“AZERGOLD” CLOSED JOINT STOCK COMPANY

The International Financial Reporting Standards
Financial Statements and Independent Auditors’ Report
For the Year Ended December 31, 2018

“AZERGOLD” CLOSED JOINT STOCK COMPANY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The following statement is made with a view to distinguish respective responsibilities of the management and those of the independent auditors in relation to the International Financial Reporting Standards ("IFRS") financial statements of "AzerGold" Closed Joint Stock Company (the "Company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2018, the results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

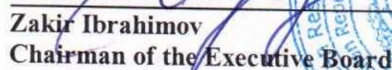
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

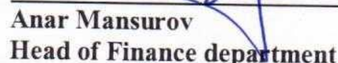
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps that are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2018 were authorized for issue on July 12, 2019 by the Board of Directors.

On behalf of the Board of Directors:





Zakir Ibrahimov
Chairman of the Executive Board

July 12, 2019
Baku, the Republic of Azerbaijan

Anar Mansurov
Head of Finance department

July 12, 2019
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITORS' REPORT

To Management and the Board of Directors of "AzerGold" CJSC

Opinion

We have audited the financial statements of "AzerGold" CJSC (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and cash flows for the year 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 Auditors' 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.

Other Matter

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed unmodified opinion on those financial statements on February 22, 2019.

Responsibilities of Management and the Board of Directors 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 Board of Directors are responsible for overseeing the Company's financial reporting process.

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Auditors' 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 auditors' 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 scepticism 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; and
- 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 Board of Directors 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.

Baker Tilly Azerbaijan

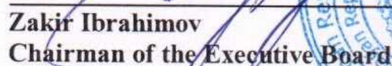
July 12, 2019
Baku, the Republic of Azerbaijan

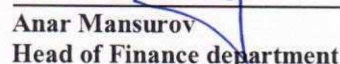
"AZERGOLD" CLOSED JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Intangible assets	7	61,725,441	77,535,204
Exploration and evaluation assets	8	6,203,090	665,271
Property, plant and equipment	9	19,830,577	20,883,896
Prepayments	10	108,161	1,514,513
Deferred tax assets	11	2,246,648	2,332,414
Total non-current assets		**90,113,917**	**102,931,298**
Current assets			
Cash and cash equivalents	12	4,707,563	4,972,134
Trade and other receivables	13	11,996	127,732
Prepayments	10	523,347	1,045,346
Inventories	14	13,563,756	7,993,852
Other current assets	15	1,862,749	715,418
Total current assets		**20,669,411**	**14,854,482**
TOTAL ASSETS		**110,783,328**	**117,785,780**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	16	1,296,600	1,296,600
Retained earnings/(Accumulated loss)		7,946,871	(94,069)
Total equity		**9,243,471**	**1,202,531**
LIABILITIES:			
Non-current liabilities			
Borrowings	17	72,488,229	104,940,321
Provision for rehabilitation	18	4,438,323	2,561,269
Total non-current liabilities		**76,926,552**	**107,501,590**
Current liabilities			
Trade and other payables	19	3,219,791	2,234,723
Consideration payable	20	-	700,000
Borrowings	17	21,165,684	5,254,063
Other current liabilities	21	227,830	892,873
Total current liabilities		**24,613,305**	**9,081,659**
Total liabilities		**101,539,857**	**116,583,249**
TOTAL EQUITY AND LIABILITIES		**110,783,328**	**117,785,780**

On behalf of the Board of Directors:





Zakir Ibrahimov
Chairman of the Executive Board

July 12, 2019
Baku, the Republic of Azerbaijan

Anar Mansurov
Head of Finance department

July 12, 2019
Baku, the Republic of Azerbaijan

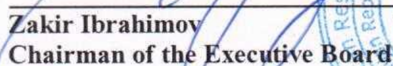
The notes on pages 8-56 form an integral part of these financial statements.

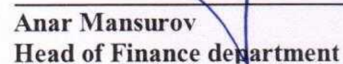
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

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

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	22	58,369,947	77,306,206
Cost of sales	23	(38,986,497)	(62,288,074)
Gross profit		**19,383,450**	**15,018,132**
Other income		313,334	150,494
Other operating expenses	24	(281,457)	(391,157)
(Impairment)/Reversal of impairment of intangible assets	7, 23	(1,582,754)	14,081,026
General and administrative expenses	25	(3,765,102)	(2,756,109)
Operating profit		**14,067,471**	**26,102,386**
Finance costs	26	(4,118,147)	(5,245,044)
Profit before income tax		**9,949,324**	**20,857,342**
Income tax (expense)/benefit	11	(1,908,384)	1,200,382
Profit for the year		**8,040,940**	**22,057,724**
Total comprehensive income for the year		**8,040,940**	**22,057,724**

On behalf of the Board of Directors:





Zakir Ibrahimov
Chairman of the Executive Board

July 12, 2019
Baku, the Republic of Azerbaijan

Anar Mansurov
Head of Finance department

July 12, 2019
Baku, the Republic of Azerbaijan

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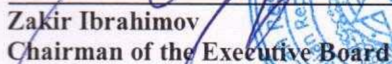
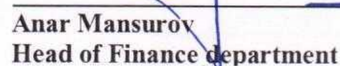
"AZERGOLD" CLOSED JOINT STOCK COMPANY

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	Share Capital	Retained earnings/ (Accumulated loss)	Total equity
January 1, 2017		**1,296,600**	**(22,151,793)**	**(20,855,193)**
Total comprehensive income for the year		-	22,057,724	22,057,724
December 31, 2017		**1,296,600**	**(94,069)**	**1,202,531**
Total comprehensive income for the year		-	8,040,940	8,040,940
December 31, 2018		**1,296,600**	**7,946,871**	**9,243,471**

On behalf of the Board of Directors:





Zakir Ibrahimov
Chairman of the Executive Board

July 12, 2019
Baku, the Republic of Azerbaijan

Anar Mansurov
Head of Finance department

July 12, 2019
Baku, the Republic of Azerbaijan

The notes on pages 8-56 form an integral part of these financial statements.

1. CORPORATE INFORMATION

"AzerGold" Closed Joint-Stock Company (the "Company" or "AzerGold CJSC") was established by the Presidential Decree No. 1047 dated February 11, 2015 and was incorporated on July 5, 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 May 25, 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 December 30, 2006 with a 30-year validity.

On August 4, 2016, the Company signed the Sale and Purchase Agreement with ex-contractors (hereinafter "SPA") and acquired 100% participation interest in the PSA.

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

Acquisition of participating interest in the PSA

The Company acquired 100% participation interest of ex-contractors in the PSA. Total consideration under this agreement was agreed in the amount of USD 158,000,000. The Company recognized 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:

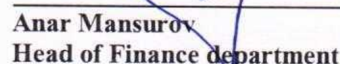
	Allocated cost
Mining and exploration rights	95,404,406
Property, plant and equipment	24,159,181
Inventories	40,272,125
Provision for rehabilitation	(1,835,712)
Total acquisition cost of group of assets	**158,000,000**

"AZERGOLD" CLOSED JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts presented are in the US dollars, unless otherwise stated)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		9,949,324	20,857,342
Adjustments to reconcile profit before income tax to net cash flows:			
Interest expense	26	3,988,803	5,158,337
Depreciation and depletion of property, plant and equipment	23	6,429,356	5,067,981
Amortization and depletion of intangible assets	23	11,779,872	10,231,602
Impairment/(Reversal of impairment) of intangible assets	23	1,582,754	(14,081,026)
Unwinding of discount on rehabilitation provision	18, 26	129,344	86,707
Other non-cash transactions		804	46,521
Operating cash flows before working capital changes		**33,860,257**	**27,367,464**
Change in operating assets and liabilities:			
Trade and other receivables		115,736	(127,732)
Other current assets		(647,333)	(623,730)
Inventories		(1,246,161)	33,152,140
Prepayments		521,999	(533,417)
Trade and other payables		401,236	1,642,923
Other current liabilities		(2,487,661)	772,874
Cash flows from operating activities		30,518,073	61,650,522
Income tax paid		(500,000)	-
Net cash inflow from operating activities		**30,018,073**	**61,650,522**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditure on property, plant, equipment and mine development		(3,272,642)	(2,227,719)
Investment in exploration and evaluation assets		(5,537,819)	(581,921)
Investment in other intangible assets		(242,909)	(56,262)
Acquisition of group of assets from ex-contractors	20	(700,000)	(25,500,000)
Net cash used in investing activities		**(9,753,370)**	**(28,365,902)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	17	8,200,000	11,802,681
Repayments of borrowings	17	(24,730,847)	(35,131,969)
Interest paid	17	(3,998,427)	(5,157,492)
Net cash used in financing activities		**(20,529,274)**	**(28,486,780)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(264,571)	4,797,840
CASH AND CASH EQUIVALENTS, *at the beginning of the year*	12	4,972,134	174,294
CASH AND CASH EQUIVALENTS, *at the end of the year*	12	4,707,563	4,972,134

On behalf of the Board of Directors:



Zakir Ibrahimov
Chairman of the Executive Board

July 12, 2019
Baku, the Republic of Azerbaijan

Anar Mansurov
Head of Finance department

July 12, 2019
Baku, the Republic of Azerbaijan

The notes on pages 8-56 form an integral part of these financial statements.

2. 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") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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 the US dollars ("USD") which is also functional currency of the Company.

Going concern

These financial statements have been prepared on the assumption that the Company will be able to continue as a going concern for the foreseeable future.

Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Company's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management's assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation

The official currency of the Republic of Azerbaijan is the Azerbaijani manat (“AZN”). 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 USD as the majority of the Company’s receivables, revenue, costs and borrowings are either priced, incurred, payable or otherwise measured in USD.

Accordingly, transactions and balances not already measured in USD have been re-measured into USD 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 USD are credited or charged to the statement of profit or loss and other comprehensive income.

Rates of exchange

The exchange rates at reporting date used by the Company in the preparation of the financial statements are as follows:

	December 31, 2018	**December 31, 2017**
USD/AZN	1/1.7000	1/1.7001

Financial Instruments

Financial assets and financial liabilities are recognized in the Company’s statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets andfinancial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life ofthe debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrumenton initial recognition.

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Company's majority of financial assets were classified as financial assets measured subsequently at amortized cost. The Company's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Company does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Impairment of financial assets

The Company applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset (except trade receivables, where the simplified approach is elected) is measured at an amount equal to 12-month expected credit losses. For trade and other receivables, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied.

The Company utilizes an internal model to assess expected credit losses. The model was developed in accordance with IFRS 9 and designed to assess credit risk exposure of counterparties taking into account the characteristics of financial assets by assigning scoring system to counterparties. Assigned score is returning PD (Probability of Default) on individual basis. Move of the asset from one score band to lower score band is considered significant increase in credit risk among other criteria.

Fair value measurement

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 recognized 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.

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of directissue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

De-recognition of financial liabilities

The Company removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Offsetting of financial instruments

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

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 capitalized 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 capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

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

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 recognized over the lease term on the same basis as rental income.

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

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.

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.

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.

Mining and exploration rights acquired are initially recognized 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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized 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 recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized.

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 analyzing that data. These costs are expensed in the period in which they are incurred.

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 recognized 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 capitalized 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 capitalized as evaluation and exploration assets. Once there is evidence that reserves are increased, such costs are tested for impairment and transferred to producing mines.

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 capitalized 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 capitalized 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 capitalization 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.

Depreciation, depletion and amortization

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 are 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 (2017: seven years);
Vehicles	three years (2017: three years);
Machinery equipment	four years (2017: four years);
Furniture and fixture	five years (2017: five years;
Computer equipment	four years (2017: four years).

An item of property, plant and equipment, and any significant part initially recognized, is derecognized 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 derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization 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 capitalized.

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.

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 capitalized 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 capitalized within stripping and development capital expenditure. If the amount to be capitalized 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.

Prepayments

Prepayments are recognized 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.

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.

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 recognized 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 recognized 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 recognized 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 recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized 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 recognized 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 recognized in other comprehensive income.

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 2018 and 2017.

Inventories

Finished goods, metal in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated future sales price of the product the entity expects to realize 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 realizable 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 amortization of producing mines assets).

Metal in circuit consists of in-circuit material at properties with milling or processing operations and dore awaiting refinement, and valued at the lower of average cost and net realizable 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 amortization of producing mines assets).

Ore stockpiles consist of stockpiled ore and are valued at the lower of average cost and net realizable 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 realizable 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.

Provisions

General

Provisions are recognized 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 recognized 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 recognized, the present value of the estimated cost is capitalized 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 recognized 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 recognized 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 recognized immediately in the Company's statement of profit or loss and other comprehensive income.

Contract revenues

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

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

The following criteria are also met in specific revenue transaction:

Gold bullion sales

Revenue from gold bullion sales is recognized when the control of the asset have transferred to the buyer and selling prices and assay results are known or can be reasonably estimated. This generally occurs after the dore is outturned and when the Company ask to the refiner to transfer the gold to the bank by crediting the metal account of the bank. Assay results determine the content of gold and silver in dore, the price of which is determined based on market quotations of each metal. Silver in dore, which is produced together with gold, is treated as a by-product and recognized in revenue.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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 capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognized 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 recognized 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 realize 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/amortization 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 amortization charges.

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 USD 4,438,323 as at December 31, 2018 (2017: USD 2,561,269). 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 December 31, 2018 equaled 5.09% (2017: 5.05%).

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 USD 480,157 lower/USD 544,169 higher (2017: USD 276,905 lower / USD 313,797 higher), respectively.

Inventory

Net realizable value tests are performed at each reporting date and represent the estimated future sales price of the product the entity expects to realize 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 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.

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 recognized 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 recognized. 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 recognized 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 December 31, 2018 and 2017 and performed an impairment analysis at those dates. As a result of impairment analysis, total impairment losses of USD 1,582,754 were recognized in 2018 in relation to Chovdar Sulphide exploration right. The trigger for the impairment test was primarily due to decrease in gold price as of December 31, 2018 since the acquisition date of the group of assets, 4 August 2016. There was no indicator of impairment as at December 31, 2017.

During the year ended December 31, 2018 and 2017, the Company recognized an impairment of USD 1,582,754, due to decrease in gold prices during 2018 and an impairment reversal of USD 14,081,026, due to long-term position price estimates for gold, respectively, related to the Chovdar Sulphide exploration right.

No impairment losses or reversals have been recognized in relation to impairment analysis of Chovdar Oxide CGU and Filizchay CGU during the year ended December 31, 2018 and 2017. 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.

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 USD/oz.	Silver USD/oz.
2018	1,278.30	15.43
2017	1,302.50	16.91

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 at December 31, 2018 (2017: 12%). 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, USD 2,815,682 more impairment would be recognized during the year (2017: USD 2,644,875 less impairment reversal) in relation to Chovdar Sulphide exploration right. No impairment loss (reversal) would be recognized both in 2018 and 2017 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 and impaired again in 2018 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 2018 and 2017. In relation to the Chovdar Sulphide exploration right that was impaired during 2018, 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.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2018. Except the effects of IFRS 9 “Financial Instruments”, the adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Company’s accounting policies that have affected the amounts reported for the current or prior years.

IFRS 9 “Financial Instruments” – in July 2014, 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.

Classification and Measurement

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories were replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 allows entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities remained largely the same as requirements of IAS 39. The Company's majority of financial assets were classified as financial assets measured subsequently at amortized cost. Financial liabilities of the Company were classified as financial liabilities measured subsequently at amortized cost. The Company does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Impairment of financial assets

The Company applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset (except trade receivables, where the simplified approach is elected) is measured at an amount equal to 12-month expected credit losses. For trade and other receivables, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company selected option not to restate comparative information, but to record the effect on the transition date – January 1, 2018 – in the retained earnings. This standard had no significant effect on the financial statements.

The IASB and FASB have issued their joint revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers", which replaces all existing IFRS and US GAAP revenue requirements. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018. As a result of the analysis performed by the Company, the conclusion was made that the standard had no impact on the financial statements.

Amendments to IAS 40 "Transfers of Investment Property" – are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IFRS 2 "Share-Based Payment" – The IASB have published final amendments to IFRS 2 "Share-based Payment" that clarify the classification and measurement of share-based payment transactions. Classification and Measurement of Share-based Payment Transactions contains the following clarifications and amendments:

Accounting for cash-settled share-based payment transactions that include a performance condition

Until issue of these amendments, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

The IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Until issue of these amendments, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date;
- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The Company has adopted **Annual Improvements to IFRS Standards 2014-2016 Cycle** containing amendments below to IFRS 1 and IAS 28:

Standard	Subject of amendment
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Deletion of short-term exemptions for the first-time adopters: The amendments delete the short-term exemptions in IFRS 1 that relate to IFRS 7, IAS 19, IFRS 12 and IAS 27.
IAS 28 "Investments in Associates and Joint Ventures"	Measuring an associate or joint venture at fair value: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The adoption of new standards did not have material effect on the financial statements of the Company

5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRIC 23 "Uncertainty over Income Tax Treatments" – addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- whether tax treatments should be considered collectively;
- assumptions for taxation authorities' examinations;
- the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- the effect of changes in facts and circumstances.

The interpretation applies to annual reporting periods beginning or after January 1, 2019.

Annual Improvements to IFRS Standards 2015-2017 Cycle – contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

Standard	Subject of amendment
IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements"	The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12 "Income Taxes"	The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
IAS 23 "Borrowing Costs"	The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The amendments are all effective for annual periods beginning on or after January 1, 2019.

Amendments to IAS 19 "Employee Benefits Plan Amendment, Curtailment or Settlement" – The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

Amendments to IAS 28 "Investments in Associations and Joint Ventures" – The IASB has published amendments to IAS 28 regarding the long-term interest in associates and joint ventures. According to the amendment the entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment is effective for annual periods beginning on or after January 1, 2019.

Amendments to IFRS 9 "Financial Instruments" – The IASB has published amendments to IFRS 9 regarding prepayment features with negative compensation and modifications of financial liabilities.

Prepayment Features with Negative Compensation amends the existing requirement of IFRS 9 regarding termination rights in order to allow measurement at amortized cost even in the case of negative compensation payments. The IASB also clarifies that the entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of modification or exchange.

The amendment is effective for annual periods beginning on or after January 1, 2019.

The Management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Company.

IFRS 16 "Leases", which specifies how and IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 was issued on January 13, 2016 and applies to an annual reporting period beginning on or after January 1, 2019.

The Company has chosen the application of IFRS 16 in accordance with IFRS 16:C5(b), i.e, retrospectively, with the cumulative effect of initially applying the Standard recognized at the date of initial application. Consequently, the Company will not restate the comparative information, instead will recognize the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings at the date of initial application.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. The Company might be effected by application of new standard as a Lessee. IFRS 16 may change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Company will:

a) Recognize right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Company has not yet evaluated the effects of application if this standard on its financial statements.

IFRS 17 "Insurance contracts" – was issued in May 2017 and replaced IFRS 4 "Insurance contracts". The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 "Insurance Contracts" to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

IFRS 3 "Business Combinations". Amendment of the definition of "Business" – The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. According to the amendment new definition a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after January 1, 2020. Earlier application is permitted.

New definition of "Material" – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The updated definition amends IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The changes are effective from January 1, 2020. Earlier application is permitted.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

6. 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 related party transactions and disclosed them in following table:

	Purchases	Cash and cash equivalents	Trade and other payables
2018	1,281,962	1,375	23,468
2017	862,335	858	49,889

As at December 31, 2018, related party transactions comprised mainly of fuel and security service costs purchased from Government-related entities in the amount of USD 1,077,264 and USD 126,446, respectively (2017: USD 648,287 and USD 92,199, respectively).

As at December 31, 2018 and 2017, the Company had cash balance at one (2017: one) Government-related bank in the amount of USD 1,375 and USD 858, respectively.

Key management remuneration

As at December 31, 2018 and 2017, senior management of the Company consisted of the Company's Chairman, Deputy Chairmen and Head of Finance department. Remuneration of key management personnel totaled USD 147,289 during the year (2017: USD 131,222).

7. INTANGIBLE ASSETS

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

Cost	Mining rights	Exploration rights	Other intangible assets	Total
January 1, 2017	**52,081,248**	**43,323,158**	**3,234**	**95,407,640**
Additions	-	-	8,343	8,343
December 31, 2017	**52,081,248**	**43,323,158**	**11,577**	**95,415,983**
Additions	-	-	242,909	242,909
December 31, 2018	**52,081,248**	**43,323,158**	**254,486**	**95,658,892**
Amortization and depletion*				
January 1, 2017	**-**	**(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
December 31, 2017	**(10,862,809)**	**(7,015,711)**	**(2,259)**	**(17,880,779)**
Amortization and depletion charge for the year	(14,446,649)	-	(23,269)	(14,469,918)
Impairment of exploration rights	-	(1,582,754)	-	(1,582,754)
December 31, 2018	**(25,309,458)**	**(8,598,465)**	**(25,528)**	**(33,933,451)**
Net book value				
December 31, 2018	**26,771,790**	**34,724,693**	**228,958**	**61,725,441**
December 31, 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 1, the Company acquired the group of assets from ex-contractors, which included mining rights for Chovdar Oxide field amounting to USD 52,081,248 and exploration rights for Chovdar Sulphide and Filizchay fields amounting to USD 22,620,465 and USD 20,702,693, respectively. As disclosed in Note 2, the Company performed impairment analysis and recognized impairment of USD 1,582,754 and impairment reversal of USD 14,081,026 in relation to Chovdar Sulphide exploration rights as of December 31, 2018 and December 31, 2017, respectively.

On December 5, 2016, subsequent to termination of the PSA, the Company acquired mining license for Chovdar Oxide field from MENR in order to commence production. On May 11, 2017, the Company acquired licenses for explorations at Chovdar Sulfide (maturing in May 2021), Filizchay and Mazimchay (both maturing in May 2022) fields from MENR. No license cost incurred or capitalized by the Company for the mentioned mining properties.

8. EXPLORATION AND EVALUATION ASSETS

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

Cost	Chovdar Sulphide	Filizchay	Mazimchay	Goydagh	Aghyokhush	Other	Total
January 1, 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	267,542	245,121	152,608	-	-	-	665,271
December 31, 2017	**267,542**	**245,121**	**152,608**	**-**	**-**	**-**	**665,271**
Additions	2,686,055	473,404	919,209	692,966	695,100	71,085	5,537,819
December 31, 2018	**2,953,597**	**718,525**	**1,071,817**	**692,966**	**695,100**	**71,085**	**6,203,090**

Subsequent to acquisition of exploration licences from MENR, the Company started exploration activities at Chovdar Sulphide, Filizchay and Mazimchay, Goydagh, Aghyokhush and other fields during 2018 and 2017. Current year exploration expenditures include surveying costs, drilling costs and payments made to contractors for scoping and pre-feasibility studies. No impairment loss recognized for exploration and evaluation assets as at December 31, 2018 (2017: nil).

9. 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
January 1, 2017	**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 18)	-	-	(76,166)	-	-	(76,166)
December 31, 2017	**1,366,147**	**188,117**	**24,290,189**	**135,791**	**434,267**	**26,414,511**
Additions	-	-	1,848,927	4,653,391	83,224	6,585,542
Transfers	-	-	-	-	-	-
Change in estimate in rehabilitation provision (Note 18)	-	-	424,190	-	-	424,190
December 31, 2018	**1,366,147**	**188,117**	**26,563,306**	**4,789,182**	**517,491**	**33,424,243**
Depreciation, depletion and Impairment*						
January 1, 2017	**(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)
December 31, 2017	**(396,258)**	**(19,602)**	**(5,033,294)**	**-**	**(81,461)**	**(5,530,615)**
Depreciation and depletion charge for the year	(443,655)	(14,471)	(7,480,618)	-	(124,307)	(8,063,051)
December 31, 2018	**(839,913)**	**(34,073)**	**(12,513,912)**	**-**	**(205,768)**	**(13,593,666)**
Net book value						
December 31, 2018	**526,234**	**154,044**	**14,049,394**	**4,789,182**	**311,723**	**19,830,577**
December 31, 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 1, 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 costs at Chovdar Oxide field.

As at December 31, 2018, net book value of producing mines included capitalized rehabilitation cost of USD 2,407,418 (2017: USD 1,958,431).

10. PREPAYMENTS

As at December 31, 2018, current prepayments comprised payments made to suppliers for mining activities, material supplies, repair and maintenance works, head office rent and other services and totalled USD 523,347 (2017: USD 1,045,346). These prepayments are expected to be utilized within the next year.

As at December 31, 2018, non-current prepayments of USD 108,161 (2017: USD 1,514,513) mainly comprised payments made to suppliers for the construction of heap leaching system, drainage network and cyanide pad in Chovdar Oxide field.

11. INCOME TAX

Temporary differences as at December 31, 2018 and 2017 comprise:

	December 31, 2018	December 31, 2017
Deductible temporary differences:		
Carry-forward tax losses	8,205,452	14,087,805
Trade and other payables	5,275,490	1,709,175
Provision for rehabilitation	4,438,323	2,561,270
Prepayments	966,012	-
Inventories	-	1,159,270
Total deductible temporary differences	**18,885,277**	**19,517,520**
Taxable temporary differences:		
Property, plant and equipment	(3,948,211)	(2,059,525)
Intangible assets	(2,165,817)	(5,478,490)
Exploration and evaluation assets	(828,835)	(122,445)
Inventories	(709,172)	-
Prepayments	-	(194,990)
Total taxable temporary differences	**(7,652,035)**	**(7,855,450)**
Net deductible temporary differences	**11,233,242**	**11,662,070**
Net deferred tax asset at the statutory tax rate (20%)	2,246,648	2,332,414
Net deferred tax asset	**2,246,648**	**2,332,414**

Relationships between tax expenses and accounting profit for the years ended December 31, 2018 and 2017 are explained as follows:

Profit before income tax	**9,949,324**	**20,857,342**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory tax rate	**(1,989,865)**	**(4,171,468)**
Unrecognized temporary differences	79,125	5,312,395
Income/(expense) not recognized in IFRS	-	(1,316,792)
Tax effect of permanent differences	(21,278)	-
Translation difference	-	1,154,496
Others	23,634	221,751
Total income tax (expense)/benefit reported in the statement of profit or loss and other comprehensive income	**(1,908,384)**	**1,200,382**

	December 31, 2018	December 31, 2017
Current income tax expense	(1,822,618)	-
Deferred tax (expense)/benefit on origination and reversal of temporary differences	(85,766)	1,200,382
Income tax (expense)/benefit	**(1,908,384)**	**1,200,382**

	December 31, 2018	December 31, 2017
Deferred income tax asset		
Beginning of the period	**2,332,414**	-
Change in the deferred income tax asset for the period charged to profit and loss accounts	(85,766)	2,332,414
End of the period	**2,246,648**	**2,332,414**

As discussed in Note 1, 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 December 31, 2018 and 2017 relates to the tax effects of subsequent changes in temporary differences subject to initial recognition exception.

There is no any income/(expense) not recognized in the IFRS in 2018 (2017: income of USD 6,583,959) 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.

Translation differences as at December 31, 2018 and 2017, 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized.

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 recognized 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.

Unused tax losses as at December 31, 2018, was USD 8,205,452 (2017: USD 14,087,805) which is available for offset against future profits. The Company recognized deferred tax asset for these unused tax losses.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Cash at bank in USD	4,696,288	4,963,994
Cash at bank in AZN	6,341	3,157
VAT deposit account in AZN	2,604	2,597
Cash on hand in AZN	2,330	2,386
Total cash and cash equivalents	**4,707,563**	**4,972,134**

Effective January 1, 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.

13. TRADE AND OTHER RECEIVABLES

Other receivables are non-interest-bearing and are generally on terms of 30 days. As at December 31, 2018 and 2017, the Company had no trade receivables. As at December 31, 2018, other receivables in the amount of USD 11,996 (2017: USD 127,732) comprised the sale of inventories to third party.

14. INVENTORIES

Inventories comprised the following as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Gold bullions	5,168,891	4,944,088
Ore stockpiles	3,715,010	1,756,411
Metal in circuit	3,080,722	505,813
Materials and supplies	1,599,133	787,540
Total inventories	**13,563,756**	**7,993,852**

15. OTHER CURRENT ASSETS

	December 31, 2018	December 31, 2017
VAT receivables	1,148,814	-
VAT recoverable	707,870	715,418
Others	6,065	-
Total other current assets	**1,862,749**	**715,418**

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.

16. SHARE CAPITAL

Authorized and fully paid up share capital as at December 31, 2018 and 2017 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 USD 1,296,600.

17. BORROWINGS

Borrowings represent loans obtained from "Xalq Bank" OJSC and "Pasha Bank" OJSC to pay consideration payable to ex-contractors and finance daily operations. Outstanding loan balances comprised the following as at December 31, 2018 and 2017:

	Effective interest rate	Maturity date per contract	December 31, 2018	December 31, 2017
Current				
"Xalq Bank" OJSC loan – USD 116,000,000	4%	November 25, 2021	16,541,389	58,001
"Pasha Bank" OJSC loan – USD 15,800,000	4%	November 23, 2021	2,610,695	3,741,548
"Pasha Bank" OJSC loan – USD 7,601,314	4%	November 23, 2021	1,994,733	1,454,514
"Pasha Bank" OJSC loan – USD 5,000,000	4%	November 23, 2021	18,867	-
Total current			**21,165,684**	**5,254,063**
Non-current				
"Xalq Bank" OJSC loan – USD 116,000,000	4%	November 25, 2021	58,000,000	87,000,000
"Pasha Bank" OJSC loan – USD 15,800,000	4%	November 23, 2021	5,292,308	11,768,184
"Pasha Bank" OJSC loan – USD 7,601,314	4%	November 23, 2021	4,195,921	6,172,137
"Pasha Bank" OJSC loan – USD 5,000,000	4%	November 23, 2021	5,000,000	-
Total non-current			**72,488,229**	**104,940,321**
Total borrowings			**93,653,913**	**110,194,384**

"Xalq Bank" OJSC

On November 25, 2016, the Company obtained loan from "Xalq Bank" OJSC in the amount of USD 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. During 2018, the Company made early payment of USD 12,500,000 (2017: USD 29,000,000) and amended repayment schedule subsequently. Principal amount is repayable in four equal yearly instalments of USD 29,000,000, started from November, 2018.

No collateral pledged against the loan.

"Pasha Bank" OJSC

On November 23, 2016, the Company obtained loan from "Pasha Bank" OJSC in the amount of USD 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.

During 2018, the Company made early payment of USD 5,000,000 and amended repayment schedule subsequently.

The interest and principal are repayable since February 2018 on a reducing balance basis in 46 (2017: 48) equal monthly instalments of USD 239,439 (2017: USD 356,780). No collateral pledged against the loan facility.

On March 1, 2017, the Company obtained loan from "Pasha Bank" OJSC in the amount of USD 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 USD 182,193. No collateral pledged against the loan facility.

On August 30, 2018, the Company obtained loan from "Pasha Bank" OJSC in the amount of USD 5,000,000 bearing interest rate of 4% per annum. The first 22 months of the loan are subject to interest payments only. The interest and principal are repayable since July 2020 on a reducing balance basis in 17 equal monthly instalments of USD 303,020. No collateral pledged against the loan facility.

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

On April 5, 2018, the Company entered into non-revolving credit line agreement with "Pasha Bank" OJSC in total amount of USD 5,000,000. The credit line with interest rate of 4% per annum was granted to finance daily operations of the Company. During 2018, the Company withdrew USD 3,200,000 (2017: nil) and fully repaid total withdrawn amount of USD 3,205,133. No collateral pledged against the credit line.

As at December 31, 2018 all cash balances were pledged as collateral for loans from "Pasha Bank" OJSC.

Total interest expense for the year ended December 31, 2018 on borrowings was USD 3,988,803 (2017: USD 5,158,337).

A reconciliation of the opening and closing amounts of borrowings with relevant cash and non-cash changes from financing activities is stated below:

January 1, 2018	**110,194,384**
Cash changes	
Proceeds	8,200,000
Repayment	(24,730,847)
Interest paid	(3,998,427)
Non-cash changes	
Interest expense	3,988,803
December 31, 2018	**93,653,913**

January 1, 2017	**133,522,827**
Cash changes	
Proceeds	11,802,681
Repayment	(35,131,969)
Interest paid	(5,157,492)
Non-cash changes	
Interest expense	5,158,337
December 31, 2017	**110,194,384**

18. PROVISION FOR REHABILITATION

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

	December 31, 2018	December 31, 2017
Beginning of the period	**2,561,269**	**1,776,805**
Additions	1,323,520	773,923
Unwinding of discount	129,344	86,707
Effect of change in discount rate	424,190	(76,166)
End of the period	**4,438,323**	**2,561,269**

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 1, the Company acquired the group of assets from ex-contractors, which included rehabilitation provision of USD 1,835,712 at the date of acquisition. The undiscounted cost for rehabilitation as at December 31, 2018 was USD 5,223,849 (2017: USD 3,666,084). The Company used 5.09% to discount this cost (2017: 5.05%).

19. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Trade payables	2,365,619	1,558,086
Payable for property, plant and equipment	799,833	216,805
Accruals and other payables	54,339	459,832
Total trade and other payables	**3,219,791**	**2,234,723**

Trade payables as at December 31, 2018 and 2017 primarily comprised amounts outstanding for trade purchases and ongoing operational costs. Trade payables are non-interest-bearing and the average creditor days were 28 during the year. Accruals and other payables comprised mainly of scoping, pre-feasibility and geological studies and other services provided by third parties. Payable for property, plant and equipment comprised mainly of capitalized and exploration costs and construction of heap leach.

20. CONSIDERATION PAYABLE

As discussed in Note 1, the Company acquired the group of assets from ex-contractors for total cost of USD 158,000,000. During 2018, 2017 and 2016, the Company repaid a portion of this consideration payable to ex-contractors, which totaled USD 700,000, USD 25,500,000 and USD 131,800,000, respectively. Out of these total repayments, USD 139,401,314 was funded through loans obtained from local banks (See Note 16) and remaining portion was financed through cash generated from gold bar sales during 2018 and 2017.

As at December 31, 2018, there was no outstanding consideration payable to ex-contractors (2017: USD 700,000).

21. OTHER CURRENT LIABILITIES

	December 31, 2018	**December 31, 2017**
Salaries and related payables	227,830	183,077
VAT payable	-	70,605
Land tax payable	-	388,014
Property tax payable	-	194,007
Others	-	57,170
Total other current liabilities	**227,830**	**892,873**

22. REVENUE

Total revenue, during 2018, consisted of gold and silver sales to the third-party customers and amounted to USD 57,173,641 (2017: USD 75,868,119) and USD 1,196,306 (2017: USD 1,438,087), respectively.

23. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Amortization and depletion of intangible assets	7	14,469,918	10,864,781
Depreciation and depletion of property, plant and equipment	9	8,063,051	5,437,258
Less amortization and depletion of intangible assets capitalized to inventory		(2,690,046)	(633,179)
Less depreciation and depletion of property, plant and equipment capitalized to inventory		(1,633,695)	(369,277)
Total depreciation, depletion and amortization		**18,209,228**	**15,299,583**
Operating lease payments		830,052	541,130
Impairment/(Reversal of impairment) of intangible assets	7	1,582,754	(14,081,026)
Employee benefit expenses		3,703,604	3,664,302
Cost of inventories recognized as expense		17,819,998	44,637,975
Net foreign exchange loss	24	804	106,763

Cost of sales comprised the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Amortization and depletion of intangible assets	11,756,603	10,229,630
Depreciation and depletion of property, plant and equipment	6,023,948	4,935,589
Rent expense	1,614,571	146,823
Payroll expense	1,771,377	2,338,057
Cost of inventories recognized as expense	17,819,998	44,637,975
Total cost of sales	**38,986,497**	**62,288,074**

24. OTHER OPERATING EXPENSES

Other operating expenses comprised the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Refining expense	78,662	85,180
Transportation expense	75,787	58,076
Insurance expense	74,893	99,096
Net foreign exchange loss	804	106,763
Other expenses	51,311	42,042
Total other operating expenses	**281,457**	**391,157**

25. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following:

	Year ended December 31, 2018	Year ended December 31, 2017
Payroll expense	1,932,227	1,326,245
Rent expense	784,519	394,307
Depreciation of property, plant and equipment	405,408	132,392
Business trip	132,159	41,462
Advertising expenses	127,885	4,058
Legal and consulting expenses	102,243	518,521
Office supplies expenses	72,508	80,823
Bank charges	64,243	56,071
Amortization of intangible assets	23,269	1,972
Others	120,641	200,258
Total general and administrative expenses	**3,765,102**	**2,756,109**

26. FINANCE COSTS

Finance costs of USD 4,118,147 (2017: USD 5,245,044) for the year ended December 31, 2018 comprised interest expense on borrowings and unwinding of discount on rehabilitation provision in the amount of USD 3,988,803 and USD 129,344, respectively (2017: USD 5,158,337 and USD 86,707).

27. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise 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 the further operating periods. 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 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 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 December 31, 2018 and 2017 using the amounts of debt and other financial assets and liabilities held as at those reporting dates.

Commodity price risk sensitivity

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.

The analysis is based on the assumption that the gold price moves 10% resulting in a change of with all other variables held constant for each year individually.

	As at December 31, 2018		As at December 31, 2017	
	Gold Price +10%	Gold Price -10%	Gold Price +10%	Gold Price -10%
Impact on profit and loss account	5,717,364	(5,717,364)	7,586,812	(7,586,812)

	As at December 31, 2018		As at December 31, 2017	
	Silver Price +10%	Silver Price -10%	Silver Price +10%	Silver Price -10%
Impact on profit and loss account	119,631	(119,631)	143,809	(143,809)

Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company had no interest bearing financial assets as at December 31, 2018 and 2017. The Company’s interest bearing liabilities as at December 31, 2018 and 2017 consisted of borrowings. The table below summarises the Company’s exposure to interest rate risks. The table represents the aggregated amounts of the Company’s financial liabilities at carrying amounts, categorized by the earlier of contractual interest re-pricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
December 31, 2018					
Borrowings	375,609	835,225	19,954,850	72,488,229	**93,653,913**
Net interest sensitivity gap	375,609	835,225	19,954,850	72,488,229	**93,653,913**
December 31, 2017					
Borrowings	339,301	678,603	4,236,159	104,940,321	**110,194,384**
Net interest sensitivity gap	339,301	678,603	4,236,159	104,940,321	**110,194,384**

The following table represents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at December 31, 2018		As at December 31, 2017	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial liabilities:				
Borrowings	936,539	(936,539)	1,101,944	(1,101,944)
Net impact on shareholders' equity	**936,539**	**(936,539)**	**1,101,944**	**(1,101,944)**

The Company does not have formal policies and procedures in place for management of interest rate risks as management consider this risk as insignificant to the Company's business.
The Company's exposure to interest rate risk at the reporting date is not representative of the typical exposure during the year.

The Company makes the following assumptions when carrying out its sensitivity analysis:

i The sensitivity analysis shows the effects of changes that are considered to be reasonably possible over the period until the entity will next present these disclosures (which is usually its next annual reporting period);

ii The sensitivity analysis shows the effect on current period profit and loss accounts and equity if a reasonably possible change in the relevant risk variable had been applied to the risk exposures in existence at the reporting date.

The Company discloses only the effects of the changes at the limits of the reasonably possible range of the relevant risk variable, rather than all reasonably possible changes.

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 USD and AZN.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as at December 31, 2018 and 2017, were as follows:

	December 31, 2018			December 31, 2017		
	Financial assets	**Financial liabilities**	**Net position**	**Financial assets**	**Financial liabilities**	**Net position**
Azerbaijani Manats	24,293	1,945,209	(1,920,916)	135,853	2,182,151	(2,046,298)
US Dollars	4,695,266	94,928,495	(90,233,229)	4,964,013	110,946,956	(105,982,943)
Total	**4,719,559**	**96,873,704**	**(92,154,145)**	**5,099,866**	**113,129,107**	**(108,029,241)**

The table below summarises currency risks based on reports reviewed by management personnel as at December 31, 2018:

	AZN	**USD**	**Total**
FINANCIAL ASSETS			
Cash and cash equivalents	12,297	4,695,266	4,707,563
Trade and other receivables	11,996	-	11,996
TOTAL FINANCIAL ASSETS	**24,293**	**4,695,266**	**4,719,559**
FINANCIAL LIABILITIES			
Borrowings	-	93,653,913	93,653,913
Trade and other payables	1,945,209	1,274,582	3,219,791
TOTAL FINANCIAL LIABILITIES	**1,945,209**	**94,928,495**	**96,873,704**
NET CURRENCY POSITION	**(1,920,916)**	**(90,233,229)**	**(92,154,145)**

The table below summarises currency risks based on reports reviewed by management personnel as at December 31, 2017:

	AZN	USD	Total
FINANCIAL ASSETS			
Cash and cash equivalents	8,121	4,964,013	4,972,134
Trade and other receivables	127,732	-	127,732
TOTAL FINANCIAL ASSETS	**135,853**	**4,964,013**	**5,099,866**
FINANCIAL LIABILITIES			
Borrowings	-	110,194,384	110,194,384
Consideration payable	-	700,000	700,000
Trade and other payables	2,182,151	52,572	2,234,723
TOTAL FINANCIAL LIABILITIES	**2,182,151**	**110,946,956**	**113,129,107**
NET CURRENCY POSITION	**(2,046,298)**	**(105,982,943)**	**(108,029,241)**

Currency risk sensitivity

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, 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 December 31, 2018 and 2017:

	As at December 31, 2018		As at December 31, 2017	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit or loss	(192,092)	192,092	(204,630)	204,630
Impact on equity	(192,092)	192,092	(204,630)	204,630

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 recognized creditworthy third parties.

The Company's maximum exposure to credit risks was USD 4,719,559 as at December 31, 2018 (2017: USD 5,099,866).

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 December 31, 2018 and 2017 based on contractual undiscounted payments.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2018 Total
FINANCIAL ASSETS					
Cash and cash equivalents	4,707,563	-	-	-	4,707,563
Trade and other receivables	11,996	-	-	-	11,996
TOTAL FINANCIAL ASSETS	**4,719,559**	**-**	**-**	**-**	**4,719,559**
FINANCIAL LIABILITIES					
Borrowings	375,609	835,225	19,954,850	72,488,229	93,653,913
Trade and other payables	1,651,077	1,553,286	15,428	-	3,219,791
TOTAL FINANCIAL LIABILITIES	**2,026,686**	**2,388,511**	**19,970,278**	**72,488,229**	**96,873,704**
Liquidity gap	2,692,873	(2,388,511)	(19,970,278)	(72,488,229)	(92,154,145)
Cumulative liquidity gap	**2,692,873**	**304,362**	**(19,665,916)**	**(92,154,145)**	

As at December 31, 2018, the Company had negative cumulative liquidity gap, the management of the Company plans to cover this gap through future cash flows from operations.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2017 Total
FINANCIAL ASSETS					
Cash and cash equivalents	4,972,134	-	-	-	4,972,134
Trade and other receivables	127,732	-	-	-	127,732
TOTAL FINANCIAL ASSETS	**5,099,866**	**-**	**-**	**-**	**5,099,866**
FINANCIAL LIABILITIES					
Borrowings	339,301	678,603	4,236,159	104,940,321	110,194,384
Consideration payable	700,000	-	-	-	700,000
Trade and other payables	608,252	1,592,257	34,214	-	2,234,723
TOTAL FINANCIAL LIABILITIES	**1,647,553**	**2,270,860**	**4,270,373**	**104,940,321**	**113,129,107**
Liquidity gap	3,452,313	(2,270,860)	(4,270,373)	(104,940,321)	(108,029,241)
Cumulative liquidity gap	**3,452,313**	**1,181,453**	**(3,088,920)**	**(108,029,241)**	

The maturity analysis of financial liabilities at December 31, 2018 is as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
FINANCIAL LIABILITIES					
Borrowings	687,509	1,457,379	22,761,946	79,709,665	104,616,499
Trade and other payables	1,651,077	1,553,286	15,428	-	3,219,791
TOTAL FINANCIAL LIABILITIES	**2,338,586**	**3,010,665**	**22,777,374**	**79,709,665**	**107,836,290**

The maturity analysis of financial liabilities at December 31, 2017 is as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Total
FINANCIAL LIABILITIES					
Borrowings	678,878	1,357,756	7,458,569	112,726,760	122,221,963
Consideration payable	700,000	-	-	-	700,000
Trade and other payables	608,252	1,592,257	34,214	-	2,234,723
TOTAL FINANCIAL LIABILITIES	**1,987,130**	**2,950,013**	**7,492,783**	**112,726,760**	**125,156,686**

Geographical risk concentrations

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. Balances with counterparties located in the Republic of Azerbaijan actually outstanding to/from non-resident affiliate companies of these counterparties are allocated to the caption "The Republic of Azerbaijan". Cash on hand and precious metals have been allocated based on the country, in which they are physically held.

The geographical concentration of the Company's financial assets and liabilities as at December 31, 2018 is set out below:

	The Republic of Azerbaijan	Other non-OECD countries	OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	4,707,563	-	-	4,707,563
Trade and other receivables	11,996	-	-	11,996
TOTAL FINANCIAL ASSETS	**4,719,559**	**-**	**-**	**4,719,559**
FINANCIAL LIABILITIES:				
Borrowings	93,653,913	-	-	93,653,913
Trade and other payables	3,154,431	8,380	56,980	3,219,791
TOTAL FINANCIAL LIABILITIES	**96,808,344**	**8,380**	**56,980**	**96,873,704**
NET POSITION	**(92,088,785)**	**(8,380)**	**(56,980)**	**(92,154,145)**

The geographical concentration of the Company's financial assets and liabilities at December 31, 2017 is set out below:

	The Republic of Azerbaijan	Other non-OECD countries	OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	4,972,134	-	-	4,972,134
Trade and other receivables	127,732	-	-	127,732
TOTAL FINANCIAL ASSETS	**5,099,866**	**-**	**-**	**5,099,866**
FINANCIAL LIABILITIES:				
Borrowings	110,194,384	-	-	110,194,384
Consideration payable	-	-	700,000	700,000
Trade and other payables	1,807,472	-	427,251	2,234,723
TOTAL FINANCIAL LIABILITIES	**112,001,856**	**-**	**1,127,251**	**113,129,107**
NET POSITION	**(106,901,990)**	**-**	**(1,127,251)**	**(108,029,241)**

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 December 31, 2018, the Company's gearing ratio was 91% (2017: 99%). The Company's long-term policy is to keep the gearing ratio below 50%.

	December 31, 2018	December 31, 2017
Borrowings	93,653,913	110,194,384
Less cash and cash equivalents	(4,707,563)	**(4,972,134)**
Net debt	**88,946,350**	**105,222,250**
Equity	9,243,471	1,202,531
Capital and net debt	**98,189,821**	**106,424,781**
Gearing ratio	**91%**	**99%**

28. 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 December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Change in rehabilitation provision during the year (Note 18)	424,190	(76,166)
Rehabilitation provision capitalized during the year (Note 18)	1,323,520	773,923
Total non-cash investing activities	**1,747,710**	**697,757**

29. 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's 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's economy has been negatively impacted by decline of 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 December 6, 2016 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.

Furthermore, during 2018 the government continued its monetary policy with respect to stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy is expected to continue in 2019 with the aim of maintaining macroeconomic stability.

The Company's management is monitoring changes in macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Company's business in the foreseeable future.

International credit rating agencies regularly evaluate credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated rating of the Republic of Azerbaijan as "BB+". Moody's Investors Service set "Ba2" credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company. The management is currently performing sensitivity analyses under different oil prices scenarios and elaborating relevant action plans for mainlining sustainability of the business.

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 December 31, 2018, the Company had operating lease commitment of USD 84,464, which is related to the rent of head office. This commitment is due within one year.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2018 and 2017 the Company had no financial instruments measured at fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

		Fair value measurement using			
	Date of valuation	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**December 31, 2018 Total**
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2018	4,707,563	-	-	**4,707,563**
Trade and other receivables	December 31, 2018	-	-	11,996	**11,996**
Liabilities for which fair values are disclosed					
Borrowings	December 31, 2018	-	-	93,653,913	**93,653,913**
Trade and other payables	December 31, 2018	-	-	3,219,791	**3,219,791**

		Fair value measurement using			
	Date of valuation	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**December 31, 2017 Total**
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2017	4,972,134	-	-	**4,972,134**
Trade and other receivables	December 31, 2017	-	-	127,732	**127,732**
Liabilities for which fair values are disclosed					
Borrowings	December 31, 2017	-	-	110,194,384	**110,194,384**
Consideration payable	December 31, 2017	-	-	700,000	**700,000**
Trade and other payables	December 31, 2017	-	-	2,234,723	**2,234,723**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2018	**Fair value 2018**	**Unrecognized gain/(loss) 2018**	**Carrying value 2017**	**Fair value 2017**	**Unrecognized gain/(loss) 2017**
Financial assets						
Cash and cash equivalents	4,707,563	4,707,563	-	4,972,134	4,972,134	-
Trade and other receivables	11,996	11,996	-	127,732	127,732	-
Financial liabilities						
Borrowings	93,653,913	93,653,913	-	110,194,384	110,194,384	-
Consideration payable	-	-	-	700,000	700,000	-
Trade and other payables	3,219,791	3,219,791	-	2,234,723	2,234,723	-
Total unrecognized change in unrealized fair			**-**			**-**

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable rate financial instruments.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.