outstanding loan balances comprised the following as at 31 December:

	Effective interest rate	Maturity date	2017	2016
Current				
Xalq Bank loan – $116,000,000	4%	25 November 2021	58,001	77,334
Pasha Bank loan – $15,800,000	4%	23 November 2021	3,741,548	316,096
Pasha Bank loan – $7,601,314	4%	23 November 2021	1,454,514	–
Pasha Bank (non-revolving credit line)	4%	23 November 2021	–	31,011
Total			**5,254,063**	**424,441**
Non current				
Xalq Bank loan – $116,000,000	4%	25 November 2021	87,000,000	116,000,000
Pasha Bank loan – $15,800,000	4%	23 November 2021	11,768,184	15,499,397
Pasha Bank loan – $7,601,314	4%	23 November 2021	6,172,137	–
Pasha Bank (non-revolving credit line)	4%	23 November 2021	–	1,598,989
Total			**104,940,321**	**133,098,386**

Xalq Bank loan

On 25 November 2016, the Company obtained loan from Xalq Bank in the amount of $116,000,000 bearing interest rate of 4% per annum. The loan was utilized to finance the acquisition of the group of assets from Ex-contractors. Principal amount is repayable in four equal yearly instalments of $29,000,000. The first payment of principal is payable in November 2018. No collateral pledged against the loan.

During 2017, the Company made early payment of $29,000,000 and amended repayment schedule subsequently (see Note 27).

Pasha Bank loans

On 23 November 2016, the Company obtained loan from Pasha Bank in the amount of $15,800,000 bearing interest rate of 4% per annum. The loan was utilized to finance the acquisition of the group of assets from Ex-contractors. The first 13 months of the loan were subject to interest payments only.

The interest and principal are repayable since December 2017 on a reducing balance basis in 48 equal monthly instalments of $356,780. No collateral pledged against the loan facility.

On 1 March 2017, the Company obtained loan from Pasha Bank in the amount of $7,601,314 bearing interest rate of 4% per annum. The loan was utilized to finance the acquisition of the group of assets from Ex-contractors.

The first 12 months of the loan were subject to interest payments only. The interest and principal are repayable since April 2018 on a reducing balance basis in 45 equal monthly instalments of $182,193. No collateral pledged against the loan facility.

On 23 November 2016, the Company entered into non-revolving credit line agreement with Pasha Bank in total amount of $10,000,000. The credit line bears interest of 4% per annum and was opened to finance daily operations of the Company. During 2017, the Company withdrew $4,201,367 (2016: $1,630,000) and fully repaid total withdrawn amount of $5,831,367. No collateral pledged against the credit line.

Total interest expense for the year on interest-bearing loans and borrowings was $5,158,337 (2016: $534,439).

(Amounts presented are in US dollars, unless otherwise stated)

15. Provision for rehabilitation

Movements in the carrying amount of rehabilitation provision were as follows:

	2017	2016
1 January / 5 July (at inception)	**1,776,805**	**–**
Acquisition of group of assets (Note 3)	–	1,835,712
Additions	773,923	–
Unwinding of discount	86,707	–
Effect of change in discount rate	(76,166)	(58,907)
31 December	**2,561,269**	**1,776,805**

The Company makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities. The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred during 2028-2030, which is when the producing mine properties are expected to cease operations at Chovdar field. Estimates of the cost of this work including reclamation costs, close down and pollution control made on an ongoing basis, based on the estimated life of the mine.

As discussed in Note 3, the Company acquired the group of assets from Ex-contractors, which included rehabilitation provision of $1,835,712 at the date of acquisition. The undiscounted cost for rehabilitation as at 31 December 2017 was $3,666,084 (2016: $2,558,327). The Company used 5.05% to discount this cost (2016: 4.88%).

16. Trade and other payables

Trade and other payables comprised the following as at 31 December:

	2017	2016
Trade payables	1,774,891	–
Accruals and other payables	459,832	136,991
Total trade and other payables	**2,234,723**	**136,991**

Trade payables as at 31 December 2017 primarily comprised amounts outstanding for trade purchases and ongoing operational costs. Trade payables are non-interest-bearing and the average creditor days were 11 during the year. The Company had no operational costs and related payables during 2016. Accruals and other payables comprised mainly of scoping, pre-feasibility and geological studies and other services provided by third parties.

17. Consideration payable

As discussed in Note 3, the Company acquired the group of assets from Ex-contractors for total cost of $158,000,000. During 2017 and 2016, the Company repaid a portion of this consideration payable to Ex-contractors, which totaled $25,500,000 and $131,800,000, respectively. Out of these total repayments, $139,401,314 was funded through loans obtained from local banks (see Note 14) and remaining portion was financed through cash generated from gold bar sales during 2017.

As at 31 December 2017, outstanding consideration payable to Ex-contractors comprised $700,000 (2016: $26,200,000). As disclosed in Note 27, this consideration payable was fully paid by the Company subsequent to 31 December 2017.

(Amounts presented are in US dollars, unless otherwise stated)

18. Revenue

The Company had no sales during 2016. Total revenue, during 2017, consisted of gold and silver sales to the third-party customer and amounted to $75,868,119 and $1,438,087, respectively.

19. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	Notes	2017	2016
Amortization and depletion of intangible assets	4	10,864,781	287
Depreciation and depletion of property, plant and equipment	6	5,437,258	93,357
Less amortization and depletion of intangible assets capitalized to inventory		(633,179)	–
Less depreciation and depletion of property, plant and equipment capitalized to inventory		(369,277)	–
Total depreciation, depletion and amortization		**15,299,583**	**93,644**
Operating lease payments		541,130	30,154
Impairment of exploration rights	4	–	21,096,737
Reversal of previously impaired exploration rights	4	(14,081,026)	–
Employee benefit expenses		3,664,302	369,167
Write-down of inventories	9	–	1,102,561
Cost of inventories recognised as expense		45,743,749	–
Net foreign exchange loss	20	106,763	10,191

20. Other operating expenses

Other operating expenses comprised the following as at 31 December:

	2017	2016
Net foreign exchange loss	106,763	10,191
Insurance expense	99,096	–
Refining expense	85,180	–
Transportation expense	58,076	–
Other expenses	42,042	–
Total other operating expenses	**391,157**	**10,191**

21. General and administrative expenses

General and administrative expenses comprised the following as at 31 December:

	2017	2016
Payroll expense	1,326,245	369,167
Legal and consulting expenses	518,521	–
Rent expense	394,307	30,154
Depreciation and depletion of property plant and equipment	132,392	16,263
Amortization of intangible assets	1,972	–
Office supplies expenses	80,823	1,715
Bank charges	56,071	40,186
Other expenses	245,778	85,475
Total general and administrative expenses	**2,756,109**	**542,960**

(Amounts presented are in US dollars, unless otherwise stated)

22. Finance costs

Finance costs of $5,245,044 (2016: $534,439) for the year ended 31 December 2017 comprised interest expense on interest-bearing loans and borrowings and unwinding of discount on rehabilitation provision in the amount of $5,158,337 and $86,707, respectively (2016: $534,439 and nil).

23. Financial instruments risk management objectives and policies

The Company's principal financial liabilities comprise interest-bearing loans and borrowings, trade and other payables and consideration payable. The main purpose of these financial liabilities was to finance the acquisition of the group of assets during 2016 and to fund the Company's ongoing mining operations during 2017. Cash and cash equivalents and trade and other receivables represent the Company's principal financial assets arising directly from its operations.

The Company believes the amounts presented as financial instruments in the accompanying financial statements are reasonable estimates of their fair values. The fair value of cash and cash equivalents, trade and other receivables, trade and other payables, consideration payables and other monetary current assets and liabilities estimated to approximate carrying value due to their short-term nature. The carrying value of interest-bearing loans and borrowings approximate fair value as virtually all debts and loans have been obtained under market conditions, which were still applicable at period end.

The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are market risks comprising: commodity price risk, cash flow interest rate risk and foreign currency risk; liquidity risk; and credit risk. Management reviews and agrees policies for managing each of these risks that are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: commodity price risk, interest rate risk and foreign currency risk. Financial instruments affected by market risk include interest-bearing loans and borrowings, trade and other receivables and trade and other payables.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on the statement of profit or loss and other comprehensive income and shareholders' equity, where applicable.

The sensitivity has been prepared for the years ended 31 December 2017 and 2016 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

Commodity price risk

The Company's activities primarily expose it to the financial risks of changes in gold and silver prices which have a direct impact on revenues. Management continuously monitors the spot price of these commodities. The forward prices for these commodities are also regularly monitored. The majority of the Company's production is sold by reference to the spot price on the date of sale. However, management will enter into forward and option contracts for the purchase and sale of commodities when it is commercially advantageous.

A 10 per cent decrease in gold price in the year ended 31 December 2017 would result in a reduction in revenue of $7,586,812 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 $143,809 and a 10 per cent increase in silver price would have an equal and opposite effect.

Interest rate risk

The Company did not hold any floating rate interest-bearing assets and liabilities, and therefore, had no interest rate risk exposure as at 31 December 2017 and 2016 (see Note 14).

(Amounts presented are in US dollars, unless otherwise stated)

23. Financial instruments risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

The Company's operations are carried out in the Republic of Azerbaijan. Significant portion of the Company's business is transacted in US dollars, AZN and UK Sterling ("GBP").

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

	Liabilities		Assets	
	2017 $	2016 $	2017 $	2016 $
AZN	1,977,091	75,894	135,872	78,709
GBP	4,115	–	–	–
Total	**1,981,206**	**75,894**	**135,872**	**78,709**

The Company did not hedge the financial instruments denominated in foreign currencies.

The following table demonstrates the sensitivity to a reasonably possible change in AZN and GBP, with all other variables held constant, of the Company's profit before tax due to changes in the carrying value of monetary assets and liabilities as at 31 December:

	Change in foreign exchange rate		Effect on profit before tax	
2017	**Increase**	**Decrease**	**After increase**	**After decrease**
AZN	11.3%	11.3%	238,765	(238,765)
GBP	11%	7%	453	(288)

	Change in foreign exchange rate		Effect on profit before tax	
2016	**Increase**	**Decrease**	**After increase**	**After decrease**
AZN	20%	20%	30,921	(30,921)
GBP	6%	18%	–	–

Credit risk

Financial instruments involve, to varying degrees, credit risks. The Company is subject to credit risk from its portfolio of cash and cash equivalents and trade and other receivables and would be exposed to losses in the event of non-performance by counterparties.

The Company evaluates the concentration of risk with respect to cash and cash equivalents and trade and other receivables as low, as it places its cash and cash equivalents with high credit quality financial institutions and trades only with recognised creditworthy third parties.

The Company had no trade receivables from third parties as at 31 December 2017 and 2016. Other receivables as at 31 December 2017 were fully recovered subsequent to yearend 2017.

The Company's maximum exposure to credit risks was $5,099,866 as at 31 December 2017 (2016: $174,294).

(Amounts presented are in US dollars, unless otherwise stated)

23. Financial instruments risk management objectives and policies (continued)

Liquidity risk

The Company monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts.

The tables below summarize the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments.

2017	On demand	Less than 3 months	3-12 month	1-5 years	More than 5 years	Total
Interest-bearing loans and borrowings	–	2,036,634	7,458,569	112,726,760	–	**122,221,963**
Trade and other payables	–	2,234,723	–	–	–	**2,234,723**
Consideration payable	700,000	–	–	–	–	**700,000**
	700,000	**4,271,357**	**7,458,569**	**112,726,760**	**–**	**125,156,686**

2016	On demand	Less than 3 months	3-12 month	1-5 years	More than 5 years	Total
Interest-bearing loans and borrowings	–	1,368,006	4,304,682	145,715,158	–	**151,387,846**
Trade and other payables	–	136,991	–	–	–	**136,991**
Consideration payable	–	–	26,200,000	–	–	**26,200,000**
	–	**1,504,997**	**30,504,682**	**145,715,158**	**–**	**177,724,837**

Changes in liabilities arising from financing activities

	1 January 2017	Cash flows	Interest expense	Other	31 December 2017
Non-current interest-bearing loans and borrowings	133,098,386	(22,997,674)	–	(5,160,391)	104,940,321
Current interest-bearing loans and borrowings	424,441	(5,489,106)	5,158,337	5,160,391	5,254,063
Total liabilities from financing activities	**133,522,827**	**(28,486,780)**	**5,158,337**	**–**	**110,194,384**

	5 July 2016 (inception)	Cash flows	Interest expense	Other	31 December 2016
Non-current interest-bearing loans and borrowings	–	133,430,000	–	(331,614)	133,098,386
Current interest-bearing loans and borrowings	–	(441,612)	534,439	331,614	424,441
Total liabilities from financing activities	**–**	**132,988,388**	**534,439**	**–**	**133,522,827**

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.

(Amounts presented are in US dollars, unless otherwise stated)

23. Financial instruments risk management objectives and policies (continued)

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company monitors capital using a gearing ratio, which is net debt divided by the aggregate of equity and net debt. As at 31 December 2017, the Company's gearing ratio was 99% (2016: 119%). The Company's long-term policy is to keep the gearing ratio below 50%.

	2017	**2016**
Interest-bearing loans and borrowings	110,194,384	133,522,827
Less cash and cash equivalents	(4,972,134)	(174,294)
Net debt	**105,222,250**	**133,348,533**
Equity	1,202,531	(20,855,193)
Capital and net debt	**106,424,781**	**112,493,340**
Gearing ratio	**99%**	**119%**

24. Significant non-cash investing activities

Investing transactions that do not require the use of cash and cash equivalents and excluded from the cash flow statement were as follows as at 31 December:

	2017	**2016**
Change in rehabilitation provision during the year (Note 15)	(76,166)	(58,907)
Rehabilitation provision capitalized during the year (Note 15)	773,923	–
Rehabilitation provision acquired as part of acquisition of group of assets (Note 3)	–	1,835,712
Total non-cash investing activities	**697,757**	**1,776,805**

25. Contingences, commitments and operating risks

Operating environment

The Company's operations are conducted in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani manat.

The Azerbaijan economy has been negatively impacted by a decline in oil prices and devaluation of Azerbaijani manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani Government announced plans to accelerate reforms and support financial system. On 6 December 2016, the President of the Republic of Azerbaijan approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan". The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

(Amounts presented are in US dollars, unless otherwise stated)

25. Contingences, commitments and operating risks (continued)

Operating environment (continued)

Furthermore, during 2017 the Government continued tight monetary policy as well as allocated foreign currency resources, which stabilized Azerbaijani manat. This policy has continued in 2018 with the aim of maintaining macroeconomic stability.

The Company's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future.

Tax legislation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances such reviews may cover longer periods.

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Company will not exceed the amounts recorded in these financial statements.

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions, if any, that have been made in these financial statements.

Operating lease commitment

As at 31 December 2017, the Company had operating lease commitment of $84,464, which is related to the rent of head office. This commitment is due within one year.

Commitment related to acquisition of group of assets

Based on the SPA, the Company had to pay to Ex-contractors total consideration amount of $158,000,000 until 1 May 2017, with certain schedule of settlements. During 2016 and 2017, the Company settled $131,800,000 and $25,500,000, respectively. As at 31 December 2017, the Company had total consideration payable of $700,000 to Ex-contractors. According to management, the process of singing the act of acceptance with Ex-contractors, in respect of the acquired group of assets, took longer than expected. Therefore, outstanding consideration payable as of 31 December 2017 was fully settled subsequently, during 2018. The Company believes that delays in settlement of consideration payable as at 31 December 2017, will not result in any legal claims or litigations against the Company.

26. Related party transactions

The Company applied exemption from certain disclosure requirements in relation to related party transactions and outstanding balances, including commitments, available under IAS 24 *Related Party Disclosures*, for the Government-related entities. However, the Company identified individually significant transactions and disclosed them in following table:

	Purchases	Cash and cash equivalents	Trade and other payable
2017	862,335	858	49,889
2016	148,760	75,952	11,737

(Amounts presented are in US dollars, unless otherwise stated)

26. Related party transactions (continued)

As at 31 December 2017, related party transactions comprised mainly of fuel and security service costs in the amount of $648,287 and $92,199, respectively (2016: $115,868 and nil, respectively).

As at 31 December 2017, the Company had cash balance at one (2016: one) Government-related bank in the amount of $858 (2016: $75,952).

Key management remuneration

As at 31 December 2017 and 2016, senior management of the Company consisted of the Company's Chairman, Deputy Chairman and Head of Finance department. Remuneration of key management personnel totaled $131,222 during the year (2016: $35,113).

27. Subsequent events

As discussed in Note 14, during 2017 the Company made early repayment of $29,000,000 to Xalq Bank for principal amount that was due in November 2018. Subsequently, in February 2018, the Company made another early repayment of $3,500,000 out of total $29,000,000 principal loan amount that was due in November 2019 to Xalq Bank. As a result of these early repayments the Company amended loan repayment schedule with Xalq Bank in 2018. Maturity date and other terms and conditions of this loan remained unchanged.

In March 2018, the Company acquired license from MENR for exploration activities to be conducted at Goydagh field. This license will expire in December 2020.

In November 2018, the Company prolonged licenses obtained from MERN for exploration activities at Filizchay and Mazimchay fields for another 5 years. The licensees for the mention fields will expire in December 2022.

During 2018, the Company fully settled its outstanding consideration payable of $700,000 to Ex-contractors.