Armenian Copper Programme cjsc

Consolidated Financial Statements
for the year ended 31 December 2015

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KPMG Armenia cjsc
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street,
Yerevan 0010, Armenia
Telephone + 374 (10) 566 762
Fax + 374 (10) 566 762
Internet www.kpmg.am

Independent Auditors' Report

To the Board of Directors

Armenian Copper Programme cjsc

We have audited the accompanying consolidated financial statements of Armenian Copper Programme cjsc and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG Armenia cjsc, a company incorporated under the Laws of the Republic of Armenia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to note 2(b) to the consolidated financial statements which indicates that the Group incurred a loss of AMD 35,244,902 thousand for the year ended 31 December 2015 and as at that date its current liabilities exceeded its current assets by AMD 172,944,369 thousand. These conditions, along with the other matters described in note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

We also draw attention to the fact that the corresponding figures presented, excluding the adjustments described in note 8 to the consolidated financial statements, are based on the consolidated financial statements of the Group as at and for the year ended 31 December 2014, which were audited by other auditors whose report dated 23 November 2015 expressed an unmodified opinion on those statements. As part of our audit of the 2015 consolidated financial statements, we have audited the adjustments described in note 8 to the consolidated financial statements that were applied to restate the 2014 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 consolidated financial statements of the Group other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 consolidated financial statements taken as a whole. Our opinion is not qualified in respect of this matter.

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia cjsc

KPMG Armenia cjsc
10 January 2017

’000 AMD	**Note**	**31 December 2015**	**31 December 2014**	**31 December 2013**
			Restated	**Restated**
Assets				
Property, plant and equipment	17	101,418,336	121,330,041	94,352,680
Intangible assets		199,024	164,161	89,854
Mining property	18	38,679,890	36,445,351	20,972,393
Prepayments for non-current assets		1,461	4,610,462	6,528,303
Borrowings given		-	57,734	56,800
Value-added tax recoverable		474,715	3,349,277	2,125,255
Deferred tax assets	16	1,247,671	469,641	305,827
Income tax prepayment		-	-	132,339
Other non-current assets		14,632	14,632	14,632
Non-current assets		**142,035,729**	**166,441,299**	**124,578,083**
Inventories	19	13,024,309	9,944,253	4,198,195
Trade and other receivables	20	15,176,469	17,343,869	14,593,829
Prepaid finance expenses		-	-	975,687
Borrowings given		70,967	8,487	8,487
Cash and cash equivalents	21	3,179,958	2,087,415	1,617,182
Current assets		**31,451,703**	**29,384,024**	**21,393,380**
Total assets		**173,487,432**	**195,825,323**	**145,971,463**
Equity				
Share capital	22	3,069,716	3,069,716	3,069,716
Retained earnings		(26,639,519)	1,380,771	18,470,093
Equity holders of the parent		**(23,569,803)**	**4,450,487**	**21,539,809**
Non-controlling interests	23	(8,312,667)	(1,088,055)	3,973,466
Total equity		**(31,882,470)**	**3,362,432**	**25,513,275**
Liabilities				
Loans and borrowings	25	-	-	100,997,266
Government grant		65,586	67,112	68,637
Provision for site restoration	26	433,529	380,454	525,837
VAT payable		474,715	1,907,511	2,125,256
Non-current liabilities		**973,830**	**2,355,077**	**103,716,996**
Loans and borrowings	25	193,289,668	185,005,498	11,990,117
Provision for site restoration		80,153	65,943	111,823
Trade and other payables	27	11,021,989	4,930,616	4,639,252
Current tax liabilities		4,262	105,757	-
Current liabilities		**204,396,072**	**190,107,814**	**16,741,192**
Total liabilities		**205,369,902**	**192,462,891**	**120,458,188**
Total equity and liabilities		**173,487,432**	**195,825,323**	**145,971,463**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

'000 AMD	Note	2015	2014
			Restated
Revenue	10	72,695,179	31,630,854
Cost of sales	11	(49,944,201)	(29,281,878)
Gross profit		**22,750,978**	**2,348,976**
Other income	12	1,257,743	346,285
Selling expenses		(756,425)	(328,040)
Administrative expenses	13	(4,133,782)	(1,883,532)
Other expenses	14	(30,332,129)	(376,950)
Results from operating activities		**(11,213,615)**	**106,739**
Finance costs	15	(24,559,363)	(22,020,300)
Loss before income tax		**(35,772,978)**	**(21,913,561)**
Income tax benefit/(expense)	16	528,076	(237,282)
Loss and total comprehensive loss for the year		**(35,244,902)**	**(22,150,843)**
Loss and total comprehensive loss attributable to:			
Owners of the Company		(28,020,290)	(17,089,322)
Non-controlling interests	23	(7,224,612)	(5,061,521)
Loss and total comprehensive loss for the year		**(35,244,902)**	**(22,150,843)**

These consolidated financial statements were approved by management on 10 January 2017 and were signed on its behalf by:

Lusine Mejlumyan
General Director

Hamlet Harutyunyan
Chief Accountant

'000 AMD	**Attributable to equity holders of the parent**				
	Share capital	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2014	3,069,716	18,470,093	21,539,809	3,973,466	25,513,275
Total comprehensive loss					
Loss for the year, restated (note 8)	-	(17,089,322)	(17,089,322)	(5,061,521)	(22,150,843)
Balance at 31 December 2014, restated	**3,069,716**	**1,380,771**	**4,450,487**	**(1,088,055)**	**3,362,432**
Balance at 1 January 2015, restated	3,069,716	1,380,771	4,450,487	(1,088,055)	3,362,432
Total comprehensive loss					
Loss for the year	-	(28,020,290)	(28,020,290)	(7,224,612)	(35,244,902)
Balance at 31 December 2015	**3,069,716**	**(26,639,519)**	**(23,569,803)**	**(8,312,667)**	**(31,882,470)**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 44.

'000 AMD	**Note**	**2015**	**2014**
Cash flows from operating activities			
Cash receipts from customers, including VAT		79,616,696	33,481,099
Cash paid to suppliers and employees, including VAT		(51,702,976)	(43,757,149)
VAT refund received from the state budget		12,260,193	3,468,407
Income tax paid		(287,000)	(163,000)
Taxes paid other than on income		(6,096,779)	(4,143,142)
Cash flows from operations before interest paid		**33,790,134**	**(11,113,785)**
Interest paid		(7,461,836)	(1,456,344)
Net cash from/(used in) operating activities		**26,328,298**	**(12,570,129)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(16,423,362)	(23,214,440)
Acquisition of intangible assets		(21,076)	(87,233)
Proceeds from sale of property, plant and equipment		20,760	21,471
Net cash used in investing activities		**(16,423,678)**	**(23,280,202)**
Cash flows from financing activities			
Proceeds from loans and borrowings		44,789,329	80,117,215
Repayment of loans and borrowings		(53,654,656)	(43,982,789)
Net cash (used in)/from financing activities		**(8,865,327)**	**36,134,426**
Net increase in cash and cash equivalents		**1,039,293**	**284,095**
Cash and cash equivalents at 1 January		2,087,415	1,617,182
Effect of exchange rate fluctuations on cash and cash equivalents		53,250	186,138
Cash and cash equivalents at 31 December	21	**3,179,958**	**2,087,415**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

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1. Reporting entity

(a) Armenian business environment

The Group's operations are located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. The consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organization and operations

Armenian Copper Programme cjsc (the "Company") and its subsidiaries (together referred to as the "Group") comprise Armenian closed joint stock companies as defined in the Civil Code of the Republic of Armenia and a company registered in Cyprus. The Company was established in accordance with the legislation of the Republic of Armenia in August 1997.

The only significant subsidiary of the Company is Teghout cjsc (the "Subsidiary"), established in accordance with the legislation of the Republic of Armenia in May 2006. Since establishment, the Subsidiary was wholly owned by the Company. In November 2011, as part of financing agreement with VTB Group (see note 25), 100% of the shares of Teghout cjsc were transferred to Teghout Investments Limited, a company registered in the Republic of Cyprus. The Company owns 50.05% shares of Teghout Investments Limited, and the rest of the shares belong to VTB Group, headed by VTB Bank ojsc. The 49.95% shares of Teghout Investments Limited are not participative, but provide protective rights to VTB Group. According to the terms of the agreement with VTB Group 24.9% from these 49.95% shares will be bought back by the Company within 180 days after the full repayment of the loans, for an amount which is calculated using a pre-determined formula, based on historical loan balances, months till commencement of production by Teghout cjsc and months till achieving full design capacity. As these 24.9% shares provide only protective voting rights and right for receiving a pre-determined amount of payment, no non-controlling interest is recognized for these shares. However, for the remaining 25.05% shares of Teghout Investments Limited, belonging to VTB Group, non-controlling interest is recognized, as VTB Group, by virtue of the financing agreement with the Company, is entitled to pro-rata share of benefits from net assets of Teghout Investments Limited. The Company has a right to buy these shares within 180 days after the full repayment of the loans at the fair value of these shares at that time.

The Company's registered office is 19 Khanjyan Street, Yerevan, Republic of Armenia.

The Company's current principal activity is the production and sale of blister copper at the Alaverdi melting plant, Republic of Armenia. All production of the Company is currently sold outside of Armenia.

The Subsidiary's principal activity is the extraction and enrichment of copper-molybdenum ore and production of copper and molybdenum concentrates through operating the Teghout (Lori marz) copper-molybdenum mine under a License Agreement on extraction of mineral resources renewed on 20 February 2013 between the Subsidiary and the Ministry of Energy and Natural Resources ("the License Agreement"). According to the License Agreement, the Subsidiary's activities are licensed until 8 February 2026. It started copper concentrate production at the end of 2014. During 2015 the copper concentrate production plant became fully operational.

The Group is ultimately controlled by the Company's 100% shareholder Mr Valery Mejlumyan, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has other business interests outside of the Group. Related party transactions are detailed in note 31.

2. Basis of accounting

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Going concern

The Group has loan agreements with VTB Group with total carrying amount of AMD 187,156,769 thousand as at 31 December 2015 (note 25). As at 31 December 2015 the Group was in breach of loan covenants, which allowed the banks to require early repayment of the loans. Non-current loans were classified as current liability accordingly. This led to the current liabilities exceeding current assets by AMD 172,944,369 thousand. VTB Group did not use the right of early repayment as of the date of issue of these consolidated financial statements.

The above condition, together with the recent significant decline of copper and molybdenum prices and the fact that the Group incurred a loss of AMD 35,244,902 thousand in 2015, may cast significant doubt about the Group's ability to continue as a going concern, and, therefore, it may be unable to realize its assets and discharge its liabilities in the ordinary course of business.

The Group has renegotiated the bank loan terms and in 2016 has signed a new contract. Per the new terms, the principal repayments will be based on the available net cash flows from operations, which will allow the Group to repay the loan in the normal course of business. Besides, management expects improvements in the Group's results of operations due to increase in the volume of processed ore and expected recovery of metal prices in the future (see note 17).

Also the related party has indicated that it will not request an early repayment of the on demand loan.

The consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

3. Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Notes 1(b) and 25 – accounting for non-controlling interests and amortized cost of borrowings;
- Note 2(b) – use of going concern assumption;
- Note 7(g) – classification of royalty expense;
- Note 18 – determination of the components of ore body and waste estimates.

Information about assumptions and estimation uncertainties (excluding measurement of fair values) that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 5 – valuation of ore reserves and exploitation license extension;
- Note 7(i) – depreciation of mining property;
- Note 17 – impairment testing;
- Note 26 – provision for site restoration;
- Note 29(c) – taxation contingencies.

(a) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values of financial assets and liabilities is included in the note 28 – fair values and risk management.

5. Ore reserves and exploitation license

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. The total ore reserve estimates of the Teghout deposit was first established by the USSR State Committee for Reserves in 1991 at approximately 454 million tons. The Group's last ore reserve assessment was performed in 2014 by Strathcona Mineral Services Limited for recourses located above elevation of 890 meters (which amounted to 162 million tons based on the estimates by the USSR State Committee for Reserves),

based on international standards of mineral resources assessment and reporting at 107 million tons of constrained mineral resources.

Declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralization uneconomic to mine. Further, the availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Group's ore reserve estimates.

The Group operates under the License Agreement, which expires in 2026. In preparing these consolidated financial statements, management has assumed that the license will be prolonged beyond 2026 till the expiration of ore reserves. This assumption is based on the provisions of the Mining Code which state that the license can be prolonged based on submitted application.

The Group uses the above estimates in evaluating the impairment and useful lives of property, plant and equipment, mining property and intangible assets.

6. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

7. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

(a) Basis of consolidation 13
(b) Revenue 14
(c) Finance costs 14
(d) Foreign currency 15
(e) Short term employee benefits 15
(f) Income tax 15
(g) Royalties 16
(h) Inventories 16
(i) Property, plant and equipment and mining property 17
(j) Financial instruments 19
(k) Impairment 20
(l) Provisions 21

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(iii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(b) Revenue

Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

Transfer of risks and rewards related to the sales of blister copper occurs on completion of loading, weighing and sealing containers at seller's works in Alaverdi. The Group's blister copper sales contracts, in general, provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period for blister copper is up to two months after the risks and rewards of ownership have been transferred to the buyer.

Transfer of risks and rewards related to the sales of copper concentrate usually occurs when the product is loaded on to trucks at the plant. The Group's concentrate sales contracts, in general, provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period for copper concentrate is up to one – three months after the risks and rewards of ownership have been transferred to the buyer.

These provisional pricing features represent embedded derivatives that are required to be separated from the host contract for accounting purposes. The embedded derivative is recorded as a trade receivable or prepayment received on the statement of financial position with a corresponding adjustment to revenue and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

(c) Finance costs

The Group's finance costs include:

- interest expense;

- unwinding of discount on provision for site restoration;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognized using the effective interest method.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognized in profit or loss.

(e) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(g) Royalties

Royalties are the expected payables to the state budget calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties consist of two components: royalty calculated at 4% of revenue and royalty calculated at 12.5% of taxable net income adjusted as per the guidelines and requirements in the applicable laws and regulations.

Management believes that royalty expense does not represent an income tax as the total revenue factor (a gross measure) is significant in determining the amount of royalty payable. Royalties are treated as other operating expenses.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The Group’s copper concentrate purchase contracts, in general, provide for a provisional payment as specified in individual contracts, those are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period for copper concentrate is from one to three months after the month of shipment.

The Group’s provisionally priced purchase contracts contain an embedded derivative that, because it is unrelated to the host financial instrument, is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade payable or advances paid on the statement of financial position and

marked to market (fair value) through cost of sales each period with reference to the appropriate commodity forward curve until the date of final settlement.

(i) Property, plant and equipment and mining property

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Mining property

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realized in the form of improved access to ore to be mined in the future, the costs are recognized as a non-current asset, referred to as a stripping activity asset or mining property, if the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If any of the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs as they are incurred or included in the cost of inventory produced.

In identifying components of the ore body, the Group works closely with the mining operations personnel to analyze the mine plan. Generally, a component will be a subset of the total ore body, and a mine may have several components.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

A relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Group uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mining property.

The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

Included within mining property is also exploration and evaluation expenditure which relates to costs incurred on the exploration and evaluation of potential mineral reserves before the start of the development of the mine and mine development costs which include costs such as costs of geological and geophysical studies, exploratory drilling, sample testing, the costs of assembling and production equipment, initial stripping costs and overheads associated with such activities.

(iv) Depreciation

Items of property, plant and equipment and mining property are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

For all property, plant and equipment items depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. For mining property depreciation is charged based on the units of production method using the total estimated ore reserves and the actual extracted and treated ore. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 20-50 years
- Machines and equipment 2-50 years
- Motor vehicles 5-10 years
- Other 1-5 years
- Mining property unit of production method

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(j) Financial instruments

The Group classifies non-derivative financial assets into the loans and receivables category.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognizes loans and receivables on the date that they are originated. Financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables category comprises the following classes of financial assets: trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and current bank accounts.

(ii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(k) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- adverse changes in the payment status of borrowers;
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for loans and receivables at both an individual asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of mine area and contaminated land, and the related expense, is recognized when the ore is extracted and the land is contaminated as a result of waste ore accumulation and tailing pool construction in the license area.

A corresponding asset is recognized in property, plant and equipment. Site restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax risk-free rate. The unwinding of the discount is expensed as incurred and recognized in profit or loss as a finance cost.

At each year end the Group re-measures the provision for site restoration based on the best estimate of the settlement amount and the market-based discount rate.

Changes in the site restoration provision alter the cost of the related asset. In the event that a decrease in the site restoration provision exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss.

The depreciable amount of the related asset is depreciated over its useful life. Once the related asset has reached the end of its useful life, all subsequent changes in the site restoration provision are recognized in profit or loss as they occur.

8. Correction of errors

In preparation of these consolidated financial statements, the management has restated certain comparative information in order to make correction of errors as explained below.

- In preparing the 2014 consolidated financial statements the Group had classified a portion of an on demand borrowing from a related party as non-current liability as at 31 December 2014 and 2013.

- As part of obtaining financing from VTB Group, the Group had transferred 25.05% of shares in Subsidiary to VTB Group in 2011. The fair value of these shares as of the transfer date amounting AMD 3,049,021 thousand was included in the amortized cost calculation of loans and borrowings. Subsequently, in 2014 the Group revalued these shares with the increase in the fair value of AMD 6,224,000 thousand deducting from loans and borrowings and recording increase in retained earnings in the same amount. As a result of the revaluation the Group also recorded additional finance costs in 2014. In preparing 2015 consolidated financial statements, the management reversed the revaluation and related finance costs recognized in 2014 due to absence of technical basis of subsequent revaluation under IFRSs.

The impact of the restatements is presented in the following tables:

Consolidated statement of financial position

'000 AMD	Long term loans and borrowings	Short term loans and borrowings
Amount as previously reported at 31 December 2013	107,265,769	5,721,614
Restatement	(6,268,503)	6,268,503
Restated amount at 31 December 2013	**100,997,266**	**11,990,117**

'000 AMD	Retained earnings	Total equity	Long term loans and borrowings	Short term loans and borrowings
Amount as previously reported at 31 December 2014	6,693,164	8,674,825	12,619,644	167,073,461
Restatement	(5,312,393)	(5,312,393)	(12,619,644)	17,932,037
Restated amount at 31 December 2014	**1,380,771**	**3,362,432**	**-**	**185,005,498**

Consolidated statement of profit or loss and other comprehensive income

'000 AMD	Loss and total comprehensive loss for the year	Finance costs
Amount as previously reported for 2014	(23,062,450)	(22,931,907)
Restatement	911,607	911,607
Restated amount for 2014	**(22,150,843)**	**(22,020,300)**

9. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

New or amended standard	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
IFRS 16 *Leases*	IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.	The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

10. Revenue

'000 AMD	2015	2014
Sale of copper concentrate	40,480,279	-
Sale of blister copper	29,872,438	29,755,614
Sale of gold concentrate	2,241,178	1,486,788
Services provided	71,876	330,646
Sale of other products	29,408	57,806
	72,695,179	**31,630,854**

As at 31 December 2015 the Group had outstanding provisionally priced sales of AMD 19,654,066 thousand (2014: AMD 6,618,029 thousand), which had a fair value of approximately AMD 18,924,428 thousand (2014: AMD 6,344,087 thousand) including the embedded derivative.

11. Cost of sales

'000 AMD	2015	2014
Copper concentrate	11,854,224	22,455,889
Depreciation and amortization	11,702,755	301,098
Materials	11,332,675	2,285,057
Wages and salaries	5,112,416	885,599
Electricity and gas	3,841,535	1,660,669
Outsourced services	2,646,364	-
Gold concentrate	2,153,785	1,406,681
Cost of services provided	60,206	248,625
Other	1,240,241	38,260
	49,944,201	**29,281,878**

As at 31 December 2015 the Group had outstanding provisionally priced purchases of AMD 3,716,595 thousand (2014: AMD 7,737,580 thousand), which had a fair value of approximately AMD 3,565,079 thousand (2014: AMD 7,087,156 thousand) including the embedded derivative.

12. Other income

’000 AMD	2015	2014
Income from sale of inventory	596,303	175,862
Income from services provided	385,557	-
Income from fines and penalties	92,993	109,916
Gain on disposal of property, plant and equipment	21,563	9,892
Other	161,327	50,615
	1,257,743	**346,285**

13. Administrative expenses

’000 AMD	2015	2014
Wages and salaries	1,971,067	1,031,453
Repair and maintenance	559,564	129,717
Depreciation and amortization	387,737	125,368
Other	1,215,414	596,994
	4,133,782	**1,883,532**

14. Other expenses

’000 AMD	2015	2014
Impairment of property, plant and equipment and mining property (notes 17 and 18)	24,486,951	-
Royalties	3,946,276	-
Cost of services provided	380,093	-
Donations	311,233	70,680
Cost of inventory sold	241,037	-
Other	966,539	306,270
	30,332,129	**376,950**

15. Finance costs

’000 AMD	2015	2014
Recognized in profit or loss		**Restated**
Interest expense on loans and borrowings	21,244,006	206,601
Net foreign exchange loss	3,262,282	21,727,988
Unwind of discount on provision for site restoration	53,075	85,711
	24,559,363	**22,020,300**

16. Income taxes

(a) Amounts recognized in profit or loss

The Group's applicable tax rate is the income tax rate of 20% for Armenian companies.

'000 AMD	2015	2014
Current tax expense		
Current year	(249,954)	(401,096)
	(249,954)	**(401,096)**
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	5,256,952	163,814
Change in unrecognised temporary differences	(4,478,922)	-
Deferred tax benefit	**778,030**	**163,814**
Total income tax benefit/(expense)	**528,076**	**(237,282)**

Reconciliation of effective tax rate:

	2015		2014	
	'000 AMD	%	'000 AMD	%
Loss excluding tax	(35,772,978)	100	(21,913,561)	100
Tax at applicable tax rate	7,154,596	20	4,382,712	20
Non-deductible expenses	(2,147,598)	(6)	(4,619,994)	(21)
Change in unrecognized temporary differences	(4,478,922)	(13)	-	-
	528,076	**1**	**(237,282)**	**(1)**

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 AMD	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Property, plant and equipment and mining property	-	-	(104,267)	(137,109)	(104,267)	(137,109)
Intangible assets	-	4,672	(3,919)	-	(3,919)	4,672
Prepayments for non-current assets	-	176,349	-	-	-	176,349
Inventories	139,853	3,333	-	-	139,853	3,333
Trade and other receivables	39,567	-	-	(55,102)	39,567	(55,102)
Loans and borrowings	-	64,241	-	-	-	64,241
Provision for site restoration	-	76,089	-	-	-	76,089
Trade and other payables	3,894	201,115	-	-	3,894	201,115
Tax loss carry-forwards	1,172,543	136,053	-	-	1,172,543	136,053
Net tax liabilities	**1,355,857**	**661,852**	**(108,186)**	**(192,211)**	**1,247,671**	**469,641**

The Group has recognized deferred tax asset on tax losses carried forward based on the budget of the Group, which indicates the existence of sufficient future taxable profits against which the tax losses can be utilized before those will expire in 2019 and 2020. The expected level of production and sales are based on the plant capacity and metal prices in 2016 to 2020 are based on expectations in the global metal markets.

(c) Movement in deferred tax balances

'000 AMD	**1 January 2015**	**Recognized in profit or loss**	**31 December 2015**
Property, plant and equipment and mining property	(137,109)	32,842	(104,267)
Intangible assets	4,672	(8,591)	(3,919)
Prepayments for non-current assets	176,349	(176,349)	-
Inventories	3,333	136,520	139,853
Trade and other receivables	(55,102)	94,669	39,567
Loans and borrowings	64,241	(64,241)	-
Provision for site restoration	76,089	(76,089)	-
Trade and other payables	201,115	(197,221)	3,894
Tax loss carry-forwards	136,053	1,036,490	1,172,543
Net tax assets	**469,641**	**778,030**	**1,247,671**

'000 AMD	1 January 2014	Recognized in profit or loss	31 December 2014
Property, plant and equipment and mining property	50,703	(187,812)	(137,109)
Intangible assets	4,672	-	4,672
Prepayments for non-current assets	155,870	20,479	176,349
Inventories	6,349	(3,016)	3,333
Trade and other receivables	(131,269)	76,167	(55,102)
Loans and borrowings	64,241	-	64,241
Provision for site restoration	105,167	(29,078)	76,089
Trade and other payables	21,093	180,022	201,115
Tax loss carry-forwards	29,001	107,052	136,053
Net tax assets	**305,827**	**163,814**	**469,641**

(d) Unrecognised deferred tax assets

The following deferred tax assets have not been recognised which arise from temporary differences in respect of the following items:

'000 AMD	2015	2014
Property, plant and equipment and mining property	3,191,913	-
Prepayments for non-current assets	989,539	-
Trade and other receivables	80,206	-
Inventories	68,775	-
Provision for site restoration	102,736	-
Trade and other payables	45,753	-
	4,478,922	-

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of deductible temporary differences because it is not probable that future taxable profits will be available, against which the Group can utilize the benefits therefrom when those differences reverse.

17. Property, plant and equipment

'000 AMD	Land and buildings	Machines and equipment	Motor vehicles	Under construction	Other	Total
Cost						
Balance at 1 January 2014	15,215,316	60,008,464	936,261	27,097,223	909,801	104,167,065
Additions	142,651	8,350,213	118,564	21,253,395	205,023	30,069,846
Disposals	(154,420)	(505,528)	(8,249)	(124,536)	(41,496)	(834,229)
Transfers	26,780,292	15,271,396	144,120	(43,125,987)	930,179	-
Balance at 31 December 2014	**41,983,839**	**83,124,545**	**1,190,696**	**5,100,095**	**2,003,507**	**133,402,682**
Balance at 1 January 2015	41,983,839	83,124,545	1,190,696	5,100,095	2,003,507	133,402,682
Additions	581,516	9,790,081	77,924	2,384,223	49,548	12,883,292
Disposals	(56,640)	(2,354,101)	(21,242)	(116,861)	(1,443,160)	(3,992,004)
Transfers	582,389	2,153,822	-	(3,404,641)	668,430	-
Balance at 31 December 2015	**43,091,104**	**92,714,347**	**1,247,378**	**3,962,816**	**1,278,325**	**142,293,970**
Depreciation and impairment						
Balance at 1 January 2014	(3,046,666)	(6,145,673)	(232,019)	-	(390,027)	(9,814,385)
Depreciation for the year	(279,097)	(2,311,919)	(102,756)	-	(55,897)	(2,749,669)
Disposals	128,414	330,733	5,682	-	26,584	491,413
Transfers	-	5,331	-	-	(5,331)	-
Balance at 31 December 2014	**(3,197,349)**	**(8,121,528)**	**(329,093)**	**-**	**(424,671)**	**(12,072,641)**
Balance at 1 January 2015	(3,197,349)	(8,121,528)	(329,093)	-	(424,671)	(12,072,641)
Depreciation for the year	(1,766,745)	(9,365,198)	(123,529)	-	(1,635,157)	(12,890,629)
Disposals	29,341	850,805	10,164	-	1,272,587	2,162,897
Impairment	(5,873,751)	(11,448,295)	(102,537)	(577,575)	(73,103)	(18,075,261)
Balance at 31 December 2015	**(10,808,504)**	**(28,084,216)**	**(544,995)**	**(577,575)**	**(860,344)**	**(40,875,634)**
Carrying amounts						
At 1 January 2014	12,168,650	53,862,791	704,242	27,097,223	519,774	94,352,680
At 31 December 2014	38,786,490	75,003,017	861,603	5,100,095	1,578,836	121,330,041
At 31 December 2015	**32,282,600**	**64,630,131**	**702,383**	**3,385,241**	**417,981**	**101,418,336**

Depreciation expense of AMD 9,149,299 thousand has been charged to cost of sales (2014: AMD 235,647 thousand), AMD 385,639 thousand to administrative expenses (2014: AMD 125,368 thousand), AMD 115,768 thousand has been included in closing inventory (2014: nil) and AMD 3,239,923 thousand to property, plant and equipment and mining property (2014: AMD 2,388,654 thousand).

Security

As at 31 December 2015 land with a carrying amount of AMD 813,336 thousand (2014: AMD 813,336 thousand), machines and equipment with a carrying amount of AMD 6,758,400 thousand (2014: AMD 7,484,708 thousand) as well as motor vehicles with a carrying amount of AMD 68,266 thousand (2014: AMD 83,314 thousand) are pledged as collateral for bank loans (see note 25).

Impairment testing of property plant and equipment and mining property (note 18)

During 2015, due to significant decline in metal prices the Group determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment and mining property (note 18) related to copper concentrate production in Teghout mine.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment and mining property was determined to be higher than their recoverable amounts and an impairment loss of AMD 24,486,951 thousand was recognised.

The key assumptions used in the estimation of value in use are as follows:

- Cash flows were projected based on past experience, actual operating results and the Group's five year business plan. The forecast period covers years until 2041 after which a terminal value is determined,

- Ore reserves of 107 million tons assessed by Strathcona Mineral Services Limited were used and afterwards the same level of activity was projected on the basis of total reserves established by the USSR State Committee for Reserves in 1991 at approximately 454 million tons,

- Total volume of processed ore was projected at 8 million tons per annum which represents the production capacity with existing property, plant and equipment,

- Average copper price is forecasted to increase to USD 5,269, USD 5,629 and USD 5,962 in 2016, 2017 and 2018 respectively and to reach USD 6,848 per tone in 2025 and average Molybdenum price is forecasted to increase to USD 6.5 and USD 8.0 in 2016 and 2017 respective and to reach USD 8.5 per pound based on expectations in the global metal markets. Then the long term US inflation rate of 2% was applied,

- Unit production costs, treatment and refining charges, capital expenditure and administrative expenses are expected to increase by the long term US inflation rate of 2%,

- A pre-tax discount rate of 17.5% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 86% at a market interest rate of 10.5%.

The above estimates are particularly sensitive in the following areas:

- An increase of 1% in the discount rate used would have caused the recoverable amount to decrease and impairment to increase by AMD 5,956,178 thousand,

- A 5% decrease in forecasted metal prices would have caused the recoverable amount to decrease and impairment to increase by AMD 17,112,164 thousand,

- A 5% decrease in production volumes would have caused the recoverable amount to decrease and impairment to increase by AMD 9,402,076 thousand.

18. Mining property

'000 AMD	Alaverdi deposit	Teghout deposit	Total
Cost			
Balance at 1 January 2014	1,469,861	20,972,393	22,442,254
Additions	-	16,257,865	16,257,865
Disposals	-	(231,096)	(231,096)
Balance at 31 December 2014	**1,469,861**	**36,999,162**	**38,469,023**
Balance at 1 January 2015	1,469,861	36,999,162	38,469,023
Additions	-	11,377,942	11,377,942
Disposals	-	(178,257)	(178,257)
Balance at 31 December 2015	**1,469,861**	**48,198,847**	**49,668,708**
Depreciation and impairment			
Balance at 1 January 2014	(1,469,861)	-	(1,469,861)
Depreciation for the year	-	(553,811)	(553,811)
Balance at 31 December 2014	**(1,469,861)**	**(553,811)**	**(2,023,672)**
Balance at 1 January 2015	(1,469,861)	(553,811)	(2,023,672)
Depreciation for the year	-	(2,553,456)	(2,553,456)
Impairment (see note 17)	-	(6,411,690)	(6,411,690)
Balance at 31 December 2015	**(1,469,861)**	**(9,518,957)**	**(10,988,818)**
Carrying amounts			
At 1 January 2014	-	20,972,393	20,972,393
At 31 December 2014	-	36,445,351	36,445,351
At 31 December 2015	**-**	**38,679,890**	**38,679,890**

As at 1 January 2015, in applying the requirements of IFRIC 20, the Group has determined one component of its surface mine in Teghout. The average expected ratio of waste per ton of ore extracted is assessed as 1.1.

19. Inventories

'000 AMD	2015	2014
Spare parts	5,761,487	2,143,479
Raw materials	5,580,941	5,751,064
Finished goods	237,355	651,953
Work in progress	70,784	65,908
Other inventory	1,373,742	1,331,849
	13,024,309	**9,944,253**

20. Trade and other receivables

'000 AMD	2015	2014
Tax receivables other than on income	12,256,972	13,127,050
Trade receivables	1,497,617	1,673,377
Prepayments given	1,346,169	2,189,062
Other receivables	75,711	354,380
	15,176,469	**17,343,869**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

21. Cash and cash equivalents

'000 AMD	2015	2014
Bank balances	3,178,747	2,086,207
Petty cash	1,211	1,208
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**3,179,958**	**2,087,415**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

22. Capital and reserves

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2015	Ordinary shares 2014
Authorized shares	5,000,000	5,000,000
Par value	AMD 1,000	AMD 1,000
On issue at 1 January and 31 December, fully paid	**3,069,716**	**3,069,716**

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group.

(b) Dividends

In accordance with Armenian legislation, the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory financial statements prepared in accordance with International Financial Reporting Standards.

23. Non-controlling interests

The following table summarizes the information relating to the Group's subsidiary that has material NCI, before any intra-group eliminations.

31 December 2015 '000 AMD	**Teghout cjsc**	**Intra-group eliminations**	**Total**
NCI percentage	25.05%		
Non-current assets	138,633,720		
Current assets	22,569,289		
Non-current liabilities	(11,536,736)		
Current liabilities	(182,162,768)		
Net assets	**(32,496,495)**		
Net assets attributable to NCI	(8,140,372)	(172,295)	(8,312,667)
Revenue	51,425,617		
Loss and total comprehensive loss	**(28,391,991)**		
Loss and total comprehensive loss allocated to NCI	(7,112,194)	(112,418)	(7,224,612)
Cash flows from operating activities	24,754,414		
Cash flows from investment activities	(15,716,078)		
Cash flows from financing activities (dividends to NCI: nil)	(7,341,453)		
Net increase in cash and cash equivalents	**1,696,883**		

31 December 2014 **’000 AMD**	**Teghout cjsc**	**Intra-group eliminations**	**Total**
NCI percentage	25.05%		
Non-current assets	163,563,804		
Current assets	16,043,321		
Non-current liabilities	(16,632,818)		
Current liabilities	(164,262,792)		
Net assets	**(1,288,485)**		
Net assets attributable to NCI	(322,765)	(765,290)	(1,088,055)
Revenue	-	-	-
Loss and total comprehensive loss	**(20,205,670)**		
Loss and total comprehensive loss allocated to NCI	(5,061,521)	-	(5,061,521)
Cash flows from operating activities	(11,736,959)		
Cash flows from investment activities	(23,082,225)		
Cash flows from financing activities (dividends to NCI: nil)	34,954,491		
Net increase in cash and cash equivalents	**135,307**		

24. Capital management

The Group has no formal policy for capital management.

There were no changes in the Group’s approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

The Group’s debt to equity ratio at the end of the reporting period was as follows:

’000 AMD	**2015**	**2014**
		Restated
Total liabilities	205,369,902	192,462,891
Less: cash and cash equivalents	(3,179,958)	(2,087,415)
Net debt	**202,189,944**	**190,375,476**
Total equity	(31,882,470)	3,362,432
Net debt to equity ratio at 31 December	**(6.3)**	**56.6**

25. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 28.

'000 AMD	**2015**	**2014**
Current liabilities		**Restated**
Secured bank loans	187,156,769	171,595,177
Unsecured borrowing from a related party	6,132,899	13,410,321
	193,289,668	**185,005,498**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2015		**31 December 2014 Restated**	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan 1	USD	11-11.84%	2023	169,052,772	169,052,772	154,722,336	154,722,336
Secured bank loan 2	USD	1M LIBOR + 6.75%	2018	12,001,052	12,001,052	11,745,430	11,745,430
Secured bank loan 3	USD	10%	2016	6,102,945	6,102,945	5,127,411	5,127,411
Unsecured borrowing from a related party	AMD	9%	On demand	6,132,899	6,132,899	13,410,321	13,410,321
				193,289,668	**193,289,668**	**185,005,498**	**185,005,498**

Secured bank loans

Secured bank loan 1 represents secured credit line facilities with VTB Group. The credit line facilities consist of three sub-loans, namely N 201, N 202 and N 203. The interest rate under the sub-loan agreements N 201 and N 203 is 11%, however the bank has a right to use LIBOR USD 3m + 6.02% in case it is higher than 11% and for the sub-loan agreement N 202 the interest rate is 11.84%, however the bank has a right to use LIBOR USD 3m + 8.02% in case it is higher than 11.84%.

An initial amount of AMD 3,049,021 thousand is deducted from the amortized cost of the Secured bank loan 1 which is amortized using the effective interest method and included in finance costs. This represents the fair value of the Subsidiary's 25.05% shares determined at the time of signing of the loan agreements, which were transferred to VTB Group as part of the financing agreement.

In addition, as the remaining 24.9% of the Subsidiary's shares, which were transferred to VTB Group as part of the financing agreement, will be bought back by the Company within 180 days after the full repayment of the loans, the estimated repurchase price is included in the amortized cost calculation of the Secured bank loan 1.

The repayments of the principal amount of the Secured bank loan 1 were due to start at the end of 2015. However, the Group agreed with the bank to defer the payments until a new agreement is concluded with the bank. In September 2016 the Group signed a new renegotiated agreement, which will allow the Group to repay the loans in the normal course of business.

Secured bank loan 1 is collateralized by the following:

- Property, plant and equipment (see note 17)
- Property, plant and equipment of Armenian Copper Programme cjsc
- Property, plant and equipment of Vallex FM Est. Ltd
- 100% shares of Teghout cjsc
- 100% shares of Armenian Copper Programme cjsc
- 1001 A class shares of Teghout Investment Limited
- 99.999% shares of Vallex FM Est. Ltd
- Guarantee of Armenian Copper Programme cjsc
- Guarantee of Teghout Investment Limited
- Guarantee of Vallex FM Est. Ltd

Secured bank loan 1 contains a covenant related to decrease of net assets by more than 10%. The covenant was breached by the Group as at 31 December 2015 and 2014 which gave the lender the right to demand early repayment of principal and interest. As a result, the loan was classified as short term liabilities as at 31 December 2015 and 2014.

Secured bank loans 2 and 3 also contain covenants which were breached by the Group as at 31 December 2015 and 2014 which gave the lender the right to demand early repayment of principal and interest. As a result, the loans were classified as short term liabilities as at 31 December 2015 and 2014.

26. Provision for site restoration – non-current

'000 AMD	**2015**	**2014**
Balance at 1 January	380,454	525,837
Unwind of discount	53,075	85,711
Decrease in site restoration liability	-	(231,094)
Balance at 31 December	**433,529**	**380,454**

The provision is in respect of the Group's obligation to restore mine and other affected sites during mine exploitation and concentrate production.

The restoration costs include:

- the cost of closure of the waste dump;
- the cost of closure of the tail dam;
- the cost of closure of the open pit;

The total amount of the estimated cash flows required to settle the obligation is AMD 507,570 thousand (2014: AMD 847,169 thousand) at current prices. A forecasted inflation rate of 4% for Armenia was applied for projecting the nominal cash flows.

An annual discount rate of 11.7% (2014: 13.9%) was used to discount restoration costs to be made in 11 years time (2014: 12). The timing of provision has been taken based on the management estimate on when the Group will realize its restoration obligation in respect of existing waste dump, tail dams and the open pit as at 31 December 2015. The discount rate represents the nominal risk free rate (rate for long term Armenian Government bonds) adjusted for estimated country default spread.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in Armenia continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. In making this assumptions management has consulted with its in-house engineers and external specialists.

27. Trade and other payables

’000 AMD	**2015**	**2014**
Taxes payable other than on income	5,555,233	1,303,005
Trade payables	4,340,287	2,893,895
Wages and salaries	916,209	558,996
Prepayments received	65,211	30,480
Other payables	145,049	144,240
	11,021,989	**4,930,616**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

28. Fair values and risk management

(a) Fair values of financial instruments

The estimated fair value of all the financial assets and liabilities approximates their carrying amounts.

The table below analyses financial instruments carried at fair value:

’000 AMD	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2015				
Derivatives embedded in sales contracts	-	(729,638)	-	(729,638)
Derivatives embedded in purchase contracts	-	151,516	-	151,516
31 December 2014				
Derivatives embedded in sales contracts	-	(273,942)	-	(273,942)
Derivatives embedded in purchase contracts	-	650,424	-	650,424

The fair value of the embedded derivatives has been calculated using forward prices as at the reporting date available in the metal markets.

Sensitivity analysis

An increase of 10% in forward prices of copper at the reporting date would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
'000 AMD	**2015**	**2014**
Sales	1,848,521	634,409
Cost of sales	(317,702)	(708,716)

A 10% decrease in forward prices of copper at 31 December 2015 and 2014 would have had the equal but opposite effect to the amount shown above, on the basis that all other variables remain constant.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The management has overall responsibility for the establishment and oversight of the Group's risk management framework. The management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) 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, and arises principally from the Group's receivables from customers.

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all counterparties other than related parties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
'000 AMD	**Note**	**2015**	**2014**
Trade receivables	20	1,497,617	1,673,377
Cash and cash equivalents	21	3,178,747	2,086,207
		4,676,364	**3,759,584**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 99% of the Group's revenue is attributable to sales transactions with two customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

None of the trade receivables are impaired or past due.

Cash and cash equivalents

The Group holds cash and cash equivalents with reputable Armenian banks and the Group does not expect them to fail to meet their obligations.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

2015 **'000 AMD**	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 months**
Secured bank loan 1	169,052,772	189,674,041	189,674,041	-
Secured bank loan 2	12,001,052	12,001,052	12,001,052	-
Secured bank loan 3	6,102,945	6,102,945	6,102,945	-
Unsecured borrowing from a related party	6,132,899	6,132,899	6,132,899	-
Trade and other payables	4,340,287	4,340,287	-	4,340,287
	197,629,955	**218,251,224**	**213,910,937**	**4,340,287**

2014 **'000 AMD**	**Carrying amount**	**Contractual cash flows**	**On demand**	**Less than 2 months**
Secured bank loan 1	154,722,336	181,538,455	181,538,455	-
Secured bank loan 2	11,745,430	11,745,430	11,745,430	-
Secured bank loan 3	5,127,410	5,127,410	5,127,410	-
Unsecured borrowing from a related party	13,410,321	13,410,321	13,410,321	-
Trade and other payables	2,893,895	2,893,895	-	2,893,895
	187,899,392	**214,715,511**	**211,821,616**	**2,893,895**

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group entities. The currency in which these transactions primarily are denominated is USD.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 AMD	**USD-denominated 2015**	**USD-denominated 2014**
Cash and cash equivalents	2,677,784	1,588,783
Trade receivables	1,326,386	1,328,771
Secured bank loans	(187,156,769)	(171,595,177)
Trade and other payables	(426,985)	(783,543)
Net exposure	**(183,579,584)**	**(169,461,166)**

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against the USD at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

’000 AMD	**Strengthening**	**Weakening**
	Profit or loss	**Profit or loss**
31 December 2015		
AMD 10% movement against USD	18,357,958	(18,357,958)
31 December 2014		
AMD 20% movement against USD	33,892,233	(33,892,233)

(v) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was:

’000 AMD	**Carrying amount**	
	2015	**2014**
Fixed rate instruments		
Financial liabilities	12,235,844	18,537,732
	12,235,844	**18,537,732**
Variable rate instruments		
Financial liabilities	181,053,824	166,467,766
	181,053,824	**166,467,766**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

Management believes that a reasonable possible change in LIBOR at the reporting date would not have significant impact on the profit or loss of the Group in 2015 and 2014.

29. Contingencies

(a) Environmental matters

The Group is subject to various state laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. Management is of the opinion that the Group has met the Government's requirements concerning environmental matters, and therefore the Group has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation in Armenia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

(b) Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities and business interruption. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(c) Taxation contingencies in Armenia

The taxation system in Armenia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries.

In addition, recently the tax authorities have been taking aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia resulting in claimed material increases to the royalty amounts contrary to the way the royalties are calculated by majority of mining companies in Armenia (including the Group). Management has thoroughly analysed these cases and believes that the position taken by tax authorities is not consistent with the Law on Nature Protection and Nature Utilization Payments.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30. Operational risks

(a) Mines

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions and adverse claims to water rights, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of or failure to receive necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) uncertainty of exploration and development, (x) delays in transportation, (xi) labour disputes, (xii) inability to obtain satisfactory insurance coverage, (xiii) unavailability of materials and equipment, (xiv) the failure of equipment or processes to operate in accordance with specifications or expectations, (xv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xvi) the results of financing efforts and financial market conditions.

(b) Copper and molybdenum price volatility

The Group's financial performance is heavily dependent on the price of copper, which is affected by many factors beyond the Group's control. Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Group's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the year ended 31 December 2015, LME daily closing spot prices ranged from USD 4,515 to USD 6,445 per ton for copper. The LME spot copper price closed at USD 5,457 per ton on 17 November 2016.

The Group's future financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more so than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The price of molybdenum was averaging to approximately USD 14,793 per ton during 2015 in comparison with USD 24,919 per ton during 2014. The LME spot price of USD 14,750 per ton of molybdenum was registered on 17 November 2016.

A sustained period of low molybdenum and copper prices would adversely affect the Group's profits and cash flows.

31. Related party transactions

(a) Control relationships

The Group's only shareholder and the party with ultimate control is Mr Valery Mejlumyan.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

'000 AMD	2015	2014
Salaries and bonuses	**814,699**	**376,826**

(c) Other related party transactions – entities under common control

'000 AMD	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2015	2014	2015	2014
Sale of goods and services:				
Sales	898,809	690,396		
Trade and other receivables			68,810	42,457
Prepayments received			46,912	29,095
Purchase of goods and services:				
Purchases	20,107,052	15,826,748		
Trade and other payables			724,942	283,253
Prepayments given			223,302	1,049,780
Loans and borrowings received:				
Loans and borrowings	3,186,000	11,627,650	6,132,899	13,410,322
Interest expense	752,254	790,678		
Donations given:				
Donations given	188,473	-	-	-

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

The Group has outstanding guarantees received from related parties at 31 December 2015 and 2014 (note 25).