CHAARAT

The next leading emerging markets Gold Company

Chaarat Gold Holdings Limited
Annual Report & Accounts 2018

Our Strategy

Building the leading emerging markets gold company with a focus on the Former Soviet Union region

Chaarat Gold Holdings Limited is an AIM-quoted gold mining company which owns the Tulkubash and the Kyzyltash Gold Projects in the Kyrgyz Republic, as well as the Kapan operating mine in Armenia. The Company has a clear strategy to build a leading emerging markets gold company with an initial focus on Central Asia and the Former Soviet Union through organic growth and selective mergers and acquisitions.

About Us

Experienced team, solid assets, world-class standards
Chaarat aims to create value for its shareholders, employees and communities from its high-quality gold and mineral deposits by building relationships based on trust and operating to the best environmental, social and employment standards.

Chaarat plans to bring the Tulkubash heap leach project to production, enabling the Company to deliver low cost ounces from the project to deliver value to shareholders. Tulkubash, whose Feasibility Study has just been updated, has the capacity to generate significant EBITDA through nearly 100,000 ounces of gold production per annum.

Further organic growth is expected to follow from the neighbouring Kyzyltash deposit, which has the potential to produce 200,000-300,000 ounces of gold per annum, as well as the further ongoing exploration of Chaarat's licence area in the Kyrgyz Republic, which comprises an emerging gold district.

Operational improvements are also being made at Kapan, the Company's operating mine that is expected to produce 65,000 ounces of gold equivalent per annum. Kapan was acquired on favourable terms in 2019 and is part of a fragmented gold industry in the region whose consolidation Chaarat intends to lead. The Company has a strong deal pipeline of transactions, both add-on and transformational.

Putting shareholders first
Chaarat's leadership team and majority-independent Board have been fully reshaped in the last 18 months. As projects and M&A opportunities develop, management is fully incentivised to find the best funding options for the Company, with a focus on minimising dilutions for shareholders. More than 35 per cent of Chaarat is owned by the Chairman, executive team and Board.

Chairman's Statement

It is a pleasure to report to all our stakeholders on what has been a year of transformation for Chaarat Gold. We are moving purposefully towards our goal of building a leading emerging markets gold company focused on Central Asia and the Former Soviet Union.

A significant defined gold resource, at seven million ounces.

To all our stakeholders, I would like to reiterate our firm commitment to adhering to the highest standards of sustainable development and responsible mining. We are dedicated to caring for the environment where we mine and the well-being of our employees. Our actions are informed by and based on understanding and respecting our local host communities. Being a responsible corporate citizen is at the very core of our strategic objectives.

The Company has executed a full-scale management turnaround and now has a completely new senior management team with extensive industrial expertise in building and managing mines, spotting untapped exploration potential, and optimising opportunities via cost-effective discovery.

Our two robust standalone projects, Tulkubash and Kyzyltash, have shown material growth potential. We are confident that our diversified portfolio of producing and developing mines will generate the cash flow to fund ongoing organic growth and deliver a strong equity return to investors.

Chaarat's successful acquisition of the Kapan mine in Armenia in early 2019 was also a key milestone and a first step in our M&A strategy. The acquisition turns the Company from a developer to a producer in a single step. It also bears testament to our management team's ability to execute deals quickly, diligently and on accretive terms.

In June 2018, we were delighted to appoint Artem Volynets as Chief Executive Officer. Artem's track record as a senior executive and dealmaker in the global mining sector, combined with his industry and investor connections in Russia and Asia, has been invaluable. He brings more than 20 years' experience to Chaarat, having led private and public transactions worth in excess of US$30 billion and managed leading businesses in the metals and mining industry.

Our management team has also been significantly enhanced by the addition of Chris Eger as Chief Financial Officer in August 2018. Chris has comprehensive financial, M&A and commercial expertise in the metals and mining sector, gained over a 20-year career in investment banking, metals trading and private equity.

In June 2019, we were pleased to appoint Darin Cooper as Chief Operating Officer. Darin has a career spanning more than 30 years in the metals and mining industry, encompassing operations, projects, restructuring and culture change.

Robert Benbow, previous Chief Operating Officer of Chaarat, will continue to serve on the Board of the Company as a Non-Executive Director and he will remain Chair of the Technical Committee. Robert has been instrumental to the recent success of Chaarat and will continue to play an important role at the Company, drawing on his life-long experience of building and operating mines.

In recognition of the need for strong independent Non-Executive Director representation at Board level, we were pleased to welcome to the Board two new independent Non-Executive Directors in 2018, Robert Edwards in September and Hussein Barma in December, and one further independent Non-Executive Director, Warren Gilman, in March 2019. I can confirm that we now have a majority independent Board in place with a total of four independent Non-Executive Directors including Gordon Wylie, Deputy Chairman and Senior Independent Director.

Robert Edwards has worked in the global natural resources industry for 27 years, with a particular focus on frontier markets. His broad institutional and corporate experience, combined with his industry insights, complement Chaarat's rapid expansion in the Commonwealth of Independent States as we grow our asset base and production capacity across the region.

Hussein Barma brings deep knowledge of the global mining industry, compliance, audit and governance, having spent 15 years at Antofagasta.

Warren Gilman has acted as adviser to the largest mining companies in the world including BHP, Rio Tinto, Anglo American, Noranda, Falconbridge, Meridian Gold, China Minmetals, Jinchuan and Zijin and has been responsible for some of the largest equity capital markets financings in Canadian mining history.

In March 2019, Martin Wiwen-Nilsson stepped down from his role as Non-Executive Director of the Company. He, instead, takes on a role as senior adviser of the Company. He remains a shareholder in Chaarat.

I believe we now have an effective, highly skilled and experienced Board and management team in place, who are focused on and collectively responsible for the long-term success of the Company. I am delighted that the Chaarat team will also be fully aligned with shareholders in creating value via direct stock ownership and a performance based incentive programme.

I would like to thank all the members of the Board, including its new and outgoing members, for their support and dedication, and our management team and employees for their undivided commitment and drive. I would like to extend my special thanks to all our stakeholders for their continued backing over the years.

We look forward, with confidence, to the year ahead.

Martin Andersson
Executive Chairman

CEO's Statement

I am delighted to write my first annual review as the CEO of Chaarat Gold. 2018 has paved the way for an exciting 2019.

We have a clear strategy and we are delivering on it. In the last 12 months, Chaarat has:

- Fully refreshed its senior management
- Transformed the Company from developer to producer through its acquisition of the Kapan mine
- Secured more than US$120 million in debt, convertible debt, new equity and partner contributions
- Increased the resource at Tulkubash by more than 60%, paving the way for further resource increases
- Optimised its feasibility study for Tulkubash, resulting in a significant capital expenditure reduction of more than US$20 million
- Attracted an equity partner for Tulkubash, with a view to raising additional debt finance
- Relisted on the Alternative Investment Market (AIM), attracting new institutional investors

We are focused on producing organic growth through an ambitious and value-enhancing development programme for existing assets, and delivering shareholder-accretive, transformational M&A.

Environmental, social and governance

In 2018 we strengthened our processes throughout the value chain to ensure we adhere to the highest international environmental, social and corporate governance standards.

Safety remains at the forefront of our decision making, with international health and safety best practices used throughout our operations and construction sites, complemented by a clear reporting and remediation framework.

Environmental responsibility is a core value for Chaarat, and we take as much care as possible to ensure we minimise damage to the environments in which we work.
We continuously measure the wider impact of our activities, ensuring we adhere to all local and international regulatory requirements, including recommendations set out by the IFC Performance Standards on Environmental and Social Sustainability.

As we progress towards construction, we continue to build a team with the experience to develop the mine on time and on budget.

Our long-term success relies on trusting and constructive relationships with the communities who live and work beside us. We have established a Regional Consultation Group to facilitate communication and consultation with local communities. We also continue to support the education and development of local employees and children, invest in local business projects and medical programmes and provide crucial infrastructure.

Alongside the European Bank for Reconstruction and Development (EBRD), we are proud to sponsor an annual conference in London promoting the benefits of doing business in the Kyrgyz Republic. This forms part of our ongoing work with the EBRD and others to promote responsible foreign direct investment in the region.

Kapan
2018 was a year of significant change for Chaarat, culminating in the successful acquisition of Kapan Mining and Processing for a consideration of US$55 million in early 2019, an attractive price for the Company and its shareholders. The Kapan acquisition is an excellent and complementary addition to Chaarat’s portfolio, elevating the Company from a developer to a producer, now with three strong assets in two jurisdictions.

In 2017, the Kapan mine produced around 50koz of gold equivalent, generating more than US$20 million EBITDA and had gross assets of US$96 million. In 2018, the Kapan mine produced around 51koz of gold equivalent, generating a loss before tax of US$3.2 million, and had gross assets of US$93.3 million. Looking ahead, we anticipate group production of approximately 65koz of gold equivalent in 2019.

We continue to pursue other selected M&A targets and believe Chaarat is well positioned to be a driver of consolidation in our target regions.

The Chaarat Project
Located in the prolific Tien Shan gold belt, the Chaarat project has the potential to become a significant producer alongside other large mines in the area. An extensive drilling programme and feasibility studies carried out over many years have revealed a rich deposit of gold ore in the Tulkubash, Contact and Main zones of the deposit.

We are very encouraged by the ongoing results of our drilling at Tulkubash. Discovery costs per ounce and ounces discovered per metre drilled are excellent and validate our belief that Tulkubash will continue to grow into a world-class gold deposit. Indeed, we are confident that this is the beginning of an emerging new gold district.

The mineralisation remains open along strike, and we have drilled only a small portion of the prospective 24-kilometre trend of favorable geology and surface gold occurrences. We completed approximately 20,000 m of drilling in 2018, delivering a 67% increase in M&I resources. In June 2019, our most recent feasibility study update reported a significant increase in reserves and mine life. We also reported a reduction of more than U$20 million in capital expenditure at Tulkubash.

We look forward to commencing development of Tulkubash in 2019 through our Joint Venture with Çiftay, the Turkish mining and mine construction contractor. As announced in March 2019, Çiftay will invest up to US$31.5 million for an equity stake of up to 12.5% in Tulkubash and neighboring Kyzyltash based on an agreed valuation of US$252 million (post money) for the two assets.

Çiftay's investment provides a significant amount of the required equity for the Tulkubash project. Total capital expenditure for the project is approximately US$110 million, and after the Çiftay equity investment the vast majority of the remaining capital expenditure is expected to be debt funded, thus avoiding substantial dilution to Chaarat's shareholders, a key strategic objective for the Company.

Çiftay's investment clearly demonstrates the inherent value of Chaarat’s assets in the Kyrgyz Republic and the significant potential share price upside for investors. I would like to express my sincere gratitude to the Çiftay team for their support for Chaarat and the Tulkubash project. This agreement further illustrates our focus on shareholder value and ability to creatively fund the business on accretive terms.

Whilst Tulkubash is being put in construction, and expanded through exploration, development of the large, high grade Kyzyltash ore body presents the Company with a clear avenue for organic growth. The Kyzyltash mineralisation also remains open along strike and at depth, and further exploration has the potential to vastly increase the size of the deposit.

I would like to thank both the Kyrgyz government and the local population for their support for the Chaarat project during 2018 and look forward to working with both as we develop further in 2019 and beyond.

Financing
Our fundraising efforts in 2018 reflect our commitment to finance the Company's strategy while managing dilution and cost of capital through a combination of debt, hybrid and equity instruments.

In 2018 and the first half of 2019, we have secured more than US$120 million in financing, with minimal dilution to shareholders. This was achieved in a macro environment in which financing options for small mining companies have been limited.

To finance the acquisition of Kapan, which was completed for a total consideration of US$55 million on 30 January 2019, the Company raised US$40 million of third-party bank funding, and issued a convertible loan note for US$10 million. The US$5 million balance was provided for in cash.

As explained above, the Company also agreed an investment of up to US$31.5 million from Çiftay, its long-term mining and construction partner for up to a 12.5% equity stake in Tulkubash and Kyzyltash. It is intended that most of the remaining capital expenditure in respect of these projects will be debt funded, in order to avoid substantial dilution to Chaarat’s shareholders.

Separately, Chaarat has secured circa US$45 million via convertible bond issuances in 2018 and the first half of 2019, secured a US$10 million loan agreement with a previous note holder in the Company in November 2018, and raised US$2.7 million via new equity issuance in May 2019, including director and management input.

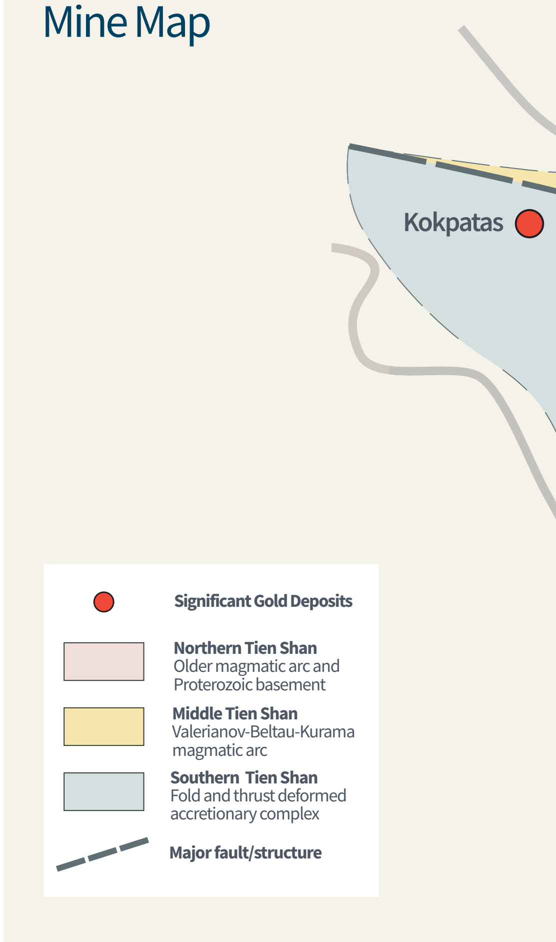
I am grateful that nearly all Chaarat's long-term investors have taken the opportunity to increase their exposure in the Company. These fundraises represent a clear expression of confidence in Chaarat's growth trajectory from both internal and external investors, who have subscribed for equity and bonds at respective premiums to the share price. Management have also subscribed to these fundraises, keeping their interests in line with those of all investors. Looking forward, Chaarat is well positioned to provide further growth capital for its expanding projects and portfolio. We remain firm in our commitment to growth and returns, catalysed by our success thus far and confident in our future strategy.

To everyone who has been a part of Chaarat in 2018 – our hardworking employees, investors, community partners and advisors – a special thank you for your contribution. Much has been accomplished. Much more remains to be done.

Artem Volynets
Chief Executive Officer

The area is part of the Tien Shan Gold Belt which hosts numerous major world-class gold deposits including the 175Moz Muruntau deposit and the 18Moz Kumtor deposit.

Mine Map



1,624koz

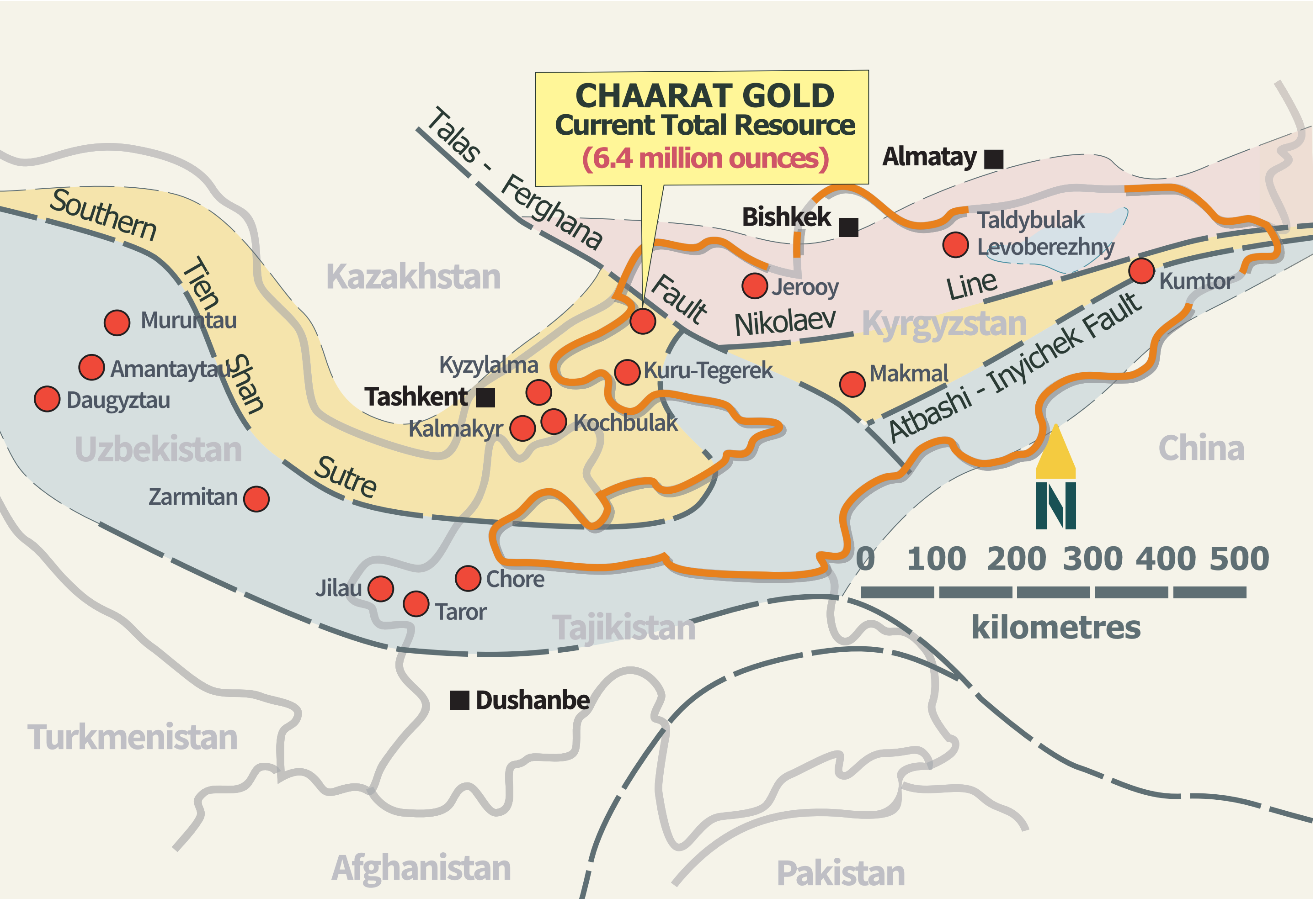
1.20g/t within 4km of a 24km strike zone

5,377koz

Kyzyltash sulphide resource at 3.75g/t within 3km of a 24km trend

Geology overview

The Chaarat mining and exploration licences are best viewed as comprising an emerging gold district, not simply two deposits. The Company believes that it has only just begun to develop the potential of this emerging district. The Company's land position comprises a surface area approximately 40%-50% the size of the Carlin trend in Nevada, which started with one mine in the 1960's and has now produced over 50 million ounces of gold. Chaarat will be in a position to use its internally generated free cash flow to explore and define the long term potential of the Chaarat District.



Kyrgyz Republic

The government of the Kyrgyz Republic has made great strides to ensure that the country represents a stable regulatory climate for mine development. A tax regime based solely on revenue has been put in place to ensure clarity for both government and investors. Legislation was passed in 2018 to allow taxes to be stabilised throughout a project's life. Investment agreements with the government enshrine the right to international arbitration in the event of a dispute. As a result, a number of mine developments have recently been completed or are currently underway in the country.

Operational team

Developing a gold mine requires a skilled and experienced team. Chaarat's team, which is almost entirely based in the Kyrgyz Republic, is led by experienced international operators in respect of both exploration and project development. The majority of staff are Kyrgyz nationals, with the Company recruiting as often as possible from the populations nearest the project site.

Kapan

Overview

The Kapan Mine and Processing Company was acquired by Chaarat in early 2019 for a consideration of US$55 million.

Ownership	Measured & indicated Resources + Reserves	Start date	Production	Extraction process	Life of mine
100%	2,224koz contained metal; 10.59Mt at 6.5g/t (Au Eq)	2003	c. 65koz Au Eq/ year	Underground mining, 900ky flotation circuit	5+ years*

* The Life of Mine is expected to be extended beyond the 5 years.

The acquisition was an important milestone in achieving Chaarat's goal of building a leading emerging markets gold company with an initial focus on Central Asia and the former Soviet Union ("FSU") through organic growth and selective M&A. In particular, the Kapan Acquisition:

- Demonstrates the Company's ability to execute deals quickly, diligently and on accretive terms
- Transformed Chaarat from a developer to a producer
- Provides a catalyst for a potential re-rating
- Strengthens the Company's portfolio of assets, with an anticipated group production of approximately 65koz Au Eq in 2019 (based on Chaarat management's analysis)
- Provides the Company with additional finances for the development of Tulkubash and Kyzyltash at the Chaarat gold project
- Reinforces Chaarat's ability to implement future mergers and acquisitions
- Transforms Chaarat into a cashflow generating company with a significant growth profile
- Has a valuation which the Directors believe to be attractive; anticipated to imply a P/NPV 10 of 0.37x (based on Polymetal's analysis) and 0.78x (based on Chaarat management's analysis)

Kapan accelerates Chaarat's transformation from a developer to a producer with an anticipated group production of approximately 65koz Au Eq in 2019. Chaarat is well placed to take advantage of the opportunities presented by this cash-generative asset, which, following significant investment in the asset over the last two years, is estimated to grow production by approximately 30% per annum in 2019 versus 2017.

Kapan Mining and Processing Company comprises one Mining Licence and one Exploration Licence covering 90.7km^2 which draw from the Shahumyan deposit. The Shahumyan mineralisation is characterised by narrow veins (0.2-2.0 m), steeply dipping (70°-85°), east-west orientation, and contains gold-base metals (Cu-Zn-Pb-Au-Ag).

Meanwhile, Kapan comprises an automated underground mine with a capacity of 700ktpa, feeding an on-site crushing and grinding facility followed by a conventional flotation circuit. The recently renovated milling and flotation circuits have a capacity of 2,100tpd (750ktpa) and 2,300tpd (840ktpa) respectively, with potential to expand capacity to 900ktpa. Kapan produces copper and zinc concentrate which is trucked to the Poti seaport in Georgia (~850km).

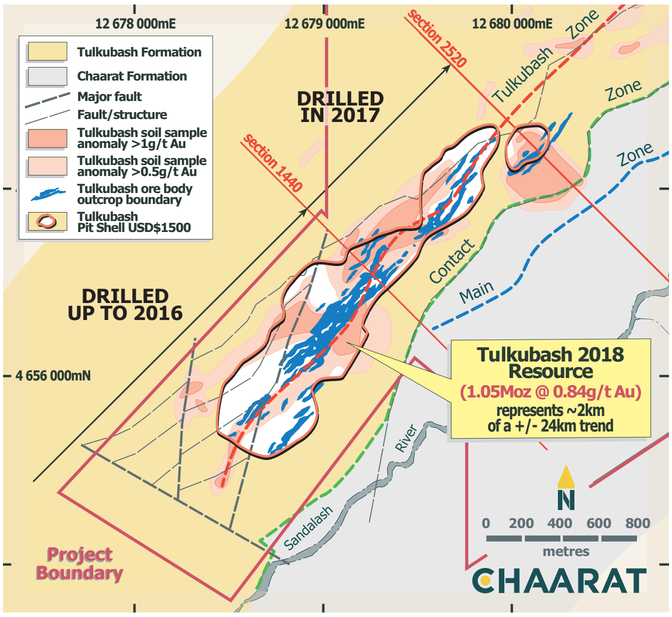
Production at Kapan commenced in 2003 and the current reserve life extends to 2023; however, the Company believes that conversion of current inferred resources to reserves and new exploration success is likely to further extend the mine life. Indeed, the Company's internal modelling assumes production will continue until 2029. For the year ended December 2018, the Kapan Mine produced around 51koz of gold equivalent, generating a loss before tax of US$3.2 million, and had gross assets of US$93.3 million.

Chaarat is currently executing several improvement programmes for Kapan which prioritise safety, operating efficiency and cost discipline. By maintaining a focus on these actions along with active engagement with host communities, Chaarat believes that the benefits of the acquisition and new management approach will deliver considerable additional value to all stakeholders.

Tulkubash

Overview

The Tulkubash oxide heap leach represents the first phase of development for the Chaarat project via a simple, low-cost processing method.



Resources as at 31 December 2018

Tulkubash open pit heap leach cut-off grade ("COG") 0.3g/t Au	Tonnes (kt)	Au grade (g/t)	Content (koz)
Measured	5,660	1.35	246
Indicated	36,300	1.18	1,378
Measured & Indicated	41,960	1.20	1,624
Inferred	2,330	0.46	33

1. Chaarat has used a COG of 0.3 grams per tonne ("g/t") on the basis of the likely economic cut-off for open pit mining and heap leach processing.
2. Quantity and grade are estimates and are rounded to reflect the fact that the resource estimate is an approximation.
3. Mineral resources are not ore reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the mineral resource will be converted to reserves.

1,624koz

at 1.20g/t defined within 4km of 24km trend

658koz

at 0.92g/t (June 2019 Feasibility Study)

The Tulkubash oxide heap leach represents the first stage of the development of the Chaarat Gold project. The 2019 Feasibility Study envisages production of 453koz of recovered gold and 459koz of recovered silver over the life of mine, with average gold production of 94koz per annum, with peak production during steady state operations in excess of 110koz annually.

Chaarat retained LogiProc to update the existing Bankable Feasibility Study of the Tulkubash project prepared by TetraTech in April 2018. There have been significant additions to the Resource since the Feasibility Study was updated, including an indicated initial five-year mine life.

The current mine plan and process facility design is based on a Proven and Probable Reserve of 22.2Mt grading 0.92g/t gold containing 658koz, an increase of 39% from the April 2018 Feasibility Study. The open pit mining schedule envisages an initial life of mine based on the current reserve of 5.3 years. The nominal processing rate is 4.9 million tonnes of ore per annum, at an average life of mine strip ratio of 2.64 (waste:ore).

Geology and Exploration

Gold mineralisation at Tulkubash, a thickly bedded massive quartzite, occurs in quartzite breccias, quartz stockwork zones, and intensely silicified quartz flooded zones that form multiple parallel lodes trending northeast and dipping 60-80° to the northwest. The individual gold-bearing lodes combine to form a mineralised zone that varies from 110 to 250 metres wide that has been developed over a strike length of approximately 4kms. Mineralisation is open to the northeast along strike and down dip below the limits of the current drilling (±150 metres). The gold is very fine grained and is associated with minor pyrite and stibnite. The Tulkubash Zone is strongly oxidised and contains free milling ore suitable for heap leach processing.

During 2018, approximately 20,000 metres of diamond drilling was completed at Tulkubash. This drilling extended strike length of the deposit to extend the strike extent of the heap leachable material by approximately 1.2 kilometres ("km") and added more than 650,000 ounces of gold to the Measured and Indicated (M&I) Resource at a discovery cost of about $11.40/ounce per kilometre. M&I Resource grade was increased to 1.20g/t Au from 0.86g/t Au in the 2017 year-end Resource estimate.

The 2019 drilling season has already commenced with ten rigs currently operating on site. The drilling continues to demonstrate the strong continuity along strike of the Tulkubash mineralisation and the Company expects similarly strong results to 2018.

Tulkubash Mineral Resource at 0.3g/t Cut-Off Grade

	31 January 2018			31 December 2018		
	Tonnes (kt)	Au grade (g/t)	Gold (koz)	Tonnes (kt)	Au grade (g/t)	Gold (koz)
Measured	22,915	0.88	647	5,660	1.35	246
Indicated	12,329	0.82	324	36,300	1.18	1,378
Total Measured & Indicated	**35,244**	**0.86**	**971**	**41,960**	**1.20**	**1,624**
Inferred	3,782	0.68	83	2,330	0.46	33

Operational Review
Tulkubash continued

658koz

Updated Tulkubash reserve at 0.92g/t

Pre-production mining is planned to start in December 2020 and continues until Q4 of 2021. In December 2021, gold production is expected to start and continue for 5.3 years to the end of 2026.

Ongoing exploration

Pre-production mining is planned to start in December 2020 and continues until Q4 of 2021. In December 2021, gold production is expected to start and continue for 5.3 years to the end of 2026.

The life of mine is expected to grow significantly from 5.3 years since the current resource and reserve is only based on drill testing around 4km of a 24km strike length of favourable geology. Chaarat management believe there is a high probability that additional resources and reserves will be added.

The reserve and resource for the current mine life is derived from approximately 4kms of a defined 24km strike length for the Tulkubash trend, with mineralisation remaining open along strike. Numerous occurrences of outcropping ore-grade gold mineralisation and high-grade gold in soil anomalies have been defined along this trend within the existing Chaarat mining and exploration licences. Tulkubash is now seen as an emerging gold district, with potential to host multiple gold deposits.

The 2019 drilling programme has already started, with a budget for 20,000m of drilling in the year. The 2019 drill programme will focus on extending mineralisation along strike from the current resource and on infill drilling to improve project economics in select areas within the current resource footprint. The Company anticipates an ongoing drill budget of 15,000m to 20,000m per year thereafter.

In March 2019, Chaarat entered into a Joint Venture with Çiftay İnsaat Tahhüt ve Ticaret A.S., the Turkish mining and mine construction contractor, to collaborate on its assets in the Kyrgyz Republic. Çiftay, a partner since 2017, mobilised equipment to the Tulkubash site in the Chatkal Valley in 2018 and will be appointed as construction and long-term mining contractor for the Tulkubash project in 2019.

Under the agreement, Çiftay will commence earthworks at Tulkubash in 2019, negotiated at arms-length rates, which represent an improvement to the terms indicated in the 2018 Feasibility Study.

Chaarat continues to advance detailed engineering and has finalised several project components for immediate construction readiness at Tulkubash. Çiftay has earthworks equipment at the mine site and constructed a temporary construction camp in 2018 to be ready to start major earthworks in 2019.

The Company sees potential to increase significantly the existing Tulkubash resources prior to the first gold pour in 2021 and believes that exploration success will continue to add gold resources in future years. The Company's upcoming and ongoing drill programmes are designed to maximise the ratio of Resources converted to Reserves, using enhanced understanding of the geological controls on mineralisation and economic constraints on Reserve classification as defined by the feasibility study.

Feasibility study

Chaarat retained LogiProc to update an existing Bankable Feasibility Study of the Tulkubash gold project prepared by TetraTech in April 2018, that details its scope, design features and economic viability.

The update confirmed an initial blueprint for the development of the project:

- Initial reserve base of 22.2Mt ore grading 0.92g/t gold containing 658,000 ounces of gold, an increase of 39%
- Average gold production of 94,000 ounces per annum, with peak production during steady state operations in excess of 111,000 ounces per annum
- Average cash operating cost of US$678 per ounce
- All-in sustaining cost of US$819 per ounce, including all taxes
- Ongoing exploration in 2019 and beyond expected to significantly add to existing reserves
- Tulkubash is now seen as an emerging gold district, with potential to host multiple gold deposits
- Significant capital expenditure optimisation, which has resulted in an overall reduction from US$132 million to US$110 million
- Improved post tax net present value of US$70 million (at 5% discount rate) and internal rate of return of 20%
- Projected annual post tax free cash flow of US$44 million during steady state operational period

Completion of the 2019 Tulkubash Feasibility Study Update reaffirmed management's belief that the oxide gold project has the potential to deliver strong operational cash flow over several years.

The initial post-tax net present value for Tulkubash, using a 5% discount rate and a long-term gold price of US$1,300 per ounce, is projected to increase to US$70 million with an undiscounted total cash flow of US$114 million. These metrics are expected to be significantly enhanced as ongoing exploration extends the reserve base along strike. The deposit will be developed by a mining contractor using conventional open pit mining methods. Processed ore will be subject to three-stage crushing to produce 12.5 millimetres ("mm") product which will be stacked at a rate of 13,500 tonnes per day on a conventional valley fill heap leach pad with an initial capacity of 16Mt. All personnel will be housed in an on-site camp. Diesel-generated power totalling 4MW will serve process and support facilities. Roads and infrastructure have been designed and sited to respect regulatory requirements, minimise risk, and promote efficient operation.

A significant outcome of the 2019 Feasibility Study is the reduction in anticipated initial

capital investment from around US$132 million to US$109.7 million, which includes a US$10 million contingency.

Discovery costs per ounce and ounces discovered per metre drilled at Tulkubash are impressive and continue to validate management's belief that Tulkubash will continue to grow into a world-class gold deposit. Indeed, recent resource updates continue to suggest the emergence of a significant new gold district.

Reserves as at 1 April 2019

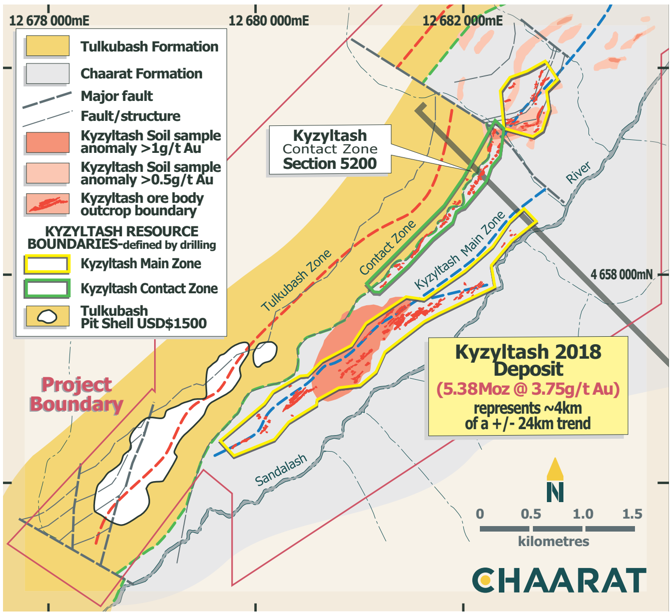
Tulkubash open pit heap leach COG 0.37-0.40g/t Au	Tonnes (kt)	Au grade (g/t)	Content (koz)
Proven	6,750	0.95	206
Probable	15,430	0.91	451
Proven & probable	**22,180**	**0.92**	**658**

1. Ore reserves are reported with appropriate modifying factors of dilution and recovery.
2. Quantities may not add or multiply due to rounding.
3. Ore reserves based on a gold price of US$1,250 per ounce.

Kyzyltash

Overview

The large, higher grade Kyzyltash sulphide ore body will form the second phase of development at the Chaarat project.



5,377koz

at 3.75g/t defined within 3km of 24km trend

The Kyzyltash ore body represents most of the currently defined mineralisation at the Chaarat project and provides Chaarat with a clear path to organic growth. The mineralised zones occur within two subparallel northeast-trending structural zones that have been traced for 10km along strike.

Due to the more complex, refractory nature of the mineralisation, Kyzyltash will be developed once the Tulkubash project is in production. Based on the work performed by NERIN, Kyzyltash has the potential to produce 200,000-300,000 ounces of gold per annum at low operating cash costs. In the medium term, the Company's expectation is to have both Kyzyltash and Tulkubash in production in parallel, producing up to 400,000 ounces of gold per annum from the Chaarat Gold project.

Mineral Resources

Underground COG 2.0g/t Au	Tonnes (kt)	Au grade (g/t)	Content (koz)
Measured	6,722	3.26	681
Indicated	32,794	3.79	3,864
Measured & Indicated	**39,516**	**3.70**	**4,545**
Inferred	6,611	4.05	832
Total	**46,127**	**3.75**	**5,377**

1. The Kyzyltash resource is based on the block model originally developed for the November 2014 resource update.
2. Resources have been stated on the basis of underground mining as this reflects the selectivity of mining consistent with the estimation parameters.
3. The potentially open pitable resources at Kyzyltash, previously announced in 2016, have not been re-estimated to understand the impact of dilution - all resources have been included within the underground mineable resource table.
4. A new block model would be required prior to reporting resources at Kyzyltash suitable for open pit mining.
5. The underground resources at Kyzyltash have been reported at a cut-off grade of 2.0g/t. The previously reported underground mineable resources in 2016 were reported at a cut-off grade of 1.8g/t.

Mineral Resources

Following the update to the 2016 resource for Tulkubash, the Kyzyltash resources were restated at a cut-off grade of 2.0g/t. This is based on a block model which had been prepared on a basis suitable for selective mining in an underground environment.

Whilst the Kyzyltash resource constitutes a large ore body capable of generating a robust mine life for initial development, the mineralisation remains open both along strike and at depth.

Development options

Building on the foundation of the NERIN feasibility study, Chaarat will continue advancing technical studies on the Kyzyltash project. Ongoing work will include further metallurgical testing, a review of the most appropriate mining method, and a review of the optimal processing plant layout given the infrastructure in place for the Tulkubash heap leach processing facility. This will develop an optimised and updated feasibility study.

Kyzyltash is expected to produce gold through a refractory processing plant recovering gold via pre-oxidation followed by direct cyanidation. Ore will be sourced from higher grade underground stopes accessible via simple adit development into the hillside, which could be augmented by ore accessible via open pit mining. The currently defined resource of 5.4million ounces of gold is potentially capable of supporting at least a seven to eight-year mine life at a production rate of 200,000-300,000 ounces of gold per year.

On completion of an updated feasibility study for Kyzyltash, the decision to commence construction will be dependent on the Group's cash flow and development plans, as the Group's balance sheet continues to be strengthened by Tulkubash production and the results of merger and acquisition activity.

Regional exploration

Overview

Located in the prolific Tien Shan gold belt, the Chaarat project has the potential to become a significant producer alongside other large mines in the area.

Chaarat already has six million ounces of gold resources and a large, underexplored area with the potential to add significantly more.

The Chaarat mining and exploration licences are best viewed as comprising an emerging gold district, not simply two deposits. The Company believes that it has only just begun to develop the potential of this emerging district. As a rough comparison the Company's land position comprises a surface area approximately 40-50% the size of the Carlin trend in Nevada, which started with one mine in the 1960s and has since produced more than 50 million ounces of gold. Chaarat plans to use its internally generated free cash flow to explore and define the long-term potential of the Chaarat District.

In 2019, exploration work will continue in the large exploration licence to the north-east of the six-kilometre Chaarat mining licence.

- Initial reconnaissance drilling will be undertaken on a large soil anomaly at Ishakuldy, approximately 10km along strike from the proposed Tulkubash open pit.
- Detailed mapping, trenching and surface sampling to develop long-term drill targets will be carried out in the unexplored area between the mining licence boundary and the Ishakuldy soil anomaly.
- Beyond the Ishakuldy soil anomaly, district scale exploration of the trend will continue. This will include a stream sediment and panned concentrate sampling programme supported by a remote camp.

Financial Review

In August 2018, Chaarat received commitments for US$17.6 million in the first phase of a convertible debt placement with existing convertible investors, as well as select new investors. The Company received strong support from its long-term convertible investors holding existing convertible notes, substantially all of whom converted into new ordinary shares in the Company and/or rolled their convertible proceeds and subscribed to the new instrument, providing incremental growth capital to the Company.

In November 2018, Chaarat entered into a loan agreement with a previous note holder in the Company, to secure funding of US$10 million to support the Group's activities including the Kapan acquisition. The loan reflects Chaarat's commitment to finance the Company's strategy while managing dilution and cost of capital through a combination of debt, hybrid and equity instruments. In the same month, Chaarat entered into agreements with two investors for the subscription and issue of secured convertible notes for US$600,000 and US$400,000 respectively. Chaarat secured a further US$10.6 million in early 2019, which includes the US$10 million convertibles issued to PMTL as part of the acquisition of Kapan, bringing the total number of notes in issue to US$29.2 million. In addition, at 1 April 2019 the Group had received a signed commitment for a US$10 million subscription for convertible bonds by a new investor. In late May 2019 this commitment was increased to US$15 million. The Group expects to receive the subscription proceeds in early July 2019.

In December 2018, the Group entered into a committed revolving term loan facility agreement with Labro Investments Limited ("Labro") for a total amount of US$15 million (the "Labro Loan Agreement"). The facility is for the general corporate purposes of the Group and can be drawn down by the Group at any time before its maturity. To date, US$2.5 million has been drawn down, US$0.5 million has subsequently been repaid, and US$12.5 million remains available to the Group.

Chaarat's fundraising has been, and will be, used to support the Company's M&A consolidation strategy and the development of Tulkubash. Investment in Chaarat in 2018 reflects a clear expression of confidence in the Company's management and its strategy and demonstrates Chaarat's inherent value. The Board and management team remain committed to appropriately fund the business on accretive terms whilst minimising shareholder dilution.

In early 2019, Chaarat completed the acquisition of Kapan Mining and Processing Company CJSC from PMTL Holding Ltd, a subsidiary of Polymetal International Plc for a total consideration of US$55 million (subject to net debt and working capital adjustments). This comprised US$10 million settled on completion in convertible loan notes; US$5 million paid as a deposit in November 2018; and US$40 million of third-party bank funding.

During 2019, Chaarat intends to invest further significant sums in the development of the Tulkubash project following the Company's Joint Venture with Çiftay İnsaat Tahhüt ve Ticaret A.S., the Turkish mining and mine construction contractor. Under the agreement, based on an agreed valuation of US$252 million (post money) for Tulkubash and Kyzyltash, Çiftay will progressively invest up to US$31.5 million for a 12.5% equity stake in Chaarat's mining projects in the Kyrgyz Republic.

Çiftay's investment provides a significant amount of the required equity for the Tulkubash project. Total capital expenditure for the project is approximately US$110 million, and after the Çiftay equity investment most of the remaining capital expenditure is expected to be debt funded, thus avoiding substantial dilution to Chaarat's shareholders. Chaarat is in the process of securing the remaining project financing which is targeted to close in Q4 2019. Further details of the Group's status as a going concern are set out in the Directors Report and note 2 to the financial statements.

Corporate Social Responsibility

Our Corporate Commitment

Chaarat is committed to meeting the expectations of good international industry practice, including recommendations set out by the IFC Performance Standards on Environmental and Social Sustainability.

Chaarat strives to ensure that it maintains the highest standards of health and safety, as well as taking all precautions for the protection of the environment, and at the same time respecting local culture. Chaarat is committed to the highest international ESG standards and provides ongoing support to local communities through:

- Infrastructure development
- Healthcare
- Education / skill building
- Job creation
- Community facilities
- Micro-finance

The Company has established a Regional Consultation Group to facilitate communication and consultation with local communities in the Kyrgyz Republic. Alongside the European Bank for Reconstruction and Development (EBRD), Chaarat sponsors an annual conference in London promoting the benefits of doing business in the Kyrgyz Republic. This forms part of the Company's ongoing work with the EBRD and others to promote responsible foreign direct investment in the Kyrgyz Republic.

To Safety

Chaarat has an uncompromising focus on the safety of those who work for the Company – be that its employees, contractors or suppliers. To ensure safety is always at the forefront of the Company's decision making and behaviour, the Chaarat leadership team nurtures a culture of collective responsibility for safety, and international health and safety best practices are used throughout the Company's operations and construction sites. This is complemented by a clear reporting and remediation framework. Chaarat's goal is to ensure that it identifies and removes risks before they result in an incident. The training provided to those who work on its sites and the business improvement programmes it implements are all designed to create a proactive and positive approach to working safely together.

Kyrgyz Republic
Hazard recognition is emphasised throughout Chaarat Zaav safety training.

Armenia
A newly employed Safety Manager is responsible for driving change to a behavioural-based safety culture at the Kapan mine. Moreover, Kapan safety reporting is being integrated and aligned with Charaat Standards.

To the Environment
Chaarat recognises the obligation it has to protect and preserve the environment to the best of its abilities for, and on behalf of, the communities it works beside. The Company continuously measures the impact its activities are having on the local environment, ensuring that it adheres to all local and international regulatory requirements as well as seeking to adapt the business to reduce the overall environmental impact of its operations. In addition to compliance with national mining and environmental legislation, Chaarat is committed to meeting the expectations of good international industry practice, including recommendations set out by the IFC Performance Standards on Environmental and Social Sustainability.

Kyrgyz Republic
The Tulkubash project is based on international industry-standard practices and is supported by Kyrgyz and International Standard Environmental and Social Impact Assessment ("ESIA") guidelines. Its design also follows International Cyanide Management Code guidelines.

Armenia
Chaarat's immediate focus after the acquisition of Kapan is to improve environmental standards at the mine. Improvements to Kapan's Tailings Management Facility design and water treatment system are already underway, and Chaarat has engaged SRK to conduct an International Finance Corporation-compliant environmental audit of the mine. Particular focus will be on maximising water recycling and upgrading the tailings line.

To the local communities
Chaarat's long-term success relies on having a trusting and constructive relationship with the communities it lives and works beside. Core to building and maintaining this long-term relationship is Chaarat's commitment to:

- Supporting the education and development of local employees and children
- Investing in local business, projects and medical programmes that are identified as priorities for the local communities
- Providing infrastructure that benefits both Chaarat's activities and local businesses

Through the forging of strong relationships, providing local employment, supporting local businesses and acting as a respectful corporate neighbour, Chaarat strives to ensure its activities bring sustainable prosperity to the communities it lives alongside.

Every year Chaarat Zaav agrees to a "social package" of support with the local communities in the immediate vicinity (c. 30km) around the Chaarat deposit. It does this through the Community Consultation Group (CCG) established in 2013, which ensures participation from all sections of the local communities.

In Armenia, there exists a strong, long-established relationship with the local community around the Kapan mine, which Chaarat plans to nurture and build upon.

Chaarat's priority is to ensure the support provided is invested according to the priorities of the local communities and for the greatest benefit of all the population.

Employment
The Chaarat Zaav workforce comprises of more than 80% Kyrgyz nationals. As well as employing people from the local community directly, Chaarat Zaav supports the local economy by creating indirect job opportunities via contractors who provide drill rig operators, assistant drill operators, samplers, ditchers and labourers. Chaarat continued its programme of summer placements for the geology and mining students it sponsors through their studies. Financial support has also been provided for a new school in Aigyr-Zhal.

Small wholesale shops in Kanysh-Kiya and Jany-Bazar villages operate successfully and provide the local residents with groceries at wholesale prices.

Meanwhile, the Kapan mine's workforce comprises over 98% Armenian nationals. In 2019, Kapan plans to fund the reconstruction of two kindergartens in the community.

Medical
The Company sponsors medical students to address the shortage of doctors and medical facilities in rural areas. The Kanysh Kia and Chatkal rural councils requested Chaarat's help with the provision of medical treatment to residents (mainly orphans and the elderly) which the Company was glad to provide.

Transport and infrastructure
The Chaarat deposit is approximately 300km south-west of Bishkek, the Kyrgyz Republic's capital. From Bishkek the property is accessed via a combination of approximately 800km of paved and unpaved roads. During the summer an alternative route provides shorter access of approximately 520km from Bishkek. The remoteness of the location means that transport and infrastructure are high priorities for the local communities.

The Company has therefore provided assistance through the construction and repair of roads in the Chatkal district, contributed to the design of a suspension bridge at Kanysh-Kiya and the repair of a bridge used by cattle herders, purchased a vehicle for the use of the local council and provided fuel and lubricants for the equipment clearing the Karabuura pass.

Donations
Chaarat contributes more than US$210,000 annually in social aid to the Chatkal district, Kyrgyz Republic.

The Company continues to provide gifts to children and elderly residents at holidays and local celebrations, including World Children's Day and New Year.

During the year the children in Jany-Bazar were able to improve their wrestling skills, courtesy of a coach provided by Chaarat, in the sports hall the Company built in the village. Chaarat also purchased equipment such as portable radio sets and sponsored regional sporting events and tournaments.

Board of Directors

Chaarat's Board and management are deeply invested in the Company and their interests are fully aligned with shareholders. More than 35% of the Company is owned by the management and Chairman with a planned incentive programme to be entirely paid in locked-in shares and options.

Martin Andersson
Executive Chairman

A graduate of the Stockholm School of Economics and HEC Paris, Mr Andersson worked in mergers and acquisitions at Booz Allen Hamilton and advised the Russian Government on its privatization programme. In 1993 he co-founded Brunswick Brokerage – a Moscow based investment bank that was later sold to UBS – initially holding the position of Chief Executive Officer and from 1999 as Chairman of the joint venture, Brunswick UBS Warburg. Between 2006 and 2013 he was a shareholder and served on the Board of Siberian Coal Energy Company (SUEK), one of the largest thermal coal producers in Russia. Mr Andersson intends (via Labro) to be a long term and supportive shareholder. He chairs Chaarat's Nominations Committee. Mr Andersson manages an active portfolio with an interest in real estate, financial services and information technology.

Gordon Wylie
Deputy Chairman and Senior Independent Director

During his eight years as a member of AngloGold Ashanti's senior management team, Mr Wylie was responsible for their global exploration programme, part of which included moving into new prospective, higher risk geographical regions. Mr Wylie has been a Non-Executive Director of numerous junior exploration companies operating globally since leaving AngloGold Ashanti. He was previously the Chairman of Lydian International, which has been constructing a mine at the Amulsar open pit, heap leach gold project in Armenia. Mr Wylie brings to the Board of Chaarat 42 years' experience in the mining industry and directly relevant experience of growing companies from exploration to production. Mr Wylie chairs both Chaarat's Remuneration Committee and HSE Committee. He is also a member of each of Chaarat's Audit Committee, Technical Committee and Nominations Committee. Mr Wylie does not currently hold any other directorships.

Artem Volynets
Chief Executive Officer and Executive Director

Mr Volynets has more than 20 years' experience in mergers and acquisitions, capital markets, and senior corporate management roles. During this time, he has led private and public transactions worth more than US$30 billion and managed leading businesses in the metals and mining industry. From 2003 to 2013 Mr Volynets was a key executive in the Russian aluminium and energy sectors, including Chief Executive Officer of En+ Group, Deputy Chief Executive Officer and Director for Corporate Strategy at UC RUSAL, and SVP Strategy at SUAL International. Prior to that, he was a strategy consultant with Monitor Group in London. In 2014, Mr Volynets founded ACG Amur Capital Group Ltd, an advisory and investment management firm. Mr Volynets' M&A, capital markets and executive experience in the mining sector, combined with his global industry and investor connections in Russia and Asia, will be invaluable in building Chaarat into a leading producer in the FSU region via organic growth and M&A. Mr Volynets is a member of Chaarat's Nominations Committee.

The Company's senior management brings global industrial expertise in building and managing mines, spotting untapped exploration potential, and optimising opportunities via cost-effective discovery.

Chaarat's management team and majority independent Board were fully reshaped in 2018 and 2019. The individuals detailed here represent the Board and management team at the time of publication of this report.

Robert Benbow
Executive Director

Until 31 May 2019, Mr Benbow was the Company's Chief Operating Officer and his responsibilities included oversight of the Company's operations and project development. During his 45-year career, Mr Benbow has taken three greenfield gold developments into production, including Alacer Gold Corp.'s Çöpler Gold Mine in Eastern Turkey, which has produced over 1 million ounces as one of the lowest cost producers in the world. The Çöpler mine has now moved into treating refractory ore by pressure oxidation. Mr Benbow's experience at Çöpler is relevant to the development of the Company's Tulkubash and Kyzyltash projects as the business models are very similar. Mr Benbow is now Chairman of Chaarat's Technical Committee. He is also a member of Chaarat's Nominations Committee and HSE committee. Mr Benbow is also a Director of Powderhouse Gulch LLC (Colorado).

Robert Edwards
Independent
Non-Executive Director

A mining engineer with an honours degree from the Camborne School of Mines, Mr Edwards is the former Chairman of Global Mining at Renaissance Capital and has also worked for HSBC and the Royal Bank of Canada. He has worked in the global natural resources industry for 27 years, primarily in frontier and emerging markets in production, new business, investment banking, direct advisory and board roles. As well as bringing deep sector knowledge, Mr Edwards has played a central role in multiple IPOs, financings and M&A transactions in the sector particularly in the FSU region. He also brings connectivity to a wide ranging sector of investors. Mr Edwards is a member of each of Chaarat's Technical Committee, HSE Committee and Nominations Committee. Mr Edwards is currently an Independent Non-Executive Director and member of the Audit and Corporate Governance and Remuneration Committees of PJSC MMC Norilsk Nickel and is an adviser to several private natural resource companies.

Hussein Barma
Independent
Non- Executive Director

Dr Barma has significant FTSE-50 senior executive experience, gained through over 15 years at Antofagasta plc, where he led its UK presence through a period of change and growth as the UK-based Chief Financial Officer from 1998 – 2014. He has extensive knowledge and experience of the global mining industry, governance and regulations, strategy, finance, audit, accounting and investor relations. He has had earlier careers in professional services and academia. Dr Barma is a qualified lawyer and chartered accountant. He holds a doctorate in corporate law from the University of Oxford. Dr Barma is chairman of Chaarat's Audit Committee and is a member of both Chaarat's Remuneration Committee and Nominations Committee.
Dr Barma is also an Independent Non-Executive Director and the Audit Chair of Atalaya Mining plc. He is a principal at Barma Advisory where he has worked on various assignments within the natural resources and other sectors. Dr Barma holds several other directorships.

Warren Gilman
Independent
Non-Executive Director

Mr Gilman was Chairman and Chief Executive Officer of CEF Holdings Ltd, a mining focused investment company jointly owned by CK Hutchison Holdings Ltd and the Canadian Imperial Bank of Commerce from 2011 to 2019. He is a mining engineer and co-founded CIBC's Global Mining Group in 1988. During his 26 years at CIBC, Mr Gilman ran the mining investment banking teams in Canada, Australia and Asia, serving as Managing Director and head of the Asia Pacific region for 10 years, and latterly as Vice Chairman for CIBC World Markets. Mr Gilman has acted as adviser to the largest mining companies in the world including BHP, Rio Tinto, Anglo American, Noranda, Falconbridge, Meridian Gold, China Minmetals, Jinchuan and Zijin and has been responsible for some of the largest equity capital markets financings in Canadian mining history. In 2019, Mr Gilman founded Queen's Road Central Capital Ltd, where he is Chairman and Chief Executive Officer. He is also a Board member of NYSE/TSX listed NexGen Energy Ltd, a uranium exploration and development company, and private mining company, Niobec Inc, which jointly owns the Niobec niobium mine in Canada with CEF, Temasek of Singapore and Magris Resources of Canada. He is a member of Chaarat's Audit Committee.

Senior Management

Chris Eger
Chief Financial Officer

Mr Eger has extensive financial, M&A and commercial expertise in the metals and mining sector, gained over a 20-year career in investment banking, metals trading and private equity. He was previously the Chief Financial Officer of Nyrstar NV, where he played a major role in developing and implementing the Company's transformation strategy in addition to strengthening the balance sheet. Prior to that, he was M&A Director at Trafigura AG and a member of the investment banking group of Bank of America Merrill Lynch, where he worked with metals and mining companies on debt and equity financing and M&A. He also worked as a Director in the global metals and mining group at BMO.

Darin Cooper
Chief Operating Officer

Mr Cooper was appointed as Chief Operating Officer in June 2019 and has more than 30 years' experience in the industry with his most recent role being Head of Mining at Fusion Capital, a Swiss investment firm. From 2012 to 2017, Mr Cooper held senior roles at Nyrstar, the global multi-metals business, latterly as Vice President, Zinc Smelting. He has also served as Chief Operating Officer of Talvivaara Mining Company (Finland) where he worked with the Finnish government, creditors and investors to secure financing options during their restructuring. Mr Cooper started his career at the Rio Tinto-Zinc Corporation.

Dorian (Dusty) Nicol
Senior Vice President, Exploration

Mr Nicol is a geologist by background with over 44 years of experience at every stage of mining projects, from exploration to construction, development and production. The emphasis of his career has been exploration. He has managed successful gold and copper exploration programmes around the world and is responsible for significant gold discoveries in Papua New Guinea, Nevada, Mexico, and Brazil as well as significant contributions to successful exploration programmes on every continent except Antarctica. Mr Nicol has extensive experience in the geologic settings and types of gold deposits in which Chaarat is and is planning to operate. He has held exploration management and executive roles with several companies, including Esso Minerals, Renisson GoldFields and Queenstake Resources. Mr Nicol is responsible for managing exploration strategy and implementation across Chaarat's assets and for geologic aspects of due diligence of potential acquisitions.

Davron Vakhabov
Project Manager
(Kyrgyz Republic)

Mr Vakhabov has around 20 years of experience in greenfield and brownfield mining projects development and expansion. He previously held senior project management positions during the development of the Çöpler Gold Mine in Eastern Turkey and managed subsequent plant and heap leach expansion projects. Mr. Vakhabov was also a senior project team member during construction of the Amulsar Gold Mine in Armenia.

David Tovmasyan
General Director – Kapan
(Armenia)

Mr Tovmasyan has over 20 years of operations management and engineering experience including leadership roles and oversight of open pit, underground mining and ore processing operations.
Mr Tovmasyan previously worked at Freeport McMoRan, Zangezur CMC and Dundee Precious Metals (Kapan).

Directors' Report

The Directors present their report and audited financial statements for the year ended 31 December 2018.

Principal Activities
The principal activity of the Group is exploration for gold and the development of the Chaarat Gold project in the Kyrgyz Republic. More recently, post the acquisition of the Kapan mine in Armenia, its activities also include the production of gold. The Group has a clear strategy to build a leading emerging markets gold company with an initial focus on Central Asia and the FSU through organic growth and selective M&A. Further information is included in the Strategic Report, which is set out on pages 2 to 19 of this Annual Report.

Business Review
The Strategic Report incorporates the Chairman's Statement, Chief Executive Officer's Report, Operational Review and Corporate Social Responsibility Report. The Strategic Report contains certain forward-looking statements, particularly concerning the development plans at the Chaarat Gold project and the Group's merger and acquisition strategy. These statements have been made by the Directors in good faith based on the information available at the time of the approval of the Annual Report.

By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors such as, inter alia, increased costs, possible variations in mineral resources, grades or recovery rates, disruption of supplies, failure of equipment or processes to operate as anticipated, a weaker gold market and changes in exchange rates.

Results and Dividends
The Group made a consolidated loss after taxation for the year of US$17 million (2017: US$18.1 million). The Directors do not recommend the payment of a dividend (2017: Nil).

Financial Instruments
The Group's exposure to financial risks and its policies in relation to the use of financial instruments are explained in note 22 to the financial statements.

Details of shares issued during the year pursuant to the exercise of financial instruments are set out in note 15 to the financial statements.

Details of convertible loan notes issued during the year are set out in note 18 to the financial statements.

Share Capital and Substantial Share Interests
Details of the Company's share capital, including share options and warrants, and shares and share options issued in the year, are disclosed in note 15 to the financial statements.

On 31 May 2019, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	Number of shares	%
Labro Investments Limited*	139,843,969	34.78
China Nonferrous Metals Int'l Mining Co. Ltd	22,469,289	5.59
Sarastro Group	17,606,228	4.38
Chaarat Gold Holdings Directors & Related Parties (UK)	13,063,069	3.25
UBS Wealth Management	12,860,391	3.20

* Martin Andersson, the Company's Executive Chairman, is the ultimate controlling party of Labro Investments Limited.

Directors
The Directors who served during the year were:

Martin Andersson	Executive Chairman
Gordon Wylie	Deputy Chairman and Senior Independent Non-Executive Director
Artem Volynets	Executive Director Appointed 26 March 2018
Robert Benbow	Executive Director Appointed 4 July 2018
Robert Edwards	Non-Executive Director Appointed 13 September 2018
Hussein Barma	Non-Executive Director Appointed 14 December 2018
Martin Wiwen-Nilsson	Non-Executive Director
Linda Naylor	Finance Director Resigned 15 August 2018
Dorian Nicol	Non-Executive Director Resigned 13 December 2018
Richard Rae	Non- Executive Director Resigned 13 December 2018

In accordance with the Company's Articles of Association the Directors who have been longest in office since their last election must retire by rotation at the Annual General Meeting and may stand for re-appointment at the Meeting.

Warren Gilman was appointed as Non-Executive Director on 21 March 2019.

Martin Wiwen-Nilsson resigned as Non-Executive Director on 20 March 2019.

Darin Cooper was appointed as Chief Operating Officer on 1 June 2019. Robert Benbow will continue to serve on the Board of the Company as a Non-Executive Director where he will remain chair of the Technical Committee.

During the year directors' and officers' liability insurance was maintained for the Directors and other officers of the Company.

Going concern
In assessing the Group's going concern status the Directors have taken into account the following factors and assumptions: the current cash position, the latest development plans for the Tulkubash project, the short-term gold price, the cash flow forecasts for Kapan and the Group's capital expenditure and financing plans.

In addition, the Directors have considered a range of scenarios around the forecasted cash flows of Kapan, including decreases in gold prices and expected grade or recovery rate.

The Directors' assessment of going concern is set out in full in Note 2 of the financial statements, including funding requirements under different scenarios. After making appropriate enquiries and considering the uncertainties involved in the above, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there are currently no binding agreements in place in respect of any additional funding and therefore, as set out in the going concern note 2 of the financial statements, this indicates the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Website publication
The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the British Virgin Islands governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Provision of information to auditor
In the case of each of the Directors who are Directors of the Company at the date when this report is approved:

- So far as they are individually aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

Auditor
A resolution to re-appoint BDO LLP as auditors of the Company will be put to the next Annual General Meeting.

Corporate Governance
The Company is an AIM listed company and is required to apply a recognised corporate governance code. During 2018, the Board concluded that the QCA Code, which is designed for small to mid-sized companies and which has been adopted by many AIM companies, was the appropriate code to adopt.

The Board has considered how the Company applies the ten principles of the QCA Code and the Governance Report includes the required disclosures and explanations. Further details of the Company's corporate governance practices are provided on the Company's website under the corporate governance section of the AIM rule 26 disclosure. The Corporate Governance Statement in relation to the principles of the QCA Corporate Governance Code is provided on the Company website at www.chaarat.com/about/governance.

"In essence, good corporate governance is about having the right people (in the right roles), working together, and doing the right things to deliver value for shareholders as a whole over the medium to long term." QCA Corporate Governance Code (2018).

During 2018, the Chairman continued to focus on two key responsibilities: articulating a clear strategy for the Company to drive long-term shareholder value and building the Board to deliver that strategy. The new management team has worked closely with the Chief Executive Officer to develop the highest standards of performance and ethical behaviour. Continuous assessment and an emphasis on continuing improvement are the foundation of the Company's new approach. All employees are encouraged to contribute ideas to improve operations whether in safety or efficiency.

As a Board committed to good practice in corporate governance the Company is guided by the ten principles set out in the Quoted Companies Alliance's Corporate Governance (2018). Chaarat's progress with implementation is explained further in this report.

The Board has established a number of committees which report to the Board to assist with the implementation of its policies, risk management and improve effectiveness.

Independence
Relationship Agreement with Labro Investments Limited
Chaarat's Chairman, Martin Andersson, is the largest shareholder of Chaarat as he is indirectly beneficially interested in the majority of the shares in Labro Investments Limited (Labro) which as at 31 May 2019 holds 34.78% of the Company's issued share capital.

A relationship agreement has been put in place between the Company and Labro which provides, inter alia, that for so long as Labro beneficially owns or is interested in 20% or more of the issued share capital of the Company, Labro shall have the right to nominate one director to the Board, and not take any action which will circumvent the proper application of the AIM Rules or enter into any transactions with the Company or the Group on any other than on normal commercial terms.

There is a provision in the Company's Articles of Association which states that the Board has the right to require any holder of more than 20% of the Company's shares to make a mandatory offer to all the Company's shareholders to acquire their shares if they acquire an additional interest in any shares. The Board has previously exercised its discretion to waive the requirement for a mandatory offer when Labro acquired Shares in excess of a 20% holding.

The Board believes this is best practice for corporate governance purposes in order to protect minority holders of the Company's shares so that there is no perception that shares are being accumulated with the objective of acquiring the Company at a potentially depressed valuation.

Between 2016 and 2018, the Board considered that Martin-Wiwen-Nilsson, Willem de Geer and the Sarastro Group Limited should be considered as forming a concert party with Labro for the purposes of the Company's Articles of Association. In December 2018, the Board determined that the Sarastro Group Limited should no longer be treated as a member of the concert party. In March 2019, the Board concluded that Labro, Martin Wiwen-Nilsson and Willem De Geer shall no longer be considered to be acting in concert and the concert party was effectively disbanded from this date.

Independence (continued)

Non-Executive Directors

The Chairman's intention to recruit more Independent Non-Executive Directors at the end of the 2017 year has materialised with two more Independent Non-Executive Directors appointed in 2018, Robert Edwards and Hussein Barma, and the addition of Warren Gilman in 2019. The result is a majority Independent Non-Executive Director-led Board, which will bring further diversity to Chaarat. Given the Company's stage of development, certain Non-Executive Directors are heavily involved in technical and financing matters related to the achievement of the Company's strategy. The particular skills and expertise provided by these Non-Executive Directors are critical to support the Chief Executive Officer, Artem Volynets, and to drive the achievement of the Company's strategy.

Board and Committees

The Directors and senior management meet quarterly to review progress, to approve strategy and budgets, major capital expenditure and the financial statements and certain other matters which are reserved for decision by the Board. Monthly Board calls also take place to provide an update between the quarterly meetings. The quarterly meetings were attended by all Directors during 2018.

The Directors and senior management have access to the advice and services of the Company Secretary, who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of their duties.

2018 saw several changes to the Board as set out in the Directors' Report. As at the date of this report the Board currently consists of an Executive Chairman and one Executive and five Non-Executive Directors including the Senior Independent Director. The Board considers that four of the Non-Executive Directors are independent. Other than any shareholdings in the Company and the receipt of fees for acting as Directors, these four Non-Executive Directors have no financial interests in the Company or business relationships that would interfere with their independent judgement. The Chairman of the Board is not defined as independent according to the QCA Code, owing to his significant beneficial interest in the Company.

Remuneration Committee

The Remuneration Committee comprises Gordon Wylie as Chairman, Hussein Barma and Warren Gilman. The committee meets as required during each financial year. It is responsible for reviewing the performance of the Executive Directors and senior management and for setting the scale and structure of their remuneration, having due regard to the interests of shareholders as a whole and the performance of the Group. The Remuneration Committee also administers the Company's share option arrangements. The remuneration of the Non-Executive Directors is reviewed by the whole Board.

Details of directors' emoluments and share options are disclosed in the Remuneration Report.

Audit Committee

The Audit Committee comprises Hussein Barma as Chairman, Gordon Wylie and Warren Gilman. The committee meets formally on at least two occasions each financial year. It reviews the Company's interim and annual financial statements before submission to the Board for approval, as well as regular reports from management and the external auditors on audit, accounting and internal control matters which are also reviewed by the Board and senior management. Where appropriate, the Audit Committee monitors the progress of action taken in relation to such matters. The Audit Committee also recommends the appointment of, and reviews the fees of, the external auditors as well as their independence and any non-audit services provided. In 2018 the non-audit services comprised the assurance work related to the Kapan acquisition and the review of the interim statement. In 2017 the only non-audit service was the review of the interim statement.

Technical Committee

The Technical Committee comprises Robert Benbow as Chairman, Gordon Wylie and Robert Edwards. The committee reviews and provides input to all technical reports and provides guidance to senior management.

Nominations Committee

The Nominations Committee is comprised of the whole Board of directors. The Chairman reviews all proposed changes to the Board with regard to the balance of skills necessary to achieve Chaarat's strategic objectives.

Health, Safety, Environment and Community Committee

The Health, Safety, Environment and Community Committee, ("HSE") is responsible for the overall health, safety and environmental performance of the Company and its operations and its relationship with the local community in the Kyrgyz Republic. The Committee comprises Gordon Wylie as Chairman, Robert Benbow and Robert Edwards. The membership of this committee will be reviewed in 2019 given the appointment of Non-Executive Directors with directly relevant skills in these areas.

Risk Management

The Board has recognised the need to formalise its review of the risk management framework and how it is embedded in the organisation. Previously, the whole Board had considered the key risks of the Company relating (for example) to security of the licences, local relations and safety. The use of the skills of experienced Non-Executives has been invaluable in this regard. However, in 2019 the Chairmen of the Audit and Technical Committees will consider how best to divide the relevant risks between their two committees, given the increased complexity of the environment in which the Company is now operating, so that a full review is undertaken, and effectiveness is ensured.

Relations with Shareholders

The Board recognises the importance of maintaining a dialogue with all its shareholders and carefully considering the feedback and taking appropriate action. Dialogue can take the form of individual meetings or presentations to retail investors. The Chairman, Chief Executive Officer and relevant Non-Executive Directors meet with shareholders, analysts and other institutions regularly throughout the year to keep them updated. The AGM and website encourage engagement with the Board and all correspondence and queries are dealt with promptly by the Company Secretary.

During 2018 Chaarat engaged Powerscourt to increase the effectiveness of communication with all stakeholders. Separate public relations advice has been taken in relation to M&A activities in 2018.

Remuneration Report

Policy
The policy of the Company is to ensure the members of the Board are fairly remunerated with regard to the responsibilities undertaken and with regard to comparable pay levels in the mining industry. Bonuses and the award of share options are used to attract, retain and motivate Directors and senior management where appropriate. The award of bonuses and share options is recommended to the Board for approval by the Remuneration Committee.

Total remuneration of Directors serving in the year

Year ended 31 December 2018	Salary US$'000	Fees US$'000	Termination payments US$'000	Share based payments US$'000	Total US$'000
Martin Andersson	188	-	-	-	188
Martin Wiwen-Nilsson*	-	30	-	5	35
Gordon Wylie	-	30	-	-	30
Artem Volynets	335	-	-	-	335
Robert Benbow	375	-	-	102	477
Robert Edwards	-	9	-	-	9
Hussein Barma	-	1	-	-	1
Linda Naylor**	153	-	1,63	(52)	264
Dorian Nicol***	301	25	-	-	326
Richard Rae***	-	32	-	7	39
Total	**1,338**	**127**	**177**	**62**	**1,704**

* resigned 20 March 2019 but remains a senior adviser of Chaarat.

** resigned 15 August 2018.

*** resigned 13 December 2018. Mr Nicol remains an executive of Chaarat.

Year ended 31 December 2017	Salary US$'000	Fees US$'000	Termination payments US$'000	Share based payments US$'000	Total US$'000
Dekel Golan*	225	-	428	166	819
Alexander Novak**	135	-	-	58	193
Linda Naylor	223	-	-	116	339
Richard Rae	-	3	-	12	15
Martin Wiwen-Nilsson	-	-	-	8	8
Gordon Wylie	-	3	-	-	3
Dorian Nicol	-	3	-	-	3
Total	**583**	**9**	**428**	**360**	**1,380**

* resigned 1 November 2017.

** resigned 10 July 2017 – excludes amount paid as an employee after resignation as a director.

Directors' Interests
Share Interests
The following Directors of the Company, who held office at 31 December 2018 and including Directors appointed in 2019, held beneficial interests, either directly or indirectly, (including interests held by spouses, minor children or associated parties) in the ordinary shares, share options and warrants over shares of the Company at 31 May 2019:

	Number of shares	Number of convertable loans	Number of options	Number of warrants
Martin Andersson	139,843,969	1,000,000	-	21,367,521
Martin Wiwen-Nilsson	9,998,237	425,000	200,000	-
Robert Benbow	125,000	-	4,000,000	-
Artem Volynets	1,655,333	-	-	-
Chris Eger	405,333	-	-	-
Warren Gilman	350,000	-	-	-
Gordon Wylie	63,833	-	-	-
Hussein Barma	35,000	-	-	-

On 16 May 2019 the Board authorised that in accordance with the resolution of the Board taken on 14 February 2019 the Company shall issue new ordinary shares of USD 0.01 each to Martin Wiwen-Nilsson in compensation amounting to £400,000 for the work he has done for Chaarat from 2016 to 2018 following his resignation from the Board in March 2019.

Directors' Interests (continued)
Share Interests (continued)
The following Directors of the Company, who held office at 31 December 2017, held beneficial interests, either directly or indirectly, (including interests held by spouses, minor children or associated parties) in the ordinary shares, share options and warrants over shares of the Company 31 April 2018:

	Number of shares	Number of convertable loans	Number of options	Number of warrants
Martin Andersson	139,843,969	375,000	-	21,367,521
Linda Naylor	1,200,000	375,000	4,873,244	-
Richard Rae	400,000	-	500,000	-
Martin Wiwen-Nilsson	9,998,237	-	200,000	-

Share Options
At 31 December 2018 the following Directors held options to subscribe for ordinary shares in the Company:

	Number of share options 2018	Number of share options 2017	Exercise price	Exercise period
Robert Benbow	3,500,000	3,500,000	15p	12 February 2017 – 2 February 2021
	500,000	500,000	16p	10 July 2017 – 10 July 2025
Martin Wiwen-Nilsson	200,000	200,000	15p	12 February 2017 – 12 February 2025

1. Options vest in 3 equal annual tranches – exercise period start date relates to exercise period for first tranche to vest.
2. 50% of the options vest in 3 equal annual tranches – exercise period start date relates to exercise period for first tranche to vest. The remaining 50% vest according to the achievement of milestones: 20% on completion of the Tulkubash Feasibility Study; 20% on the receipt of local permit approvals for the Tulkubash Project; 20% on successful fundraising for the Tulkubash Project; 40% on the first gold pour at Tulkubash.

Tulkubash project; 20% on successful fundraising for the Tulkubash project; 40% on the first gold pour at Tulkubash.

The former Company Secretary, Linda Naylor, who resigned on 15 August 2018, held 4,873,244 options to acquire ordinary shares at 31 December 2017. Of these, 4,317,689 lapsed during 2018 and the remaining 555,555 lapsed on 15 August 2018.

The former Chief Executive Officer, Dekel Golan, who resigned on 1 November 2017, held 5,809,330 options to acquire ordinary shares at 31 December 2016. Of these, 400,000 were exercised in December 2017, 3,809,330 had lapsed as at December 2018 and the remaining 1,600,000 vest on the fulfilment of future milestones in line with other director options awarded in 2017 and will be exercisable for a period of six months once vested.

Alexander Novak, who resigned as a Director on 10 July 2017, held 3,632,124 options to acquire ordinary shares at 31 December 2016. Of these, 1,752,000 lapsed during 2017. A further 3 million options were awarded in 2017 while Mr Novak was a Director of Chaarat on the same terms as the other options issued to directors in 2017.

Richard Rae, who resigned as a Director on 13 December 2018, held 500,000 options at 31 December 2018. Of these, 200,000 were exercisable at 25p until 1 January 2022 and 300,000 were exercisable at 15p until 12 February 2025. On 23 May 2019 Richard Rae notified the Company that he wished to exercise the 200,000 options with an exercise price of 25p and 80,000 options with an exercise price of 15p.

The Directors intend to implement an incentive scheme to reward Directors and certain employees in 2019. Further details are given in Note 23 to the financial statements.

By Order of the Board

Sergei Zhukov
Company Secretary

25 June 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements and have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in order to give a true and fair view of the state of affairs of the Group and of its profit or loss for that period. In preparing these financial statements the Directors are required to:

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

The Directors are responsible for keeping records that are sufficient to show and explain the Group's transactions and will, at any time, enable the financial position of the Company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to prevent and detect fraud and other irregularities and for the preparation of any additional information accompanying the financial statements that may be required by law or regulation.

Independent Auditor's Report
to the Members of Chaarat Gold Holdings Limited

Opinion
We have audited the financial statements of Chaarat Gold Holdings Limited (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:
- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

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

Material uncertainty related to going concern
We draw attention to note 2 in the financial statements concerning the group's ability to continue as a going concern. The matters explained in the note indicate that the group will require additional funding within the next thirteen months and that there is no certainty that the funding required by the group will be secured within the necessary timescale. These conditions, along with the other matters as set out in note 2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We considered going concern to be a Key Audit Matter based on our assessment of the risk and the effect on our audit. We performed the following work in response to this key audit matter:

- We critically challenged the directors' forecasts to assess the group's ability to meet their financial obligations as they fall due within the period of twelve months from the date of approval of the financial statements by reviewing the assumptions and inputs in the directors' cash flow forecast to assess whether these were in line with our understanding of the group's operations and other information obtained by us during the course of the audit.
- We compared the forecast income and expenditure for both the Kyrgyzstan project and Kapan by reference to actual income and expenditures in 2018 and the directors' budgeted expenditure in 2019 and 2020 to ensure that the forecast expenditure is accurate.
- We performed a mechanical check on the cash flow forecast model prepared by the directors.
- We reviewed documents which demonstrate ongoing activity in respect of the potential financing options.
- We reviewed the existing contractual debt agreements including Directors' forecast covenants assessment.
- We reviewed Directors' sensitivity analysis and performed our own sensitivities to consider available headroom under different reasonably possible scenarios.
- We corroborated the opening cash positions, and
- We reviewed the disclosure included within the financial statements.

Independent Auditor’s Report
to the Members of Chaarat Gold Holdings Limited

Key audit matters
In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter
Carrying value of the mining assets As at 31 December 2018, the group’s mining assets relating to the Chaarat Gold Project in Kyrgyzstan were carried at US$48.6m as disclosed in notes 2, 11 and 12. The above project is considered one “cash generating unit” (CGU). The directors’ performed an impairment indicator review to assess whether there were any indicators of impairment for the exploration asset. Following this assessment, Management and the directors’ concluded that there were no indicators of impairment and therefore no impairment review was required. Given the inherent judgement involved in the assessment of impairment indicators and the carrying value of the exploration and evaluation assets and property, plant and equipment, we considered this area to be a significant risk for the audit.
How the matter was addressed in our audit
We assessed the directors’ review of indicators of impairment. In doing so we performed the following procedures: • We reviewed the existing licences to confirm that the group holds a valid right to explore the Chaarat Gold Project. • We reviewed the commitments and obligations associated with the licences to confirm compliance with the licences. • We reviewed Board minutes, made specific inquiries of management and reviewed budgets and work programmes submitted to the Kyrgyz authorities to confirm that further drilling and exploration is planned. • We have reviewed capital expenditures made during the year, which indicate that the Group continues to invest in the exploration of the project • We assessed the independence and competence of Tetra Tech Inc as a management expert, who confirmed that the area remains prospective. • We reviewed the post year end a joint venture agreement and the implied valuation of the Kyrgyzstan assets to confirm indicative value does not indicate an impairment trigger. • We reviewed the disclosures included in the financial statements at notes 11 and 12. We reviewed current development plans and made enquiries of operational management and confirmed that there are no assets that are no longer expected to be utilised as part of the development of the Chaarat Gold Project.
Our observation
We found the directors’ conclusion that no indication of impairment exists on the group’s mining assets to be appropriate.

Key audit matters (continued)

Key audit matter

Accounting for the convertible loan notes
As at 31 December 2018, the group's convertible loan note liability amounted to US$16.3 million and the equity component of the convertible loan notes was US$2.4m, as disclosed in notes 15 and 18.

The Directors assessed the accounting treatment of the convertible loan note in accordance with IFRS 9, which included estimating the fair value of the both the debt and equity components of the convertible loan note. The accounting for convertible loan notes is complex and requires valuation estimates to be made by Management. One of the key estimates is the valuation of the debt components of the loan, which has been valued by estimating the effective interest rate of the debt component. Given the estimates and subjectivity involved we consider the accounting for the convertible loan to be a key audit matter.

How the matter was addressed in our audit

We assessed Management's accounting treatment of the convertible loan, and we assessed the estimate of the valuation of the debt and equity components of the convertible loan. In doing so we performed the following procedures:

- We reviewed Management's assessment of the accounting treatment of the convertible loan and we considered whether the convertible loan was accounted in accordance with IFRS 9.
- We reviewed the valuation of the debt and equity components of the convertible loan, principally by considering the estimated effective interest rate of 15%. We compared the effective interest rate to loans without a conversion option, issued to both the Group and other businesses, and performed a sensitivity analysis.
- We reviewed the disclosures included in the financial statements in notes 15 and 18.

Our observation

We found the accounting treatment of the convertible loan to be appropriate based on relevant accounting standards. Based on our work we noted that due to the relatively short duration of the convertible loan notes, reasonably possible changes in the effective interest rate would not result in a material difference.

Our application of materiality

Group materiality as at 31 December 2018	Basis for materiality
US$770,000	1.4% of total assets

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the group financial statements as a whole was set at US$770,000, being 1.4% of total assets (2017: US$510,000, being 1.2% of total assets). We consider total assets to be the most relevant consideration of the group's financial performance as the group continues to focus on enhancing its assets.

In performing the audit we applied a lower level of performance materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. Performance materiality for the group financial statements was set at US$500,000, being 65% of financial statement materiality. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors), the amount of areas of estimation within the financial statements and the type of audit testing to be completed. Each significant component of the group was audited using a lower level of performance materiality of US$290,000 (2017: US$250,000).

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of US$15,000 (2017: US$25,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report
to the Members of Chaarat Gold Holdings Limited

An overview of the scope of our audit
Our group audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement in the financial statements at the group level.

The group's operations principally comprise exploration of gold deposits located in the Kyrgyz Republic. We assessed there to be two significant components. These were subject to full scope audits and non-significant components were principally covered using analytical review procedures. All audit work was performed by BDO LLP and included an onsite visit by BDO LLP to Kyrgyzstan.

We set out above the risks that had the greatest impact on our audit strategy and scope.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

BDO LLP
Chartered Accountants
London

25 June 2019

BDO LLP is a limited liability partnership registered in England and Wales
(with registered number OC305127).

Consolidated Income Statement
For the year ended 31 December 2018

	Note	**2018 US$'000**	2017 US$'000
Exploration expenses		**(1,692)**	(1,850)
Impairment of assets under construction	12	**-**	(10,008)
Administrative expenses	4	**(12,013)**	(4,746)
Total administrative expenses		**(13,705)**	(16,604)
Other operating income		**24**	8
Operating loss	3	**(13,681)**	(16,596)
Interest receivable		-	69
Interest payable	8	**(3,361)**	(1,565)
Loss before and after tax for the year, attributable to equity shareholders of the parent		**(17,042)**	(18,092)
Loss per share (basic and diluted) – US$ cents	10	**(4.52)**	(5.14)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Loss for the year, attributable to equity shareholders of the parent	**(17,042)**	(18,092)
Other comprehensive income:		
Items which have been reclassified to profit and loss		
Exchange differences on translating foreign operations liquidated during the year		
Items which may subsequently be reclassified to profit and loss	**74**	
Exchange differences on translating foreign operations and investments	**-**	455
Other comprehensive income for the year, net of tax	**74**	455
Total comprehensive loss for the year attributable to equity shareholders of the parent	**(16,968)**	(17,637)

The notes on pages 38 to 59 are an essential part of these financial statements.

Consolidated Balance Sheet
As at 31 December 2018

	Note	2018 US$'000	2017 US$'000
Assets			
Non-current assets			
Exploration and evaluation costs	11	**43,527**	31,385
Other Intangible assets		**54**	9
Property, plant and equipment	12	**5,094**	3,252
Total non – current assets		**48,675**	34,646
Current assets			
Trade and other receivables	13	**190**	194
Prepayment on acquisition of Kapan	13	**5,000**	-
Cash and cash equivalents	14	**1,168**	7,461
Total current assets		**6,358**	7,655
Total assets		**55,033**	42,301
Equity and liabilities			
Equity attributable to shareholders			
Share capital	15(b)	**3,951**	3,569
Share premium	15(b)	**152,063**	138,184
Share warrant reserve	15(d)	**1,352**	1,352
Convertible loan note reserve	15(f)	**2,360**	867
Merger reserve		**10,885**	10,885
Share option reserve	15(c)	**1,414**	2,912
Shares to be issued	15(e)	**-**	1,926
Translation reserve		**(15,398)**	(15,472)
Accumulated losses		**(132,984)**	(118,952)
Total equity		**23,643**	25,271
Liabilities			
Non-current liabilities			
Convertable loan note	18	**16,303**	-
Total non-current liabilities		**16,303**	-
Current liabilities			
Trade and other payables	16	**4,924**	600
Other liabilities	17	**10,163**	1,000
Convertible loan note	18	**-**	15,430
Total current liabilities		**15,087**	17,030
Total liabilities		**31,390**	17,030
Total liabilities and equity		**55,033**	42,301

The financial statements were approved and authorised for issue by the Board of Directors on 25 June 2019.

Artem Volynets
Chief Executive Officer

Chris Eger
Chief Financial Officer

The notes on pages 38 to 59 are an essential part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2018

	Note	Share capital US$'000	Share premium US$'000	Share warrant reserve US$'000	Convertible loan note reserve US$'000	Merger reserve US$'000	Share option reserve US$'000	Shares to be issued US$'000	Translation reserve US$'000	Accumulated losses US$'000	Total US$'000
As at 1 January 2017		**3,518**	**136,554**	**1,358**	**-**	**10,885**	**3,964**	**-**	**(15,927)**	**(102,755)**	**37,597**
Loss for the year		-	-	-	-	-	-	-	-	(18,092)	(18,092)
Currency translation		-	-	-	-	-	-	-	455	-	455
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**455**	**(18,092)**	**(17,637)**
Share options lapsed		-	-	-	-	-	(1,895)	-	-	1,895	-
Share options expense		-	-	-	-	-	875	-	-	-	875
Share options exercised		4	109	-	-	-	(32)	-	-	-	81
Issuance of shares for cash	15(b)	46	1,498	-	-	-	-	-	-	-	1,544
Shares to be issued	15(e)	-	-	-	-	-	-	1,926	-	-	1,926
Exercise of warrants		1	23	(6)	-	-	-	-	-	-	18
Equity element of convertible loan note	15(f)	-	-	-	867	-	-	-	-	-	867
As at 31 December 2017		**3,569**	**138,184**	**1,352**	**867**	**10,885**	**2,912**	**1,926**	**(15,472)**	**(118,952)**	**25,271**
Loss for the year		-	-	-	-	-	-	-	-	(17,042)	(17,042)
Translation losses for liquidated subsidiary									74		74
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74**	**(17,042)**	**(16,968)**
Share options lapsed		-	-	-	-	-	(1,857)	-	-	1,857	-
Share options expense		-	-	-	-	-	377	-	-	-	377
Share options exercised		2	63	-	-	-	(18)	-	-	-	47
Issuance of shares for cash	15(b)	145	4,738	-	-	-	-	(1,926)	-	-	2,957
Conversion of loan notes		230	8,858	-	(1,153)	-	-	-	-	1,153	9,088
Equity element of convertible loan note	15(f)	-	-	-	2,646	-	-	-	-	-	2,646
Issuance of shares for a fee		5	220	-	-	-	-	-	-	-	225
As at 31 December 2018		**3,951**	**152,063**	**1,352**	**2,360**	**10,885**	**1,414**	**-**	**(15,398)**	**(132,984)**	**23,643**

The notes on pages 38 to 59 are an essential part of these financial statements.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Cash flows used in operating activities			
Operating loss		**(13,681)**	(16,596)
Depreciation and amortisation	3	**326**	333
Gain on disposal of property, plant and equipment	3	**(7)**	(8)
Provision for inventories		**-**	267
Translation losses for liquidated subsidiary		**74**	-
Reversal of provision		**(50)**	-
Impairment of assets under construction	12	**-**	10,008
Share based payments	3	**377**	875
Increase in interest payable	17	**239**	-
Increase in inventories		**-**	(58)
Decrease in accounts receivable		**4**	172
Increase in accounts payable		**3,875**	37
Net cash flow used in operations		**(8,843)**	(4,970)
Investing activities			
Purchase of tangible fixed assets	12	**(2,165)**	(2,754)
Exploration and evaluation costs	11	**(12,142)**	(7,879)
Payment on acquisition of Kapan	13	**(5,000)**	-
Proceeds from sale of property, plant & equipment		**8**	27
Interest received		**11**	69
Net cash used in investing activities		**(19,288)**	(10,537)
Financing activities			
Proceeds from issue of share capital, net of costs		**3,004**	1,643
Receipt of funds for shares to be issued		**-**	1,926
Proceeds from convertible loan notes issued, net of costs	18	**13,554**	14,732
Receipt of funds for convertible loans to be issued	17	**-**	1,000
Payment of funds for redemption of convertible loans	18	**(4,620)**	-
Proceeds from loans	17	**9,924**	-
Net cash from financing activities		**21,862**	19,301
Net change in cash and cash equivalents		**(6,269)**	3,794
Cash and cash equivalents at beginning of the year		**7,461**	3,285
Effect of changes in foreign exchange rates		**(2)**	382
Cash and cash equivalents at end of the year	14	**1,168**	7,461

The notes on pages 38 to 59 are an essential part of these financial statements.

Notes to the Financial Statements
For the Year Ended 31 December 2018

1 General information and group structure

Chaarat Gold Holdings Limited (the Company) (registration number 1420336) was incorporated in the British Virgin Islands (BVI) and is the ultimate holding company for the companies set out below (the Group). The Group is quoted on the Alternative Investment Market of the London Stock Exchange (AIM:CGH).

The legal address of the Company is: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands, VG1110. The Group's principal place of business is at: 10th floor, Business Centre "Victory", 103, Ibraimov str., Bishkek, Kyrgyz Republic 720011.

At 31 December the Group consisted of the following companies all of which are wholly owned:

Group company	Country of incorporation	Principal activity
Chaarat Gold Holdings Limited	BVI	Ultimate holding company
Zaav Holdings Limited	BVI	Holding company
Chon-tash Holdings Limited	BVI	Holding company
At-Bashi Holdings Limited	BVI	Holding company
Akshirak Holdings Limited	BVI	Holding company
Goldex Asia Holdings Limited	BVI	Holding company
Chon-tash Mining LLC*	Kyrgyz Republic	Exploration
At-Bashi Mining LLC*	Kyrgyz Republic	Exploration
Akshirak Mining LLC*	Kyrgyz Republic	Exploration
Goldex Asia LLC*	Kyrgyz Republic	Exploration
Chaarat Zaav CJSC*	Kyrgyz Republic	Exploration
Chaarat Gold International Limited**	Cyprus	Holding company
Chaarat Gold Services Limited**	UK	Services company

* Companies owned indirectly by Chaarat Gold Holdings Limited

** Incorporated during the year

During the year, Chaarat Operating Company GmbH was liquidated.

2 Accounting policies

The significant accounting policies which have been consistently applied in the preparation of these consolidated financial statements are summarised below:

Basis of preparation

The financial information has been prepared in accordance with IFRS as adopted by the European Union and on a historical cost basis.

New and revised standards and interpretations

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2018. The implementation of these standards did not have a material effect on the Group.

Standard	Description	Effective date
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 2	Amendment - Classification and measurement of share-based payment transactions	1 January 2018
IFRIC 22	Foreign currency transactions and advance considerations	1 January 2018

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.
The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018.

The Directors of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- there is no change in the measurement of the Group's cash and cash equivalents; those instruments were and continue to be measured at amortised cost.
- financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9.

(b) Impairment of financial assets

- all bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.
- receivables in relation to the advance payment, is not a trade receivable in nature and low risk of default. This is a short-term receivable, less than a year in duration, as such the Group assumes that the general and simplified approach permitted by IFRS 9 would likely have little practical difference.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018.

The application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group in 2018, as the Group, at its stage of development during the 2018 financial year, has no sales revenues.

The Group has not adopted any standards or interpretations in advance of the required implementation dates. The following new or revised standards which may have an impact on the Group have been issued but are not yet effective:

New/Revised International Financial Reporting Standards		Effective Date
IFRS 16	Leases	1 January 2019

Management has made an assessment of these new standards. It is not expected that the changes reflected in these standards are likely to have a material impact on the Group.

Basis of consolidation

Where the Company has control over an investee it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is re-assessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. As permitted by BVI law the Company has not presented its own financial information.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured at the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in order to obtain control of the acquiree (at the date of exchange). Costs incurred in connection with the acquisition are recognised in profit or loss as incurred.

Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the Group. The costs of integrating and reorganising acquired businesses are charged to the post acquisition profit or loss.

Cash and cash equivalents

Cash includes petty cash and cash held in current bank accounts. Cash equivalents include short-term investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2 Accounting policies (continued)

Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income or payments over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Exploration and evaluation assets

Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less any subsequent accumulated depreciation and impairment losses. The historical cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged on each part of an item of property, plant and equipment so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method. Depreciation is charged to the income statement, unless it is considered to relate to the construction of another asset, in which case it is capitalised as part of the cost of that asset. Land and assets in the course of construction are not depreciated. The estimated useful lives are as follows:

• Buildings	5 years
• Office equipment and facilities	2.5 to 5 years
• Machinery and equipment	3 to 10 years
• Motor vehicles	5 years
• Access road	10 years
• Bridge structures	50 years
• Mobile communication towers	50 years

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishments and improvements expenditure, where the benefit enhances the capabilities or extends the useful life of an asset, is capitalised as part of the appropriate asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. 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 income statement in the year the asset is derecognised.

Assets under construction include costs incurred for the development of tangible assets that will form part of a mine development or exploration which is not yet complete.

Once the project is capable of commercial production capitalisation will cease (other than for large development programmes), the asset will be reclassified to Mining Properties from Assets under Construction, and depreciation will commence on a unit of production basis over the mine life.

Exploration and evaluation costs

During the initial stage of a project, exploration costs are expensed in the income statement as incurred.

Exploration expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage that permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within exploration and evaluation assets for mining projects at the exploration stage. Capitalised evaluation and exploration costs are classified as intangible assets.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration and evaluation assets are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

Other intangible assets

Other intangible assets comprise computer software, which is initially capitalised at cost. Amortisation is provided on a straight-line basis over a period of 3 years.

Impairment

All capitalised exploration and evaluation assets are monitored for indications of impairment. Where a potential impairment is indicated, assessment is made for the group of assets representing a cash generating unit. Indicators of impairment for capitalised exploration and evaluation assets include:

i. unexpected geological occurrences render the resource uneconomic;
ii. title to the asset is compromised;
iii. variations in metal prices render the project uneconomic; or
iv. no further work is planned for a given area.

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Such impairment losses are recognised in profit or loss for the year.

Leased assets

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date the asset is initially recognised or the date of entering into the lease agreement. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Taxation

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate. As at 31 December 2018 the Group's operations have an effective tax rate of 0% in all jurisdictions, with tax for gold mining companies in the Kyrgyz Republic based on revenue. Non-profit based taxes are included within administrative expenses. No deferred tax arises.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Share warrant reserve" represents the equity portion of warrants in issue.
- "Convertible loan note reserve" represents the equity component of convertible loan notes issued by the Company.
- "Merger reserve" represent the difference between the issued share capital and share premium of Chaarat Gold Holdings Limited and its former subsidiary Chaarat Gold Limited arising as a result of the reverse acquisition.
- "Share option reserve" represents the equity component of share options issued.
- "Shares to be issued" represents cash received for shares during a period for which equity was not yet issued.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Accumulated losses" include all current and prior period results as disclosed in the income statement.

2 Accounting policies (continued)

Foreign currency

These consolidated financial statements are presented in United States dollars (US$), rounded to the nearest thousand dollars, as the Company believes it to be the most appropriate and meaningful currency for investors. Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of all the Group subsidiaries have been changed, from the Kyrgyz Som (KGS) to United States dollars (US$) from 1 January 2018 as management believe it to be the primary economic environment in which the Group operates. This is due to increased drilling and other exploration activities which are commonly driven by the US$ rather than KGS.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

The presentation currency is the United States dollar (US$). On consolidation, the results of overseas operations are translated into US$ at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised directly in the consolidated statement of comprehensive income.

The intercompany loans form a part of the Company's investment in a foreign operation. The exchange difference arising on the intercompany loans is recognised in other comprehensive income and accumulated in a separate component of equity until disposal of the foreign operation. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

Share-based employee remuneration

The Company operates equity-settled share-based remuneration plans for some of its employees. The Company awards share options to certain Company directors and employees to acquire shares of the Company.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee.

The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to "other reserves".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if the number of share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

After the vesting date no subsequent adjustments are made to total equity. In the year when the share options lapse the total accumulated charge to the share-based payment reserve is transferred to retained earnings.

Exchange of financial liabilities for equity

For equity-settled share-based payment transactions with creditors, the Group measures the services received, and the corresponding increase in equity, directly, at the fair value of the services received, unless that fair value cannot be estimated reliably. If the fair value of services received cannot be estimated reliably, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Retirement and other benefit obligations

The Group does not offer any pension arrangements other than those provided under the State pension system of the Kyrgyz Republic, which requires current contributions by the employer, calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. The Group does not have any obligations in respect of post-retirement or other significant compensation benefits.

Financial instruments
Financial assets and financial liabilities are recognised when a Group entity 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 and financial 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 recognised immediately in the consolidated income statement.

Financial assets
All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL) depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

Loans and receivables
Loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the income statement.

Impairment of financial assets
The expected loss impairment model is applied to financial assets measured at amortised cost.

A 12-month expected credit loss will be recognised in profit or loss. Lifetime expected losses will be recognised on assets for which there is a significant increase in credit risk after initial recognition.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, current balances and deposits in banks and similar institutions, which are readily convertible to cash and which are subject to insignificant risk of changes in value.

Financial liabilities
All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

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

Convertible loan notes
Convertible loan notes are compound financial instruments that can be converted to ordinary shares at the option of the holder.

The liability component of convertible loan notes is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the convertible loan note as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a convertible loan note is not remeasured.

Interest related to the financial liability is recognised in profit and loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognised.

A financial liability is removed from the balance sheet when it is extinguished, being when the obligation is discharged, cancelled or expired. On extinguishment of a financial liability, any difference between the carrying amount of the liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

A modification or exchange of a financial liability is either accounted for as an extinguishment of the original financial liability or a renegotiation of the original financial liability. An extinguishment or substantial modification of a financial liability results in de-recognition of the original financial liability and any unamortised transaction costs associated with the original financial liability are immediately expensed to the profit and loss account. Where the change in the terms of the modified financial liability are not substantial, it is accounted for as a modification of the original liability, with the modified financial liability measured at amortised cost using the original effective interest rate.

2 Accounting policies (continued)

Financial liabilities (continued)

Other liabilities

Other liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Going concern

As at 31 May 2019 the Group had approximately US$2.7 million of cash and cash equivalents and US$80.7 million of debt (excluding accrued interest, the terms of which are disclosed in the notes) comprising the following:

- US$29.2 million Convertible loan note, repayable on 31 October 2021, excluding accrued interest to date (note 18)
  - Of the total Convertible loans outstanding, $10 million, which was issued in connection with the acquisition of Kapan after the year end (note 23) , has the same contractual terms as the other Convertible Notes however the lender also has an option to require early repayment of the loan on 30 September 2020.
- US$10 million loan, repayable on 13 August 2019, excluding interest to date (note 17).
- Remaining term loan for $39.5 million entered into in connection with the acquisition of Kapan after the year end. The loan is repayable through quarterly instalments over a period of four years, the final payment being January 2023.
- On 12 December 2018, the Group entered into a committed revolving term loan facility agreement with Labro Investments Limited (“Labro”) for a total amount of US$15 million (the “Labro Loan Agreement”). The facility is for the general corporate purposes of the Group and can be drawn down at the full discretion of the Group at any time before its maturity. To date US$2.5 million has been drawn down, US$0.5 million has subsequently been repaid, US$2 million is still outstanding and a further US$ 12.5 million remains available to the Group (note 19).

On 12 December 2018, the Group entered into a committed revolving term loan facility agreement with Labro Investments Limited (“Labro”) for a total amount of US$15 million (the “Labro Loan Agreement”). The facility is for the general corporate purposes of the Group and can be drawn down at the full discretion of the Group at any time before its maturity. To date US$2.5 million has been drawn down, US$0.5 million has subsequently been repaid, and US$ 12.5 million remains available to the Group (note 19).

In addition, at 1 April 2019 the Group had a received a signed commitment for a US$10 million subscription for convertible bonds by a new investor. In late May 2019 this commitment was increased to US$15 million. The Group expects to receive the subscription proceeds in early July 2019.

The Board has reviewed the Group’s cash flow forecast for the period to 31 December 2020. As explained further below, the Board expects that additional funding will be received. However, for the purpose of making an assessment of going concern, the cash flow forecasts reviewed by the Board exclude additional funding which is not contractually committed and also exclude discretionary expenditure in relation to the Kyrgysztan projects.

Plans to develop the Tulkubash project remain subject to the Group raising sufficient funds. The Group plans a 20,000-metre exploration programme in 2019 to extend the Tulkubash heap leachable resources, and this also remains subject to the Group raising sufficient funds.

The Board have based the cash flow forecasts for Kapan on the most recent budgets, taking into account actual performance to date. The Group’s cash flow forecasts show that the Group would have sufficient resources to fund a 10% decrease in gold prices or 5% decrease in the expected grade or recovery rate. If there was an unexpected adverse combination of these factors, the Group would require further additional funding.

Whilst Kapan is forecast to generate a minimal amount of free cash flow to fund the Group’s other projects, additional fund raising is expected to be completed before the end of the fourth quarter of 2019 in order to maintain the growth projects across the group and repay the Group’s loan obligations which fall due in 2019 and 2020. There are currently minimal commitments in respect of Tulkabash and should additional funds not be available, the Group has the discretion and ability to dramatically reduce cash expenditures across the group in order to conserve cash. On this basis, the Group forecasts it would be able to meet its liability obligations over the course of the next 13 months as a result of drawing on the Labro Loan facility. Additional funds would be required to repay the US$10 million term loan and the Labro Loan which are due on 13 August 2019 and 14 July 2020 respectively. Notwithstanding, the fact the Group has received confirmation from the new investor, if the US$15 million cash subscription to convertible bonds is not received then the Group will utilise the Labro facility and/or require additional debt funding in order to repay the US$10 million loan, repayable on 13 August 2019.

The Board has confidence in the Group's ability to raise additional funds as demonstrated by the Group's established track recorded in historical fund raisings and refinancing events. Furthermore, as a result of the updated Feasibility Study for Tulkubash, management has launched a Project Finance process which is expected to provide funding for the construction of Tulkubash.

Subject to the above, which the Board is confident can be achieved, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, there are currently no binding agreements in place in respect of any additional funding and therefore, as set out above, this indicates the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Significant areas of judgement and uncertaintity

The application of the accounting policies described in note 2 require the Directors to make judgements, estimates and assumptions which affect the carrying amounts of assets and liabilities in the financial statements. The estimates and associated assumptions are based on experience and knowledge of the relevant facts and circumstances which the Directors consider to be relevant and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if actual results may differ from these estimates. The areas requiring a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below.

Costs capitalised to exploration and evaluation assets

Judgement is applied in the determination of the type of costs that are capitalised as exploration and evaluation assets as described in the accounting policy note above. The alternative to this accounting policy would be to expense all costs related to property rights and exploration costs. During the year ended 31 December 2018, any costs that were not clearly considered a qualifying expenditure were expensed.

Carrying value of exploration and evaluation assets

At 31 December 2018, the capitalised costs of the exploration and evaluation assets amounted to US$43.5 million (prior to carrying out any impairment review), details of which are set out in note 11 and the property, plant and equipment amounted to US$5 million, details of which are set out in note 12. As required under IFRS 6, the Directors have allocated costs to cash generating units ("CGU") and considered whether indicators of impairment exist in respect of each CGU. Where a potential impairment is indicated, an impairment review is performed for each CGU in accordance with IAS 36.

The assets relate to the Chaarat Gold Project in Kyrgyzstan, which comprises two distinct mineralised zones: Tulkubash and Kyzyltash, which will be developed separately. Both zones are located on a single mining licence and are therefore not capable of being independently sold. At 31 December 2018 the Chaarat Gold Project is considered a single CGU. All exploration and evaluation assets have been included in this CGU.

At 31 December 2018 the Directors do not consider any indications of impairment exist in respect of the assets included in the Chaarat Gold Project CGU. On 18 March 2019, the Group announced that it has signed a binding term sheet to enter into a joint Venture agreement with Çiftay İnsaat Tahhüt ve Ticaret A.S. ("Çiftay"), the Turkish mining and mine construction contractor, to collaborate on the Tulkubash and Kyzyltash projects in the Kyrgyz Republic. The agreement is based on an agreed valuation of US$252 million (post money) for the two assets. The value of the capitalised costs are significantly below this agreed valuation.

Work is ongoing to secure further financing for the first stage Tulkubash development, which is expected to commence development in 2019, and to increase the resource base for this development through further exploration. Work is also ongoing to understand the development options for the Kyzyltash zone. As this work continues, current views on key estimates and assumptions may change and if these changes are adverse then an impairment of the current carrying value of the exploration and evaluation assets and related assets under construction may arise.

Share based payments

The expected life of share options used in the Black Scholes model for calculating the fair value of those options is based on the Directors' best estimate, adjusted for the effects on non-transferability, exercise restrictions and behavioural considerations. The share price volatility used in that calculation is based on the historical weighted average volatility of the Group's share price together with a proxy of other AIM listed gold exploration companies for whom trading data was available in the relevant period to best approximate the Directors' assessment of future volatility expectations. There is an element of judgement in the estimate as to when the share options vest based on the milestones as set out in the option plan. See note 15 (c) for further information.

Convertible loan notes

The fair value of the equity component of the convertible loan notes has been calculated based on the Directors best estimate of the equivalent market rate for a loan without a conversion option. Refer to note 18 for further information.

Change in functional currency

Management applied judgement in determining the functional currency of Chaarat Gold Holdings Limited and the subsidiary entities, as United States dollars. Functional currency was determined based on the currency that mainly influences labour, material and other costs.

3 Operating loss
The operating loss is stated after charging/(crediting):

	2018 US$'000	2017 US$'000
Depreciation of property, plant and equipment	**320**	315
Amortisation of intangible assets	**6**	18
Operating lease expenses	**282**	163
Share based payment charges	**377**	875
Gain on the sale of fixed assets	**(7)**	(8)
Gain on foreign exchange	**(12)**	(14)
Fees payable to Group's auditors for the audit of the Group financial statements	**61**	47
Fees payable to Group's auditors for the audit of the Subsidiary financial statements	**1**	-
Fees payable to Group auditors for audit related assurance services	**17**	-
Fees payable to Group auditors for other non-audit services	**245***	-
Impairment of Assets under construction	**-**	10,008
Administrative expenses	**11,771**	4,746

* These fees are in relation to the readmission process and Kapan acquisition.

4 Administrative expenses
The administrative expenses at 31 December consisted of the following:

	2018 US$'000	2017 US$'000
Readmission and acquisition costs	**3,482**	-
Costs in respect of aborted acquisitions	**91**	-
Legal and compliance	**1,513**	620
Regulatory	**256**	198
Investor relations	**267**	176
Salaries	**3,092**	1,645
Corporate support	**1,766**	946
Travel and subsistence	**1,169**	286
Share based payment charges	**377**	875
As at 31 December	**12,013**	4,746

5 Segmental analysis
Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board, in order to allocate resources to the segments and to assess their performance.

The Group's operations relate to the exploration for mineral deposits in the Kyrgyz Republic with support provided from the British Virgin Islands and as such the Group has only one reportable segment. The non-current assets in the Kyrgyz Republic are US$48,675,000 (2017: US$34,646,000), which comprise all non-current assets of the Group.

6 Staff numbers and costs

	2018 Number	2017 Number
Management and administration	**49**	29
Exploration and evaluation	**109**	44
Total	**158**	73

The aggregate payroll costs of these persons were as follows:

	US$'000	US$'000
Staff wages and salaries	**4,789**	2,490
Social security and other pension costs	**262**	392
Employee share-based payment charges	**315**	457
Directors' remuneration as detailed in the Remuneration Report		
Wages and salaries	**1,642**	1,020
Share based payment charge	**62**	360
Total	**7,070**	4,719

Share based payment charges relate to the historical fair value attributed to share options granted.

The staff wages and salaries and social security and other pension costs includes amounts capitalised to exploration and evaluation assets of US$1,720,000 (2017: US$1,071,000).

7 Directors' remuneration

The costs of certain Directors' services were charged to the Company via consultancy companies, as separately detailed below and in the related party transactions note 19, rather than directly as short-term employment costs. These arrangements are in place purely for administrative convenience and are not methods to mitigate, reduce or remove liabilities to taxation in the respective Director's country of residence. Details of Directors' remuneration are provided in the Remuneration Report.

- Dekel Golan paid via related party, Mada Consulting Pte Limited up to resignation on 1 November 2017
- Alexander Novak paid via related party, Vetan Limited up to resignation on 10 July 2017
- Linda Naylor paid via related party, Central Asia Services Limited up to 31 December 2017
- Robert Benbow paid via related party, Powderhouse Gulch LLC

Total remuneration

	2018 US$'000	2017 US$'000
Salary paid directly	**1,090**	31
Salary paid via related party consultancy companies	**375**	561
Termination benefits	**177**	428
Share-based payment charge	**62**	360
Total	**1,704**	1,380

The share-based payment charges relate to the fair value charge attributed to share options granted.

8 Interest payable

		2018 US$'000	2017 US$'000
Interest on convertible loan notes	18	**3,122**	1,565
Interest on loans	17	**239**	-
Total		**3,361**	1,565

9 Taxation

The Group is not subject to corporate tax in the British Virgin Islands. Companies engaged in the production and sale of gold in the Kyrgyz Republic pay a revenue-based tax on the sales of gold rather than tax on profit. Accordingly, the Group has an effective rate of tax on profit of 0% in all jurisdictions in which it is active and has no tax expense for the years ended 31 December 2018 or 31 December 2017.

Within the Kyrgyz Republic a fixed royalty of 7% (which comprises a royalty of 5% and a contribution to local infrastructure of 2%) is payable on the sales of gold and a further percentage rate of tax is based on the average monthly international gold price, being 1% if the gold price is below US$1,300 per ounce and up to 20% when the gold price exceeds US$2,501 per ounce. The maximum royalty payable when the gold price is above US$2,501 per ounce is therefore 27%. As the Group's assets are at an exploration stage, the Group has no revenue tax expense for the years ended 31 December 2018 or 31 December 2017.

At the balance sheet date, the Group has received no tax claims and the Directors believe that the Group is in compliance with the tax laws affecting its operations.

The Group has substantial losses to date but, as it is not subject to tax on profit in any jurisdiction, no losses are carried forward for tax purposes and therefore no deferred tax asset arises.

10 Loss per share

Loss per share is calculated by reference to the loss for the year of US$17,042,000 (2017: US$18,092,000) and the weighted average number of ordinary shares in issue during the year of 377,347,795 (2017: 351,912,981).

At 31 December 2018 22,367,521 (2017: 22,367,521) warrants, 18,922,066 (2017: 28,676,088) share options and convertible loan notes have been excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Subsequent to the year-end the Company has issued additional equity, as set out in note 23, which would have affected the number of ordinary shares in issue.

11 Exploration and evaluation costs

	US$'000
At 1 January 2017	23,425
Additions	7,879
Exchange differences	81
At 31 December 2017	**31,385**
Additions	12,142
At 31 December 2018	**43,527**

Exploration and evaluation assets comprise costs associated with exploration for, and evaluation of, mineral resources together with costs to maintain mining and exploration licences for mining properties that are considered by the Directors to meet the requirements for capitalisation under the Group's accounting policies as disclosed in note 2.

12 Property, plant and equipment

	Buildings US$'000	Access road and bridge US$'000	Machinery and equipment US$'000	Office equipment and facilities US$'000	Motor vehicles US$'000	Assets under construction US$'000	Total US$'000
Cost							
At 1 January 2017	519		990	125	243	10,008	11,885
Additions	1	-	3	20	52	2,678	2,754
Disposals	-	-	-	(10)	(31)	-	(41)
Impairment	-	-	-	-	-	(10,008)	(10,008)
Exchange differences	(7)	-	4	-	1	(3)	(5)
At 31 December 2017	**513**	**-**	**997**	**135**	**265**	**2,675**	**4,585**
Additions	40	-	72	88	84	1,881	2,165
Transfers	-	4,199	-	-	-	(4,199)	-
Disposals	(1)	-	(96)	-	(13)	-	(110)
At 31 December 2018	**552**	**4,199**	**973**	**223**	**336**	**357**	**6,640**
Accumulated depreciation							
At 1 January 2017	233	-	590	112	101	-	1,036
Charge for the year	122	-	129	12	52	-	315
Disposals	-	-	-	(10)	(12)	-	(22)
Exchange differences	1	-	3	-	-	-	4
At 31 December 2017	**356**	**-**	**722**	**114**	**141**	**-**	**1,333**
Charge for the year	152	-	96	20	52	-	320
Disposals	-	-	(95)	-	(12)	-	(107)
At 31 December 2018	**508**	**-**	**723**	**134**	**181**	**-**	**1,546**
Net book value							
At 31 December 2018	**44**	**4,199**	**250**	**89**	**155**	**357**	**5,094**
At 31 December 2017	157	-	275	21	124	2,675	3,252
At 1 January 2017	286	-	400	13	142	10,008	10,849

The Group's property, plant and equipment are free from any mortgage or charge.

During 2017 a new feasibility study for the Tulkubash development was commenced along with development of a new site access road. As a result of that work, all of previously capitalised assets under construction, including the previous site access road and other site infrastructure, was no longer planned to be utilised as part of the development of the Chaarat Project. As these assets were not capable of separate disposal, an impairment charge was recognised in respect of the previously capitalised costs. No impairment was recognised for the year ended 31 December 2018.

13 Trade and other receivables

	2018 US$'000	2017 US$'000
Advance payments to sub-contractors	**171**	179
Prepayment on acquisition of Kapan	**5,000**	-
Other receivables	**19**	15
As at 31 December	**5,190**	194

In 2018 the Group entered into an agreement to acquire the Kapan mine. In accordance with the terms of the agreement, the Group paid a prepayment of US$5,000,000. The agreement was signed, and the acquisition completed as at 30 January 2019, please see note 23 for further information.

14 Cash and cash equivalents

	2018 US$'000	2017 US$'000
Cash		
Cash in hand	**20**	6
Short-term deposits held in UK	**693**	7,140
Short-term deposits held in the Kyrgyz Republic	**455**	315
As at 31 December	**1,168**	7,461

There are no amounts of cash and cash equivalents which are not available for use by the Group. All short-term deposits can be drawn on demand if required.

15 Capital and reserves

The share capital of Chaarat Gold Holdings Limited consists of shares of US$0.01 par value of a single class. All shares have equal rights to receive dividends or capital repayments and all shares represent one vote at meetings of Chaarat Gold Holdings Limited.

a) Capital management policies and procedures

The Group's objectives for the management of capital have not changed in the year. The Directors seek to ensure that the Group will continue to operate as a going concern in order to pursue the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimises the cost of capital at an acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing, or acquire or dispose of assets. The Company, following approval from the Board of Directors, will make changes to its capital structure as deemed appropriate under specific circumstances.

The Company considers equity to be all components included in shareholders' funds and net debt to be long term borrowings including convertible loan notes less cash and cash equivalents. The Group's net debt to equity ratio at 31 December 2018 was as follows:

	2018 US$'000	2017 US$'000
Total Equity	**23,643**	25,271
Convertible loan note	**16,303**	15,430
Other liabilities	**10,163**	1,000
Less: cash and cash equivalents	**(1,168)**	(7,461)
Net debt	**25,298**	8,969
Net debt to equity ratio	**107%**	35%

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15 Capital and reserves (continued)

b) Share capital

Ordinary shares of US$ 0.01 each	2018 Number of Shares ('000)	2018 Nominal Value US$'000	2017 Number of Shares ('000)	2017 Nominal Value US$'000
Authorised	**600,000**	**6,000**	600,000	6,000
Issued and fully paid				
As at 1 January	**356,878**	**3,569**	351,776	3,518
Issued for cash	**14,529**	**145**	4,612	46
Issued to settle a fee	**544**	**5**	-	-
Loan notes converted	**22,991**	**230**	-	-
Exercise of warrants	**-**	**-**	90	1
Exercise of share options	**225**	**2**	400	4
As at 31 December	**395,167**	**3,951**	356,878	3,569

As at 31 January 2018, the Company had received settlement funds of US$4,100,000, including the US$1,926,000 received by 31 December 2017, representing 12,132,089 shares, and an additional US$803,000 representing 2,397,015 shares which was paid within 3 business days of admission to AIM of the shares on 7 February 2018.

On 27 April 2018 225,000 ordinary shares were issued pursuant to the exercise of share options at an exercise price of 15p per share.

On 11 September 2018, Existing Noteholders converted US$9,088,000 of their holdings into (after rounding) 22,991,251 new ordinary shares in the Company ("Ordinary Shares") at conversion prices of:

- 675,833 Ordinary Shares for each US$250,000 (and pro rata for any amounts less than US$250,000) of Existing Notes (as to 14,917,982 Ordinary Shares (rather than 15,994,537 as previously announced)); and
- 565,355 Ordinary Shares for each US$250,000 (and pro rata for any amounts less than US$250,000) of Existing Notes (as to 8,073,269 Ordinary Shares).

On 12 December 2018, 543,888 shares were issued in settlement of a commitment fee owing in connection with the facility agreement signed with Labro Investments Limited at a price of 33p per share.

c) Share options and share based payments

The Group operates a share option plan under which directors, employees, consultants and advisers have been granted options to subscribe for ordinary shares. All options are share settled. The number and weighted average exercise price of share options are as follows:

	2018 Number of Options	2018 Weighted average exercise price (US$)	2017 Number of Options	2017 Weighted average exercise price (US$)
Outstanding at 1 January	**28,676,088**	**0.264**	14,213,622	0.590
Exercised during the year	**(225,000)**	**0.200**	(400,000)	0.203
Granted during the year	**-**	**-**	22,400,000	0.191
Lapsed during the year	**(9,529,022)**	**0.392**	(7,537,534)	0.752
Outstanding at 31 December	**18,922,066**	**0.224**	28,676,088	0.264
Exercisable at 31 December	**6,028,731**	**0.270**	10,116,088	0.371

The share options outstanding at 31 December 2018 had a weighted average remaining contractual life of 5.8 years (2017: 6.4 years). At the date of exercise of the 225,000 options above the share price was US$0.203. The share options outstanding at 31 December 2018 had a range of exercise prices between £0.15 and £0.27.

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise period. The inputs into the Black-Scholes model for options granted in the year were as follows:

	Options issued 12 February 2017	**Options issued 10 July 2017**
Share price when issued	US$0.162	US$0.210
Exercise price	US$0.187	US$0.210
Expected volatility	77.45%	84.63%
Expected life	3.5 years	3.5 years
Risk free rate (US Federal Funds Rate)	0.59%	0.61%
Expected dividends	Nil	Nil
Average fair value per option	US$0.081	US$0.121

The expected volatility used in the Valuation Model has been derived from the historical share price of the Company and peer companies.

The total number of options over ordinary shares outstanding at 31 December 2018 was as follows:

Exercise period	**Number**	**Exercise price**
22 December 2011 to 21 December 2019	637,066	£0.270
22 December 2012 to 30 December 2020	1,085,000	£0.250
12 February 2017 to 12 February 2025	13,700,000	£0.150
10 July 2017 to 10 July 2025	3,500,000	£0.163
Total	**18,922,066**	

Vesting Conditions

All options were fully vested by 31 December 2018 apart from those with an exercise period commencing 12 February 2017 and 10 July 2017. Half of these options vest equally over a three-year period beginning one year after the date of grant, with a vesting condition of continued employment by a Group Company. The remaining half vest on the achievement of milestones as follows:

- 20% on completion of the Tulkubash Feasibility Study.
- 20% on the receipt of local permit approvals for the Tulkubash Project.
- 20% on successful fundraising for the Tulkubash Project.
- 40% on the first gold pour at the Tulkubash Project.

During the period local permit approvals were received for the Tulkubash Project.

Options not yet vested will lapse if an employee or director leaves the Company prior to the vesting date. Unexercised vested options will lapse six months after an employee or director leaves the Company.

The Directors intend to implement an incentive scheme to reward Directors and certain employees in 2019. Its terms were disclosed in the Company's admission document published on 14 December 2018 and further details are given in Note 23.

d) Warrants

Warrants to purchase ordinary shares were outstanding at 31 December 2018 as follows:

	2018		2017	
	Number of Warrants	**Exercise price (£)**	Number of Warrants	Exercise price (£)
17 December 2019	**21,367,521**	**0.150**	21,367,521	0.150
23 December 2019	**1,000,000**	**0.150**	1,000,000	0.150
Total	**22,367,521**	**0.150**	22,367,521	0.150

Warrants were issued in 2014 in conjunction with a share placing. During 2016 the warrant expiry date was amended from December 2017 to December 2019 for all except 50,000 warrants. During 2018 no warrants were exercised (2017: 90,000 warrants).

e) Shares to be issued

During 2017 the Company received US$1,926,000 for shares that were issued in 2018. As at 31 December 2017 these funds were treated as shares to be issued, a separate component of equity, reflecting the unconditional nature under which the funds had been remitted.

15 Capital and reserves (continued)

f) Convertible loan note reserve

	2018 US$'000	2017 US$'000
As at 1 January	**867**	-
Loan notes issued in the year classified as equity, net of costs	**2,646**	867
Transfer in respect of loan notes converted	**(1,153)**	-
As at 31 December	**2,360**	867

16 Trade and other payables

Trade and other payables at 31 December consisted of the following:

	2018 US$'000	2017 US$'000
Trade payables	**2,882**	491
Social security and employee taxes	**308**	40
Accruals	**1,734**	69
As at 31 December	**4,924**	600

Trade and other payables are all unsecured. Trade and other payables at 31 December 2018 and 2017 do not include any amounts owed to Directors or companies controlled by Directors. Majority of the trade payables and accruals relate to costs associated with the acquisition of Kapan which was completed on 31 January 2019.

17 Other liabilities

Other current liabilities at 31 December consisted of the following:

	2018 US$'000	2017 US$'000
As at 1 January	**1,000**	-
Funds received in advance	**(1,000)**	1,000
Convertible loan transferred into loan	**4,324**	-
Interest on convertible loan transferred into loan	**76**	-
Additional funds received	**5,600**	-
Interest on loan	**163**	-
As at 31 December	**10,163**	1,000

On 13 November 2018 a new loan US$10,000,000 was entered into, which is made up of a transfer of previous convertible loan funds of US$4,324,000 that were redeemed by the loan holder and initially held in escrow on the loan holder's behalf. This amount accrued interest of US$76,000 up to the day the new loan terms were agreed. This existing amount of US$4,400,000, being the redemption amount including the interest, was rolled into the new loan along with additional funds of US$5,600,000 to make up a loan of US$10,000,000 and is guaranteed by the Company's subsidiary Zaav Holdings Limited. It has been financed by a previous loan note holder who is neither management nor a board member. The loan is repayable after six months or, at the Company's option, nine months. The total interest which shall accrue on the loan shall be a fixed amount of 6.5% of the loan amount if the Loan is repaid within six months or 9.75% of the loan amount if the loan is repaid within nine months (in each case whether or not repaid prior to the end of such period). The annualised interest on the loan is 13%. The loan contains various representations, undertakings and events of default which are common for a loan of this nature.

The funds received in advance during 2017 related to convertible loan notes that were issued in January 2018. No amounts are related to Directors or companies controlled by Directors.

18 Convertible loan notes

2018 convertible loan notes	US$'000
As at 1 January 2018	15,430
Accrued interest	1,638
Cash redemption	(4,345)
Converted to equity	(5,518)
Re-invested in 2021 Notes	(7,205)
At 31 December 2018	**-**

The group announced a refinancing of its existing loan notes in August 2018 and the notes were fully redeemed on 11 September 2018.

The 2018 notes accrued interest at 10% p.a. The notes were secured on the shares of the Group's principal operating subsidiary, Chaarat Zaav CJSC via the intermediate holding company Zaav Holdings Limited. The notes were repayable on 30 September 2018 and could have been redeemed by the Company at any time subject to paying a minimum of 5% interest. The notes, including accrued interest, could have been converted at any time at the holder's option at a price of £0.38 per ordinary share.

2019 convertible loan notes
The group issued US$5 million of secured convertible loan notes in February 2018.

2019 Notes	US$'000
Proceeds from issue of convertible loan notes	4,950
Cash received in 2017	1,000
Cash received in 2018	3,950
Transaction costs	-
Net proceeds	**4,950**
Amount classified as equity	(285)
Accrued interest	780
Cash redemption	(275)
Converted to equity	(3,570)
Re-invested in 2021 Notes	(1,600)
At 31 December 2018	**-**

The group announced a refinancing of its existing loan notes in August 2018 and the notes were fully redeemed on 11 September 2018.

The 2019 notes accrued interest at 10% p.a. The notes were secured on the shares of the Group's principal operating subsidiary, Chaarat Zaav CJSC via the intermediate holding company Zaav Holdings Limited. The notes were repayable on 30 June 2019 and could have been redeemed by the Company at any time subject to paying a minimum of 10% interest. The notes, including accrued interest, could have been converted at any time at the holders option at a price of £0.30 per ordinary share.

The value of the liability and equity conversion component were determined at the date of issue. The fair value of the liability component at inception was calculated using a market interest rate of 15% for an equivalent instrument without conversion option.

2021 convertible loan notes
The group issued US$17.6 million of loan notes in September 2018 and US$1 million of loan notes in November 2018.

2021 Notes	US$'000
Cash proceeds	9,775
Transaction costs	(620)
Net proceeds	**9,155**
Re-invested proceeds from 2018 and 2019 Notes	8,805
Amount classified as equity	(2,360)
Accrued interest	703
At 31 December 2018	**16,303**

The number of shares to be issued on conversion is fixed.

The 2021 notes accrue interest at 10% p.a. until 30 April 2020 and then at a rate of 12% p.a. until 31 October 2021. The notes are secured on the shares of the Group's principal operating subsidiary, Chaarat Zaav CJSC via the intermediate holding company Zaav Holdings Limited. The notes are repayable on 31 October 2021 and can be redeemed by the Company at any time subject to paying a minimum of 5% interest. The notes, including accrued interest, can be converted at any time at the holder's option at a price of £0.36 per ordinary share.

The value of the liability and equity conversion component were determined at the date of issue. The fair value of the liability component at inception was calculated using a market interest rate of 15% for an equivalent instrument without conversion option.

The total cash proceeds received, net of costs, during 2018 arising from the above was US$13,105,000.

18 Convertible loan notes (continued)

Reconciliation of liabilities arising from financing activities

Convertible loan note	2018 US$'000	2017 US$'000
As at 1 January	**16,430**	-
Cash flows:		
Cash proceeds	**23,648**	16,000
Transaction costs paid	**(171)**	(268)
Cash redemption	**(4,620)**	-
	18,857	15,732
Non-cash items:		
Amount classified as equity		
Converted to equity	**(2,645)**	(867)
	(9,088)	-
Interest on loan	**163**	-
Transaction costs	**(449)**	-
Accrued interest on convertible loan notes	**3,198**	1,565
	(8,821)	698
Total liabilities from financing activities as at 31 December	**26,466**	16,430

19 Related party transactions

Remuneration of key management personnel

Remuneration of key management personnel is as follows:

	2018 US$'000	2017 US$'000
Short term employee benefits	**2,706**	1,487
Termination benefits	**317**	428
Share option charge	**152**	731
Total	**3,175**	2,646

Included in the above key management personnel are 10 directors and 5 key managers (2017: 7 and 6).

Certain key management personnel charged for services via related party entities that they control (except for Central Asia Services Limited, which is controlled by Dekel Golan and ACG Eurasia LLC, which is controlled by Artem Volynets) as follows:

	2018 US$'000	2017 US$'000
Mada Consulting Pte Limited (in respect of Dekel Golan's services)	**-**	646
Vetan Investments Limited (in respect of Alex Novak's services)	**-**	239
Vetan Investments Limited (for other management services)	**-**	13
Central Asia Services Limited (in respect of Linda Naylor's services)	**-**	223
Central Asia Services Limited (for other management services)	**53**	180
Powderhouse Gulch LLC (in respect of Robert Benbow's services)	**375**	69
ACG Eurasia LLC (in respect of other consultant services)	**294**	-
Total	**772**	1,370

At 12 December 2018 the Company's Chairman, Martin Andersson, via Labro Investments Limited ("Labro"), had entered into an agreement with Chaarat Gold Holdings Limited whereby Labro has agreed to provide committed funding facility to the Company in the amount of US$15,000,000. Martin Andersson is indirectly beneficially interested in the majority of the shares in Labro. As part of this agreement 543,888 shares were issued to Labro at a share price of 33p in respect of a commitment fee. Interest at a rate of 10% shall accrue on and from the applicable drawdown date in respect of each loan until such time as the loan is fully repaid.

The Company drew down the amount of US$500,000 on 1 April 2019. The Company offset the amount owed against Labro's obligation to pay for 1,276,666 shares on 5 April 2019 and made an interest payment of US$685. The shares issued formed part of the 1,914,999 shares issued to Labro as part of the capital raising of 1 May 2019, the balance of which were settled by Labro in cash. On 16 May 2019 the Board authorised that 34,435 shares to Labro as settlement for the draw down fee in respect of this draw down. On 23 May 2019, the Company drew a further US$2,000,000.

As at the date of this report Labro holds ordinary shares representing approximately 34.78% of the Company's share capital and 21,367,521 warrants to subscribe for ordinary shares ("Labro Warrants") and, in addition, US$1,000,000 of 2021 Notes (which are convertible into 2,111,484 ordinary shares in respect of principal on the 2021 Notes and up to around 696,789 ordinary shares in respect of interest on the 2021 Notes assuming interest is converted into ordinary shares and that the 2021 Notes are converted at the final maturity date of 31 October 2021).

Martin Wiwen-Nilsson stepped down from his role as non-executive director of the Company on 21 March 2019. As at the date of his resignation Martin Wiwen-Nilsson held 9,998,237 Ordinary Shares representing 2.53% of the Company's share capital and 200,000 options to subscribe for Ordinary Shares ("MWN Options") and, in addition, US$425,000 of 2021 Notes (which are convertible into 897,380 Ordinary Shares in respect of principal on the 2021 Notes and up to around 296,135 ordinary shares in respect of interest on the 2021 Notes assuming interest is converted into ordinary shares and that the 2021 Notes are converted at the final maturity date of 31 October 2021).

On 16 May 2019 the Board authorised that in accordance with the resolution of the Board taken on 14 February 2019 the Company shall issue new ordinary shares of USD 0.01 each to Martin Wiwen-Nilsson as compensation amounting to £400,000 for the work he has done for the Company between 2016 and 2018.

On 16 May 2019 the Board authorised the acquisition of ACG Eurasia LLC ("ACG Eurasia"), a legal entity incorporated under the laws of the Russian Federation, from ACG AMUR Capital Group Limited, a private company controlled by Artem Volynets, Chief Executive Officer. The consideration of the acquisition is US$16,950. ACG Eurasia has a number of employees whose employment costs are charged to the Company as set out in the table above as consultant services at nil profit. When the acquisition is completed, the ACG Eurasia employees will form part of the Group.

Artem Volynets benefits from a contingent incentive fee in relation to one potential and future M&A transaction, subject to such closing prior to 30 July 2020, after which this contingent incentive fee will expire for nil consideration. Should such transaction close by 30 July 2020, Artem Volynets will be awarded 12,564,874 ordinary shares, subject to a clawback for 12 months following completion, in case he ceases to be employed by the Group within this period. Artem Volynets would not be a participating board member, or carry a vote, on this future and potential M&A transaction. Dmitry Yudin, a former employee, was eligible for 5,384,946 shares under the same contingent incentive fee but has left the Group in May 2019.

20 Commitments and contingencies

Capital expenditure commitment

The Company had a commitment of US$1,129,000 at 31 December 2018 (2017: US$810,000) in respect of capital expenditure contracted for but not provided for in these financial statements.

Operating lease commitments

Details of operating lease commitments are set out in note 21 below.

Licence retention fee commitments

The Company has calculated a commitment of US$103,000 at 31 December 2018 (2017: US$388,000) in respect of licence retention fees not provided in these financial statements. The amount to be paid will be determined by the Kyrgyz authorities and is not payable until a demand for payment is received by the Company. No demand in respect of extant licences had been received at the date of these financial statements.

Licence agreements

There are minimum expenditure commitments under the exploration and mining license agreements. These minimum levels of investment have always been achieved. The commitment for 2019 is US$238,000 (2018: US$252,000).

Site restoration liability

According to Kyrgyz legislation and the licence agreements, the Kyrgyz subsidiaries are committed to restore working areas on the deposits. The restoration is only required to be made if mining or exploration ceases on the deposit. As at 31 December 2018, management deemed the cost of restoration to be immaterial (2017: immaterial) and is likely to remain so until construction work commences at the project.

21 Operating leases

Non-cancellable operating lease liabilities of the Group are as follows:

	2018 US$'000	2017 US$'000
Less than one year	**176**	157
Between two and five years	**106**	6
More than five years	**46**	-
Total	**328**	163

Leases relate to the Company's office in Bishkek and land leases in the Kyrgyz Republic.

The prior year has been restated to be consistent with the current year timing brackets disclosed. There is no impact on the consolidated income statement.

Management has made an assessment of IFRS 16 and it is not expected that the changes reflected in this standard is likely to have a material impact on the Group.

22 Financial instruments and financial risk management

The Group is exposed to a variety of financial risks which result from its operating activities. The Group's risk management is coordinated by the executive Directors, in close co-operation with the Board of Directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

Categories of financial instruments

Financial assets measured at amortised cost	2018 US$'000	2017 US$'000
Trade and other receivables	**19**	15
Cash and cash equivalents	**1,168**	7,461
Total financial assets	**1,187**	7,476

Financial liabilities measured at amortised cost

Trade and other payables	**4,646**	560
Other liabilities	**10,163**	1,000
Convertible loan notes	**16,303**	15,430
Total financial liabilities	**31,112**	16,990

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's significant credit risks relate to cash at bank. Cash at bank is held principally at an independently "A" rated bank. No significant cash amounts are held at banks rated less than "B". Cash is held either on current account or on short-term deposit at floating rates of interest determined by the relevant prevailing base rate. The fair value of cash and cash equivalents at 31 December 2018 and 2017 did not differ materially from its carrying value. The carrying value of financial assets represents the maximum credit exposure.

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk). The Group's financial instruments affected by market risk include bank deposits, trade and other receivables and trade payables.

The Group holds short term bank deposits on which short term fluctuations in the interest rate receivable are to be expected but are not deemed to be material.

Foreign currency risk

The Group carries out expenditure transactions substantially in US dollars, with a lesser amount in GBP pounds and Kyrgyz Som. Equity fund-raising has taken place mainly in GBP pounds, with debt denominated in US dollars. Any resulting gains or losses are recognised in the income statement.

Foreign currency risk arises principally from the Group's holdings of cash in GBP pounds.

The Group's presentation and functional currency is the US dollar.

To mitigate the Group's exposure to foreign currency risk, cash holdings are maintained to closely represent the expected short-term profile of expenditure by currency. Apart from these resultant offsets, no further hedging activity is undertaken.

As at 31 December the Group's net exposure to foreign exchange risk was as follows:

Net foreign currency financial assets/(liabilities)	2018 US$'000	2017 US$'000
GBP	**(1,745)**	257
KGS	**(135)**	-
Other	**4**	10
Total net exposure	**(1,876)**	267

The table below sets out the impact of changes in exchange rates on the financial assets of the Group due to monetary assets denominated in GBP pounds and Kyrgyz Som, with all other variables held constant:

	2018 Move (%)	Income statement Profit/(loss)	Equity	2017 Move (%)	Income statement Profit/(loss)	Equity
Fall in value of GBP vs US$	5	87	87	5	(13)	(13)
Increase in value of GBP vs US$	5	(87)	(87)	5	13	13
Fall in value of KGS vs US$	10	13	13	10	(31)	(31)
Increase in value of KGS vs US$	10	(13)	(13)	10	31	31

The percentage change for each currency represents management's assessment of the reasonable possible exposure given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for the future.

Fair value of financial instruments

The fair value of the Group's financial instruments at 31 December 2018 and 2017 did not differ materially from their carrying values.

Liquidity risk

The Group, at its present stage of development, has no sales revenues. It therefore finances its operations through the issue of equity share capital and debt in order to ensure sufficient cash resources are maintained to meet short-term liabilities. The Group aims to mitigate liquidity risk by monitoring availability of funds in relation to forecast expenditures in order to ensure timely fundraising. Funds are raised in discrete tranches to finance activities for limited periods. Funds surplus to immediate requirements are placed in liquid, low risk investments. The Group has prepared financial forecasts for the foreseeable future and these indicate that the Group should be able to operate and continue to grow within the level of its current working capital availability.

The Group's ability to raise finance is partially subject to the price of gold, from which eventual sales revenues are to be derived. There can be no certainty as to the future gold price.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

At 31 December 2018	**Up to 3months US$'000**	**Between 3 and 12 months US$'000**	**Between 1 and 2 years US$'000**	**Between 2 and 5 years US$'000**	**Over 5 years US$'000**
Trade and other payables	4,924	-	-	-	-
Loans and borrowings	-	10,975	-	-	-
Convertible loan notes	-	-	-	25,443	-
Total	**4,924**	**10,975**	**-**	**25,443**	**-**

At 31 December 2017	Up to 3months US$'000	Between 3 and 12 months US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
Trade and other payables	600	-	-	-	-
Loans and borrowings	1,000	-	-	-	-
Convertible loan notes	-	-	17,067	-	-
Total	1,600	-	17,067	-	-

The Group's convertible loan notes are repayable on 31 October 2021.

23 Post balance sheet events

Kapan Acquisition

On 30 January 2019, Chaarat Gold International Limited, a subsidiary of Chaarat Gold Holdings Limited, acquired 100 percent of the issued share capital of Kapan Mining and Processing Company CJSC, a company incorporated in the Republic of Armenia which produces gold-copper-silver and zinc concentrates.

The cost of the acquisition was US$55 million (subject to net debt and working capital adjustments which are yet to be finalised) which comprised cash consideration of US$45 million and convertible loan note of US$10 million. The convertible loan note was issued to the seller PMTL Holding Ltd and the terms of the loan note are as per the 2021 loan notes as disclosed in note 18 above however the lender also has an option to require early repayment of the loan on 30 September 2020. Acquisition-related costs of US$3,482,000 were charged to administrative expenses in the consolidated income statement as at 31 December 2018.

The provisional fair values of the assets and liabilities of Kapan Mining and Processing Company CJSC at 30 January 2019 are set below:

	Provisional fair value at date of acquisition US$'000
Intangible fixed assets	88
Tangible fixed assets	58,794
Inventories	18,071
Trade receivables	5,504
Other receivables	2,697
Deferred income tax asset	4,019
Prepayments	488
Cash and cash equivalents	1,534
Total assets	**91,195**
Borrowings	11,130*
Trade payables	5,062
Other payables	4,173
Provisions	12,763
Total liabilities	**33,128**
Net assets	**58,067**

* This liability is payable to Chaarat Gold International Limited, a 100% owned subsidiary within the Chaarat Gold Group, and as such is US$ Nil on a consolidated basis.

As at the date these financial statements were authorised for issue, the fair value exercise had not been completed and as such the values above are the provisional fair values. The Company is currently is undertaking an assessment of the fair values of the assets and liabilities acquired, as required by IFRS 3. The consideration for the Kapan acquisition is also subject to adjustments for working capital and royalty obligation, the fair value of which is being assessed in line with terms of the contract.

Ciftay Joint Venture
On 15 March 2019 the Company announced that it has signed a binding term sheet to enter into a Joint Venture with Çiftay İnsaat Tahhüt ve Ticaret A.S. ("Çiftay"), the Turkish mining and mine construction contractor, to collaborate on the Tulkubash and Kyzyltash projects in the Kyrgyz Republic. The agreement is based on a valuation of US$252 million (post money) for the two assets, Çiftay will progressively invest up to US$31.5 million for up to 12.5% equity stake in the Company's mining projects Tulkubash and Kyzyltash in the Kyrgyz Republic.

Çiftay's investment provides a significant amount of the required equity for the Tulkubash project. Total capital expenditure for the project is estimated at US$110 million, and after the Çiftay equity investment most of the remaining capital expenditure is expected to be debt funded, thus avoiding substantial dilution to Chaarat's shareholders, a key strategic objective for the Company.

The Company is in the process of securing the remaining project financing which is targeted to close in Q4 2019. Çiftay has commenced earthworks in anticipation of this, negotiated at arms-length rates, as reflected in an updated Feasibility Study issued on 4 June 2019.

Construction is ongoing at Tulkubash and the first gold production remains on schedule for late 2021. The Company continues to advance detailed engineering and has finalized several project components for immediate construction readiness. Çiftay has earthworks equipment at the mine site and constructed a temporary construction camp this winter to be ready for an early spring start to major earthworks.

Ciftay has extensive experience as a mining and civil engineering contractor at multiple mine sites in Turkey including two major gold mines. Definitive agreements for the joint venture are expected to be concluded by summer 2019.

Financing
The subscription and issue of the secured convertible 2021 notes, as previously announced on 21 December 2018, was completed on 15 January 2019. The issue of US$350,000 additional notes brought the total number of notes in issue to US$18.93 million, US$28.93 million including the US$10 million issued as part of the consideration for the Kapan acquisition and a new subscription of US$250,000 on 7 May 2019 brings the total number of notes in issue to US$29.2 million.

On 1 April 2019 the Company had a secured commitment for a US$10 million subscription for convertible bonds by a new investor. The Company expects to receive the cash subscription in early July 2019 and the commitment is now US$15 million.

On 1 May 2019 the Company closed a placing, raising US$2.71 million from the issue of 6,927,563 new ordinary shares of US$0.01 each at US$0.30 per share. Directors and senior management participated in this placing.

The Company drew down on the Labro Facility in the amount of US$500,000 on 1 April 2019. The Company settled this amount through the issue of 1,276,666 shares to Labro on 5 April 2019 and an interest payment of US$685. The shares issued formed part of the 1,914,999 shares issued to Labro as part of the capital raising of 1 May 2019, the balance of which were settled by Labro in cash. On 16 May 2019 the Board authorised that 34,435 shares to Labro as settlement for the draw down fee in respect of this draw down. On 23 May 2019, the Company drew a further US$2 million.

On 16 May 2019 the Board authorised that in accordance with the resolution of the Board taken on 14 February 2019 the Company shall issue new ordinary shares of USD 0.01 each to Martin Wiwen-Nilsson as compensation amounting to £400,000 for the work he has done for the Company over the past years.

Incentive scheme
The Directors intend to implement an incentive scheme to reward Directors and certain employees in 2019. Its proposed terms were disclosed in the Company's admission document published on 14 December 2018. The incentive scheme now provides for two main elements: conversion of existing option plans into a new uniform scheme and a one-off grant of equity equal to 5 percent of the outstanding share capital at the date of Re-Admission and options equal to 3 times of equity granted under the scheme at a strike price of 42p per Ordinary Share to the Board and top managers which will be subject to a vesting schedule.

The first element of the scheme will require conversion of vested and unvested options into Ordinary Shares based on a price of 33p per Ordinary Share; these will have a one year lock-up (shares to be issued to replace unvested options will also have a one-year vesting period and if an employee leaves during this period the unvested shares will lapse). This first element requires consent from the existing option holders to join the new incentive plan and, if all holders consent, would result in approximately 6,100,000 new Ordinary Shares.

The second element of the scheme has a three-year vesting period, one-third of the award vests annually starting from 2019 for those participants who were engaged in the Company's business in the previous year and subject to achievement of individual key performance indicators by most employees with the same consequences if an employee leaves. Delivery of vested Ordinary Shares will be made on the basis of 50 percent of the entitlement at the date of vesting with the remaining part of the entitlement to be delivered at the end of year three, whether or not in employment at such time. All vested Ordinary Shares are subject to a two-year lock-up.

The Board has full discretion to amend the incentive scheme or adjust unvested Ordinary Shares and options.

Notes

Company Information

Directors

Martin Andersson	Executive Chairman
Gordon Wylie	Deputy Chairman and Senior Independent Non-Executive Director
Artem Volynets	Executive Director
Robert Benbow	Executive Director
Robert Edwards	Non-Executive Director
Hussein Barma	Non-Executive Director
Martin Wiwen-Nilsson	Non-Executive Director

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