Teghout CJSC

Financial Statements

prepared in accordance with
International Financial Reporting Standards

As at 31 December 2014

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Independent auditors' report to the shareholders and management of Closed Joint-Stock Company Teghout

We have audited the accompanying financial statements of CJSC Teghout (the "Company"), which comprise the statement of financial position as at 31 December, 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Company incurred a net loss of AMD 20,205,670 thousand during the year ended December 31, 2014 and, as of that date, the Company's current liabilities exceeded its current assets by AMD 148,219,471 thousand. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young CJSC

Partner

Eric Hayrapetyan

19 November 2015

Statement of comprehensive income
for the year ended 31 December 2014

(in thousands drams)

	Notes	2014	2013
Other income	5	434,118	2,128,366
Administrative expenses	6	(845,373)	(322,541)
Other expenses	7	(347,440)	(1,293,677)
Operating (loss)/profit		(758,695)	512,148
Finance income		-	89,156
Finance expenses	8	(19,224,998)	(456,452)
(Loss)/Profit before income tax		(19,983,693)	144,852
Income tax (expense)/benefit	9	(221,977)	49,263
(Loss)/Profit for the year		(20,205,670)	194,115
Other comprehensive income		-	-
Total comprehensive (loss)/ income for the year		(20,205,670)	194,115

Financial statements are signed and authorized for issue in accordance with a resolution of Teghout CJSC.

General Director Valery Mejlumyan

Chief Accountant Mkrtich Petrosyan

19 November 2015

The accompanying notes are an integral part of these financial statements

Statement of financial position as at 31 December 2014

(in thousands drams)

	Notes	*2014*	*2013*
Assets			
Property, plant and equipment	10	155,396,375	111,198,173
Intangible assets	11	208,301	131,494
Advances for non-current assets		4,609,851	6,527,692
Recoverable VAT		3,349,277	2,125,255
Non-current assets		**163,563,804**	**119,982,614**
Inventories	12	4,788,554	386,688
Trade and other receivables	13	57,208	27,956
Recoverable VAT		9,475,954	6,822,075
Advances provided		1,141,162	69,990
Cash and cash equivalents	14	580,443	377,956
Current assets		**16,043,321**	**7,684,665**
Total assets		**179,607,125**	**127,667,279**
Equity			
Share capital	15	3,100,100	3,100,100
Additional paid-in capital	15	16,053,710	14,535,822
Accumulated loss		(20,442,295)	(236,625)
Total equity		**(1,288,485)**	**17,399,297**
Liabilities			
VAT payable		1,907,511	2,125,256
Deferred tax liability	9	3,965,597	3,364,148
Loans and borrowings	16	10,379,256	99,736,881
Site restoration provision	18	380,454	525,837
Total non-current liabilities		**16,632,818**	**105,752,122**
Loans and borrowings	16	159,713,004	–
Site restoration provision	18	65,943	111,823
Trade and other payables	17	4,483,845	4,404,037
Total current liabilities		**164,262,792**	**4,515,860**
Total liabilities		**180,895,610**	**110,267,982**
Total equity and liabilities		**179,607,125**	**127,667,279**

The accompanying notes are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2014

(in thousands drams)

	Share capital	*Additional paid-in capital*	*Accumulated loss*	*Total equity*
At 1 January 2013	3,100,100	14,535,822	(430,740)	17,205,182
Total comprehensive income	–	–	194,115	194,115
At 31 December 2013	3,100,100	14,535,822	(236,625)	17,399,297
Total comprehensive loss	–	–	(20,205,670)	(20,205,670)
Additional paid-in capital resulting from a loan received from the Ultimate parent at interest rate below market rate, net of deferred tax in the amount of 379,472	–	1,517,888	–	1,517,888
At 31 December 2014	3,100,100	16,053,710	(20,442,295)	(1,288,485)

The accompanying notes are an integral part of these financial statements

Statement of cash flows
for the year ended 31 December 2014

(in thousands drams)

	Notes	*2014*	*2013*
Operating activities			
Cash received from customers		378,804	3,035,044
Cash paid to suppliers and employees		(7,458,181)	(2,664,002)
VAT paid		(2,954,418)	(734,964)
Other taxes paid		(1,703,164)	(939,019)
Net cash flows used in operating activities		**(11,736,959)**	**(1,302,941)**
Investing activities			
Proceeds from sales of property, plant and equipment		13,581	–
Acquisition and construction of property, plant and equipment		(23,008,573)	(29,126,297)
Acquisition of intangible assets		(87,233)	–
Net cash flows used in investing activities		**(23,082,225)**	**(29,126,297)**
Financing activities			
Proceeds from loans and borrowings		34,954,491	29,473,822
Repayment of loans and borrowings		–	(500,000)
Net cash flows from financing activities		**34,954,491**	**28,973,822**
Net increase /(decrease) in cash and cash equivalents		135,307	(1,455,416)
Effect of exchange rate changes on cash and cash equivalents		67,180	37,823
Cash and cash equivalents at 1 January		377,956	1,795,549
Cash and cash equivalents at 31 December	**14**	**580,443**	**377,956**

The accompanying notes are an integral part of these financial statements

(In thousand drams)

1. Corporate information

Teghout CJSC (the "Company") is a closed joint stock company as defined in the Civil Code of the Republic of Armenia. The Company was established in accordance with the legislation of the Republic of Armenia in May 2006.

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

The Company's intended future principal activity is the mining, processing and sale of molybdenum and copper concentrate. The Company holds the license for the exploitation of molybdenum and copper deposit in Teghout, northern Armenia (Note 18). Currently, the Company is involved in development of mining property and construction of copper and molybdenum processing plant in the deposit area.

Since establishment the Company was wholly owned by Armenian Copper Programme CJSC (the "Ultimate parent").

In November 2011, 100% of the shares of the Company were transferred to Teghout Investments Limited (the "Parent", subsidiary of the Ultimate parent, Cyprus).

The Company is ultimately controlled by a single individual, Mr. Valery Mejlumyan, who has the power to direct the Company's at his own discretion and for his own benefit. He also holds interest in other businesses not related to the Company. Detailed information about related party transactions can be found in Note 19.

2.1 Basis of preparation

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis. The financial statements are presented in Armenian drams and all values are rounded to the nearest thousand except where otherwise indicated.

2.2 Going concern

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The loss, incurred by the Company in 2014 amounted to AMD 20,205,670 thousand (2013: profit AMD 194,115 thousand). The devaluation of the Armenian local currency in 2014 has resulted in deterioration of the financial position of the Company, which, in accordance to the Loan Agreement, allows the bank to require early redemption of the loan. The loan was classified as a short-term, accordingly. This led to the net current liabilities position; amounted to AMD 148,219,471 thousand as at 31 December 2014 (net current assets amounted to AMD 3,280,628 thousand as at 31 December 2013).

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern, therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The management is in process of negotiation with the bank, in respect of the waiving the loan agreement condition breach and believes that the bank would not use the early redemption option.

Management believes that the deterioration of Company's financial position has a temporary character and management expects improvements in main financial measure in due to commencement of the production stage of the mine and to the fact, that the revenue generated by the Company is denominated in foreign currency.

Consequently, taking into account all related factors management believes that these mitigation measures are supporting appropriateness of use of going concern assumption in the preparation of the financial statements.

(In thousand drams)

2.3 Summary of significant accounting policies

Fair value measurement

The Company measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The company must have an access to the principal from the most advantageous markets.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the current circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Company determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

At each reporting date, the Company analyses the changes in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company’s accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. On an interim basis, the Company presents the valuation results to the audit committee and the Company’s independent auditors. Besides, the major assumptions used in the valuations are discussed.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured irrespective of the date of payment. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractual payment terms, less any taxes or duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Revenue recognition (continued)

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from services rendered is recognized according to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the financial outcome of the contract cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease period and is included in revenue due to its operating nature.

Taxes

Current income tax expense

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Taxes (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change.

Value added tax

Output value added tax arising on the sale of goods is payable to the tax authorities upon delivery of goods and services to customers. Input VAT is generally recoverable against output VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT amounts related to sales and purchases are recognized in the balance sheet on a net basis and disclosed separately as an asset or liability. Where provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Property, plant and equipment

Recognition and measurement

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

Cost includes expenses attributable directly to acquisition of the respective assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its 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.

Where items of property, plant and equipment comprise separate components having different useful lives, each of the components is accounted for as a separate item (major component) 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.

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 Company, and its cost can be reliably measured. The carrying amount of the replaced component is derecognized. The costs of current repairs and maintenance of property, plant and equipment are recognized in profit or loss as incurred.

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Mining property

Mining property is presented as a separate class of property, plant and equipment. The cost of mining property represents expenses directly attributable to the mine area and includes expenses related to exploratory works, site restoration, stripping and preparation for extraction.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, and 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 an asset are assessed individually and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component 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. 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:

- Plant and equipment 5-10 years
- Buildings and structures 20-50 years
- Vehicles 5-10 years
- Other 5-10 years

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

Operating lease

Where the Company is a lessee in a lease, which does not transfer substantially all the risks and benefits incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiations of operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rentals are recognized as revenue in the period in which they are earned.

Intangible assets

Recognition and measurement

Intangible assets acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent costs

Subsequent costs are capitalized only if they increase the future economic benefits embodied in the specific asset to which they relate. All other costs, including costs incurred on internally generated brands and goodwill, are recognized in profit or loss as incurred.

Amortization

Amortization is calculated over the cost of the asset or any other substituting amount, less the residual value of the asset.

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Intangible assets (continued)

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Licenses license term
- Other intangible assets 5-10 years

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

Financial assets

Key measurement terms

Financial assets within the scope of IAS 39 *Financial instruments: Recognition and measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value. In cases where investments are not classified as financial assets at fair value through profit or loss, all transaction costs directly attributable to the asset are added to their fair value. All purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular trade agreements) are recognized on the trade date, i.e. the date when the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, as well as trade and other receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payment terms, that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment provisions. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortization based on effective interest rate is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income as finance costs.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized primarily when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS (IAS) 39 are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

Subsequent measurement

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

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near future. This category also includes derivative financial, instruments where the Company constitutes a contractual party, that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities, designated upon initial recognition at fair value through profit or loss, are designated to this category at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This category is particularly relevant to the Company. After initial recognition, interest -bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Income and expenses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

Derecognition

A financial liability is derecognized when the obligation under the liability is cancelled, redeemed or expires. When an existing financial liability is replaced by another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Impairment

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults on an individual financial asset or collectively on financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

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 borrowers, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of the Company's borrowers or issuers, or economic conditions that correlate with defaults.

Loans and receivables

The Company considers evidence of impairment for loans and receivables both at the level of individual assets, and an asset portfolio. All individually significant assets are assessed for impairment on an individual basis. Where individually significant loans and receivables show no indication of being individually impaired, they are included in a portfolio and collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing evidence of collective impairment, the Company reviews 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 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 for the period and reflected in an allowance account against loans and receivables. 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, the decrease in impairment loss is reversed through profit or loss.

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Impairment (continued)

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax asset, 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. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit 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 cash-generating unit. 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.

Corporate assets are allocated to cash-generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash-generating unit to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed 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, less accumulated depreciation or amortization, if no impairment loss had been recognized.

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventory is determined on the first-in, first-out basis and includes expenses incurred in acquiring inventories and bringing them to their existing location and condition.

Advances

Advances carried at amortized cost less provision for impairment. An advance is classified as non-current when the goods or services relating to the advance are expected to be obtained after one year, or when the advance relates to an asset which will itself be classified as non-current upon initial recognition. Advances to acquire assets are included in the carrying amount of the asset once the Company has obtained control over the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other advances are written off to profit or loss when the goods or services relating to the advances are received. If there is an indication that the asset, goods or services relating to the advances will not be received, the carrying value of advance is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on call deposits with banks, and other short-term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Employee benefits

Wages, salaries, contributions to the state pension fund of the Republic of Armenia, paid annual leave and sick leave, bonuses and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company. Employees receive pension benefits from the State pension fund of the Republic of Armenia in accordance with the laws and regulations. Contributions are made by the Company to the Government's Pension fund at the statutory rates in force during the year.

(In thousand drams)

2.3 Summary of significant accounting policies (continued)

Contingent assets and liabilities

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Foreign currency translation

The functional currency of the Company is the currency of the primary economic environment in which the Company operates. The functional currency of the Company is the national currency of the Republic of Armenia - the Armenian Dram (AMD).

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of Armenia (CBA) at respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBA are recognized in profit and loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. At 31 December 2014, the principal rates of exchange used for translating foreign currency balances were 474.97 AMD/US dollar (USD) (2013: 405.64 AMD/USD), 577.47 AMD/Euro (EUR) (2013: 559.54 AMD/EUR), 8.15 AMD/Russian Ruble (RUB) (2013: 12.44 AMD/RUB).

2.4 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014. The nature and the impact of each new standard and amendment are described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company, since the Company does not qualify to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since the Company does not have any offsetting arrangements.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

(In thousand drams)

3. Significant accounting judgments, estimates and assumptions

Estimates, assumptions and judgments

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. Future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Impairment of assets and accounting for provisions

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If any indication of impairment exists, the carrying value of the asset is written down to its recoverable amount. The impairment loss is recorded in the statement of comprehensive income for the period when the impairment took place.

If the situation changes, and management considers that the value if assets has increased, the allowance for impairment is fully or partially reversed.

Accounting for impairment includes allowance against property, plant and equipment, intangible assets, trade and other receivables, other non-current assets and inventory obsolescence.

The provisions for liabilities and charges primarily include provisions for tax liabilities and legal proceedings. The Company records an impairment charge or accrues these provisions when its assessments indicate that it is probable that a liability will arise or an asset will not be recovered and the amount can be reasonably estimated. The impairment provision for accounts receivable is based on the management's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates.

If management determines that no objective evidence exists that impairment has occurred for any specific accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of accounts receivable that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

(In thousand drams)

3. Significant accounting judgments, estimates and assumptions (continued)

Provision for site restoration

The Company analyzes the site restoration provision at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC Interpretation **IFRIC 1** ***Changes in Decommissioning, Restoration and Similar Liabilities***. The amount of provision reflects the best estimate of the expenditure required to settle the present obligation at the reporting date. In determining the best estimate of the provision the risks and uncertainties that inevitably surround many events and circumstances are being taken into account.

Assessment of the future costs of site restoration requires the significant amount of management judgment. Future events that may affect the amount required to settle an obligation are being reflected in the amount of the provision if there is an objective evidence that those event might occur.

More detailed information on site restoration provision assessment is presented in Note 18.

Ore reserves

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the Company's control. Ore reserve estimates are based on engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may make the mining of certain reserves, containing relatively low grades of mineralization, economically unfavourable. Furthermore, presence of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates.

The first estimate of total ore reserves of the Teghout deposit was made in 1991 by the USSR State Committee for Reserves. According to that estimation the or reserves constituted approximately 454 million tonnes with an average content of copper of 0.35% and molybdenum of 0.022%.

In 2014 Strathcona Mineral Services Limited revalued ore reserves located 890 meters above the horizon. Valuation of ore reserves located 890 meters below the horizon remained unchanged.

The estimation was performed according to definitions and reporting standards of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), as required by the codex of Canadian National Instrument 43-101 (NI 43-101) for publicly-traded companies. The revaluation was approved by the Ministry of Energy and Natural Resources of the Republic of Armenia. Total results of valuation are as follows (in millions of tonnes of ore): 131.4 – measured, 304.7 – calculated, and 7.9 – possible.

Ore reserves located 890 meters above the horizon (Revalued reserves)

Description	Unit of measurement	Reserves		
		Measured	*Calculated*	*Possible*
Ore	mln.t.	100.9	41.3	5.0

Ore reserves located 890 meters below the horizon

Description	Unit of measurement	Reserves		
		Measured	*Calculated*	*Possible*
Ore	mln.t.	30.5	263.4	2.9

The Company uses the foregoing estimates in evaluating the impairment and useful lives of its property, plant and equipment. Changes in the estimates of reserves or resources may affect the carrying value of assets related to exploration and evaluation, fixed assets, provision for site restoration, as well as the recognition of deferred tax assets and depreciation.

Tax legislation

Compliance with tax legislation of the Republic of Armenia is subject to a significant degree of interpretation of management and can be challenged by tax authorities. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at the end of the reporting period and any known court or other rulings on such issues. Liabilities for fines, penalties and taxes other than income tax are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

(In thousand drams)

4. Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. These amendments are not expected to be relevant to the Company.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Company.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

(In thousand drams)

4. Standards issued but not yet effective (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

(In thousand drams)

4. Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.
The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

5. Other income

	2014	*2013*
Income from stripping services provided to related party (Note 19)	307,675	2,102,682
Income from fines and penalties	97,474	–
Profit from the sale of inventories to related parties (Note 19)	2,936	2,625
Profit from the sale of inventories	943	6,809
Profit from disposal of property, plant and equipment	609	–
Operating lease income	750	575
Other	23,731	15,675
	434,118	2,128,366

6. Administrative expenses

	2014	*2013*
Wages and bonuses	531,879	90,266
Representative and business trip expenses	116,297	74,930
Repair and maintenance	80,038	49,819
Audit and consulting services	72,238	65,895
Depreciation and amortization	14,661	11,692
Utility and communication	10,598	9,568
Bank charges	7,600	7,580
Taxes, other than income tax	5,017	5,423
Other	7,045	7,368
	845,373	322,541

7. Other expenses

	2014	*2013*
Expenses relevant to provision of stripping services	261,734	1,134,730
Payments to labour union	50,910	64,759
Losses from foreign currency conversion	32,622	31,242
Fines and penalties	5	4,867
Loss on disposal of property, plant and equipment	-	54,152
Other	2,169	3,927
	347,440	1,293,677

(In thousand drams)

8. Finance expenses

Finance expenses consist of interest expenses in the amount of 138,595 (2013: 456,452) and forex exchange revaluation loss in the amount of 19,086,403 (2013: forex exchange revaluation gain: 89,156). In 2014 finance expenses in the amount of 138,595 (2013: 456,452) did not comply to eligibility criterea for capitalisation and are not capitalized on the carrying value of assets. These finance expenses refer to the interest of the loan received for acquisition of equipment which is temporary used to provide stripping services to a related party and is not used in the construction of the plant, mine and open pit of Teghout as well as unwinding of discount of site restoration provision (Note 18).

9. Income tax

The major components of income tax expense are as follows:

	2014	*2013*
Current income tax:		
Current income tax charge	-	–
Deferred income tax:		
Relating to origination and reversal of temporary differences	221,977	(49,263)
Income tax expense reported in the statement of comprehensive income	**221,977**	**(49,263)**

	2014	*2013*
Accounting (loss)/profit before income tax	**(19,983,694)**	**144,852**
At the income tax rate of 20% established by Armenian legislation (2013: 20%)	(3,996,739)	28,971
Foreign exchange revaluation loss/(gain)	3,817,280	(17,831)
Capitalized interest of borrowings	363,553	-
Representative expenses	21,219	12,583
Loss on disposal of property, plant and equipment	337	10,830
Other non-deductible expenses	16,327	14,710
At effective income tax rate	**221,977**	**49,263**
Income tax expense reported in the statement of comprehensive income	**221,977**	**49,263**

Deferred income tax

Deferred income tax relates to the following:

	1 January 2013	*Recognized in profit or loss*	*31 December 2013*	*Recognized in profit or loss*	*Recognized directly in equity*	*31 December 2014*
Property, plant and equipment	(76,965)	(202,893)	(279,858)	(1,032,910)	–	(1,312,768)
Loans and borrowings	(3,641,772)	263,679	(3,378,093)	689,626	(379,472)	(3,067,939)
Advances for non-current assets	159,635	–	159,635	20,479	–	180,144
Site restoration provision	45,698	59,469	105,167	(29,076)	–	76,091
Tax loss carried forward	99,993	(70,992)	29,001	107,052	–	136,053
Vacation reserve provision				22,852	–	22,852
	(3,413,411)	49,263	(3,364,148)	(221,977)	(379,472)	(3,965,597)

The Company offsets tax assets and liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same tax authority.

(In thousand drams)

10. Property, plant and equipment

	Production equipment	Construction in progress	Land and buildings	Vehicles	Mining property	Other	Total
Cost							
Balance at 1 January 2013	**35,109,757**	**20,658,506**	**5,084,400**	**587,765**	**8,486,524**	**562,307**	**70,489,259**
Additions	21,431,033	12,882,697	1,858,798	8,795	9,594,745	3,364	**45,779,432**
Disposals	(113,690)	(33,812)	(7,691)	(4,839)	–	–	**(160,032)**
Transfers	302,996	(4,906,739)	4,505,693	97,941	–	109	**–**
Balance at 31 December 2013	**56,730,096**	**28,600,652**	**11,441,200**	**689,662**	**18,081,269**	**565,780**	**116,108,659**
Balance at 1 January 2014	56,730,096	28,600,652	11,441,200	689,662	18,081,269	565,780	116,108,659
Additions	7,994,643	39,212,520	–	92,243	–	188,836	47,488,242
Disposals	(216,821)	(124,534)	(141,839)	(3,842)	(231,096)	(20,573)	(738,705)
Transfers	16,393,267	(62,540,269)	28,747,632	154,707	16,246,151	998,512	–
Balance at 31 December 2014	**80,901,185**	**5,148,369**	**40,046,993**	**932,770**	**34,096,324**	**1,732,555**	**162,858,196**
Depreciation							
Balance at 1 January 2013	**2,321,470**	**–**	**208,680**	**80,791**	**–**	**157,615**	**2,768,556**
Depreciation charge for the year	1,971,639	–	200,046	61,935	–	14,190	**2,247,810**
Disposals	(96,614)	–	(5,843)	(3,386)	–	(37)	**(105,880)**
Transfers	5,896	–	(5,469)	(536)	–	109	**–**
Balance at 31 December 2013	**4,202,391**	**–**	**397,414**	**138,804**	**–**	**171,877**	**4,910,486**
Balance at 1 January 2014	4,202,391	–	397,414	138,804	–	171,877	4,910,486
Depreciation charge for the year	2,059,889	–	251,520	78,747	490,860	13,159	2,894,175
Disposals	(191,933)	–	(126,492)	(3,843)	–	(20,572)	(342,840)
Transfers	(5,331)	–	–	–	–	5,331	–
Balance at 31 December 2014	**6,065,016**	**–**	**522,442**	**213,708**	**490,860**	**169,795**	**7,461,821**
Carrying value							
At 1 January 2013	**32,788,287**	**20,658,506**	**4,875,720**	**506,974**	**8,486,524**	**404,692**	**67,720,703**
At 31 December 2013	**52,527,705**	**28,600,652**	**11,043,786**	**550,858**	**18,081,269**	**393,903**	**111,198,173**
At 31 December 2014	**74,836,169**	**5,148,369**	**39,524,551**	**719,062**	**33,605,464**	**1,562,760**	**155,396,375**

Borrowing costs in the amount of 18,209,699 incurred by the Company in 2014 were capitalized within property, plant and equipment (2013: 9,480,142). This amount is equal to all interest expenses, except interest expenses in the amount of 138,595 (2013: 456,452) which did not comply with eligibility criteria for capitalization and are not capitalized on the carrying value of assets (Note 8). The effective rate of capitalization is 13%.

Depreciation charges, in the amount of 2,317,382 in 2014 (2013: 1,817,120) incurred during use of Property, plant and equipment for the construction, were capitalized within property, plant and equipment. Depreciation charges in the amount of 78,081 related to a temporary use of Property, plant and equipment for providing services to related party, were included in cost of provided stripping services. Depreciation of mining ore in the amount of 490,857 was included in cost of finished goods.

The Company pledged a plot of land and buildings with the carrying value of 813,336, as well as plant and equipment with the carrying value of 26,109,995, as collateral under credit line facilities (Note 16).

Initial cost of fully depreciated assets at 31 December 2014 equals to 164,507 (2013: 120,071).

(In thousand drams)

11. Intangible assets

	Licenses	Software	Patents	Other	Total
Cost					
Balance at 1 January 2013	70,000	32,751	4,340	34,645	141,736
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
Balance at 31 January 2013	70,000	32,751	4,340	34,645	141,736
Balance at 1 January 2014	70,000	32,751	4,340	34,645	141,736
Additions	–	87,232	–	–	87,232
Disposals	–	(3,618)	–	–	(3,618)
Balance at 31 December 2014	**70,000**	**116,365**	**4,340**	**34,645**	**225,350**
Depreciation					
Balance at 1 January 2013	**–**	**3,943**	**1,050**	**695**	**5,688**
Depreciation charge for the year	–	3,427	434	693	4,554
Balance at 31 December 2013	**–**	**7,370**	**1,484**	**1,388**	**10,242**
Balance at 1 January 2014	**–**	**7,370**	**1,484**	**1,388**	**10,242**
Depreciation charge for the year	–	5,681	434	692	6,807
Balance at 31 December 2014	–	**13,051**	**1,918**	**2,080**	**17,049**
Carrying value					
At 1 January 2013	**70,000**	**28,808**	**3,290**	**33,950**	**136,048**
At 31 December 2013	**70,000**	**25,381**	**2,856**	**33,257**	**131,494**
At 31 December 2014	**70,000**	**103,314**	**2,422**	**32,565**	**208,301**

In October 2007, the Ultimate parent signed a Licensing Agreement with the Ministry of Trade and Economic Development and the Ministry of Nature Protection of the Republic of Armenia (the "Authorities"). In accordance with the Licensing Agreement the Authorities transferred to the Ultimate parent the right to control and use the Teghout copper-molybdenum deposit's reserves of 105 million tons (7 million tons per year) till 2026.

On 11 April 2008, the Ultimate parent transferred the right to control and use the Teghout copper-molybdenum deposit reserves as well as all other rights and obligations under the Licensing Agreement to the Company of 70,000.

12. Inventories

	2014	*2013*
Spare parts	1,551,956	83,872
Materials	1,931,508	–
Unfinished production	646,659	–
Fuel	240,732	148,921
Finished goods	158,321	–
Fast consumable items	157,653	122,445
Other materials	101,725	31,450
	4,788,554	386,688

(In thousand drams)

13. Trade and other receivables

	2014	*2013*
Services rendered and works performed for related parties (Note 19)	28,797	–
Sale of inventories	16,175	26,992
Sale of inventories to related parties (Note 19)	9,318	908
Services rendered and works performed	594	56
Operating lease	60	–
Other	2,264	–
	57,208	27,956

Trade and other receivables are primarily denominated in AMD and settled within 30 days. Accounts receivable are not impaired at the end of the reporting periods.

14. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2014 comprised:

	2014	*2013*
Bank balances, USD	496,498	301,750
Bank balances, AMD	81,537	37,112
Bank balances, GBP	1,265	–
Bank balances, EUR	656	21,033
Bank balances, RUB	487	18,061
	580,443	377,956

15. Capital and reserves

Share capital

	Ordinary shares	
Number of shares unless otherwise stated	*2014*	*2013*
Authorized shares		
Par value	AMD 1,000	AMD 1,000
Outstanding as at 1 January	3,100,100	3,100,100
Outstanding as at 31 December, fully paid	3,100,100	3,100,100

Ordinary shares

All shares rank equally with regard to the Company's residual assets.
Holders of ordinary shares are entitled to receive dividends, and are entitled to one vote per share at Company meetings.
All the ordinary shares are pledged as collateral under credit line facilities (Note 16).

Dividends

In accordance with Armenian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRS.

(In thousand drams)

16. Loans and borrowings

	Currency	Interest rate	Maturity	2014	2013
Non-current liabilities					
Secured loan from CJSC VTB (Armenia) Bank	USD	11%/13%	26 June 2023	–	93,883,219
Unsecured borrowing from the Ultimate parent	AMD	9%	30 June 2024	8,603,846	5,853,662
Unsecured borrowing from the Ultimate parent	AMD	9%	31 December 2025	1,775,410	–
				10,379,256	**99,736,881**

	Currency	Interest rate	Maturity	2014	2013
Current liabilities					
Secured loan from CJSC VTB (Armenia) Bank	USD	11%/13%	26 June 2023	159,713,004	–
				159,713,004	**–**

Secured loan from CJSC VTB (Armenia) Bank

The general credit line agreement limited to USD 283,300 thousand (134,559,001) was signed on 22 November 2011. The credit line consists of three sub-loans at the moment, namely N201, 202, and 203. The interest rate to be used under the sub-loan agreements N201 and N203 is the highest of 11% or LIBOR USD 3m + 6.02% and for the sub-loan agreement N202 is the highest of 13% or LIBOR USD 3m + 8.02%.

The loan from VTB Bank is collateralized by 100% of the Company's shares, 100% of shares in Armenian Copper Programme CJSC, and collateral for the loan comprises movable and immovable properties owned by the above companies. According to the contract 201P of mortgage of residential premises the loan from VTB Bank is collateralized by immovable properties of Vallex F.M.Est Ltd. Earlier 99.999% interest in Vallex F.M.Est held by CJSC KSMA was also collateralized, which are free from collateral upon the entry into force the agreement 201P.

The principal and accrued interests are to be repaid starting from 2015.

The loan from CJSC VTB (Armenia) Bank in the amount of 159,713,004 is presented as short-term, since as at 31 December 2014 the Company's net assets decreased by more than 10%, which, according to the Loan Agreements signed with CJSC VTB (Armenia) Bank, gives the bank right to demand early repayment of the loan and accrued interest.

However, as at 1 October, 2015 the CJSC VTB (Armenia) Bank confirmed that did not consider that fact as an event of default. The bank did not use its right to demand early repayment of amount of outstanding during 10 months of 2015, before the issue of these financial statements.

Moreover, situation of deterioration of financial position of the Company has a temporary nature and management expects improvement of net assets in 2015. This expectation is based on the fact that the Company has already started sales of its main production from Teghout mine in 2015. The main part of agreements for sale is nominated in foreign currency. Previously, the Company received only a small other income. Accordingly, The Company expects increase in profit, which will lead to improvement of net assets. These circumstances neutralize the risk of going concern.

Unsecured borrowing from the Ultimate parent

On 30 June 2011, the terms of the unsecured short-term borrowing provided by the Ultimate parent were substantially modified; as a result, maturity of the original liability was extended from 31 December 2011 to 30 May 2024. The modifications in the terms of the borrowing agreement were accounted for as extinguishment of the original short-term financial liability and recognition of a new long-term financial liability.

In May 2014 the Company received a new borrowing from the Ultimate parent company with a limit of 12,410,000 with maturity on 31 December 2025.

As the short-term borrowings from the Ultimate parent bear an interest rate below the market rate (9%), the borrowings were recognized at fair value using the market interest rate for similar instruments. The market interest rate for the first borrowing was estimated at 19%, and for the borrowing received in 2014 at 15.9%. Rates include the 3% and 4.8% credit risk spread respectively to the yield on long-term government securities of the Republic of Armenia issued in the same currency. The difference between the fair value of the borrowing upon initial recognition and its nominal amount was recognized as additional-paid-in capital, net of deferred tax in the amount of 16,053,710 as at December 31, 2014 (2013:14,535,822).

(In thousand drams)

17. Trade and other payables

	2014	*2013*
Services rendered and works accepted	1,324,879	747,286
VAT	1,086,885	1,655,917
Materials received	757,365	767,694
Services rendered and works accepted from related parties (Note 19)	349,615	261,944
Salaries and wages	345,317	239,152
Personal income tax	152,394	96,921
Vacation reserve	126,919	–
Imported property, plant and equipment	110,029	141,162
Operating lease from related parties (Note 19)	84,326	63,454
Labour union	50,127	14,267
Property, plant and equipment received from related parties (Note 19)	39,627	3,552
Materials received from related parties (Note 19)	29,469	93,096
Property, plant and equipment received	9,110	21,945
Non-resident profit tax	7,666	5,431
Environmental fees and charges	3,766	329
Prepayments received	2,363	2,264
Operating lease	1,234	3,448
Compulsory social insurance	691	–
Property tax	686	1,926
Prepayments received from related parties (Note 19)	98	220,137
Imported property, plant and equipment from related parties (Note 19)	–	63,738
Other	1,279	374
	4,483,845	4,404,037

Trade and other payables are primarily denominated in AMD and settled within 30 days.

18. Site restoration provision

In 2008, the Company agreed with the Government of the Republic of Armenia on an afforestation plan designed to recover the damage caused to the environment as a result of lumbering for mine development and plant construction purposes. In estimating the Company's liability at the reporting date the Company has considered the total area cut, the ratio of the cut area to the area to be planted according to the above plan, the timing of the activities agreed and the approximate cost to the Company. In estimating the cost of a unit of area to plant the Company has considered actual agreement prices concluded with contractors for planting trees.

	Provision
At 1 January 2013	120,791
Accrued	76,266
Utilized	(85,234)
At 31 December 2013	111,823
Accrued	27,740
Utilized	(73,620)
At 31 December 2014	65,943

Apart from the provision mentioned above, the Company has formed site restoration provision after stripping services:

	Provision
At 1 January 2013	228,488
Unwinding of discount	37,243
Change in estimation	260,106
At 31 December 2013	525,837
Unwinding of discount	85,711
Change in estimation	(231,094)
At 31 December 2014	380,454

(In thousand drams)

18. Site restoration provision (continued)

This provision is created as a result of assessment of the works needed to restore the environment after exploitation of mines by "Teghout". According to the initial plan, the main option of recultivation is the basic restoration of industrial zones (waste rock dumps and tailing) as well as other areas from toxic waste by covering them with ground. For this purpose now the Company accumulates and stores soil which is present on the territory of open mine and ore-dressing and processing enterprise. The Company plans to use this soil to cover the territories of the tailings and dumps with a layer of up to 15 cm. Evaluation of recultivation was done, respectively, based on the work required to cover the major industrial zones (tailings and dumps) with soil.

Recultivation works include the following five areas:

- Storage of soil and covering it with grass to prevent erosion;
- Preparatory work for the transportation of soil from the warehouse to the coverage area (loading and preparation);
- Work relating the transportation of soil (to the average distance equal to 3 km);
- Alignment of the coverage;
- Covering the territory with grass.

To evaluate the work in these areas, the Company used the actual costs that have taken place under the same or similar circumstances. According to the assessments mentioned above, recultivation works of Teghout mine will cost approximately 847 mln AMD (2013: 800 mln AMD). The provision for land recultivation was created based on the abovementioned assessment using inflation rate of 4.6% (2013: 5.8%) and risk-free interest rate for discounting 13.95% (2013: 11.64%). The works will be implemented during 2022-2026 period.

19. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.Related parties may enter into transactions which unrelated parties might not, and such transactions may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Information about the Parent is disclosed in Note 1. Entities under common control represent entities under control of the Ultimate parent. Balances and transactions with related parties at the end of the reporting period and the results of operations for the reporting period are as follows:

Amounts owed by/to related parties

	Amounts owed by related parties		*Amounts owed to related parties*	
	2014	2013	2014	2013
CJCS Armenian Copper Programme	–	–	243,248	92,750
CJSC Base Metals	28,797	–	82,714	255,846
CJSC Base Metals, Yerevan branch	–	–	1,086	1,086
OJSC Gugharki Geo	–	–	924	894
CJSC Lenrametalurgiayi Institut	585	82	116,204	180,491
OJSC Lorva Geo	–	–	2,010	1,668
CJSC MGTSM Service	–	–	–	–
LLC Vallex IT	–	–	33,270	3,702
CJSC Vallex Garden Hotel	–	–	98	–
CJSC Vallex Group	–	–	3,390	6,768
LLC Valex Mining	–	–	804	1,500
CJSC Vallex tour	8,730	826	19,387	8,246
LLC Vallex F.M. Est	3	–	–	152,970
	38,115	908	503,135	705,921

(In thousand drams)

19. Related party transactions (continued)

Transactions with related parties

	Income from sold materials to related parties		*Purchases from related parties*	
	2014	*2013*	*2014*	*2013*
CJCS Armenian Copper Programme	2,041	5,829	284,913	177,897
CJSC Base Metals	480,825	2,129,869	127,892	227,939
CJSC Base Metals, Yerevan branch	–	–	3,982	4,344
OJSC Gugharki Geo	–	–	10,778	7,899
CJSC Lenrametalurgiayi Institut	8,680	7,322	444,553	895,462
OJSC Lorva Geo	–	–	21,445	14,339
CJSC MGTSM Service	–	–	960	3,552
LLC Vallex IT	–	–	108,508	37,273
CJSC Vallex Garden Hotel	5,833	–	167	3,845
CJSC Vallex Group	–	–	56,766	49,104
LLC Valex Mining	–	–	9,648	5,664
CJSC Vallex tour	8,419	688	442,233	21,446
LLC Vallex F.M. Est	–	–	596,120	830,360
	505,798	**2,143,708**	**2,107,965**	**2,279,124**

CJSC Armenian Copper Programme is the ultimate parent company. The rest of related parties are entities under common control. CJSC Armenian Copper Programme provides the Company fixed assets under operating lease and supplies materials. CJSC Base Metals provides services related to repair and maintenance of plant and equipment. Company provides to CJSC Base Metals mine stripping services.

CJSC Lernametalurgiai Institut provides services related to construction works. OJSC Gugharki Geo and OJSC Lorva Geo provide equipment and buildings for rent. CJSC MGTSM Service provides transportation services. LLC Vallex IT provides maintenance services of computer equipment and telephone network. CJSC Vallex Garden Hotel and CJSC Vallex tour provide services related to business trips and other representative service s. LLC Vallex F.M. Est, CJSC Vallex Group and LLC Vallex Mining provide consulting services related to construction and the beginning of production.

All outstanding balances with related parties are to be settled in cash within six months after the reporting date. All this debt is non secured.

Borrowings

In 2014,the movement in borrowings payable to related parties was as follows:

	CCY	*Interest rate*	*Balance at 31 December 2013*	*Borrowings received*	*Interest expense*	*Repayment of borrowings*	*Effect of exchange rate changes*	*Balance at 31 December 2014*
CJSC ACP	AMD	9%	5,853,662	4,463,600	1,959,354	–	(1,897,360)	10,379,256

In 2013,the movement in borrowings payable to related parties was as follows:

	CCY	*Interest rate*	*Balance at 31 December 2012*	*Borrowings received*	*Interest expense*	*Repayment of borrowings*	*Effect of exchange rate changes*	*Balance at 31 December 2013*
CJSC ACP	AMD	9%	5,336,668	–	1,016,994	(500,000)	–	5,853,662

The borrowings from the Ultimate parent bear interest rate of 9% p.a. and mature in 2024 and 2025. Upon initial recognition the the first borrowing was discounted using a market rate of interest of 19%, and the second borrowing, obtained in 2014 was discounted with 15.9%. The difference between the nominal amount of the borrowing and its fair value at initial recognition was recognized in additional paid-in capital, net of deferred tax.

The credit line facilities from CJSC VTB Bank (Armenia) in the total amount of USD 283,300 thousand (134,559,001) are fully secured by guarantees of the Parent and the Ultimate parent (Note 16).

Compensation to key management personnel

During 2014 short-term compensation to key management personnel was paid in the amount of 273,911 (2013: 86,059).

(In thousand drams)

20. Commitments and contingencies

Operating lease commitments – Company as lessee

The Company entered into agreements for lease of buildings and various equipment with the Parent company. Leases for buildings have a life of one year with an automatic renewal option unless a decision is made to terminate a lease. Other leases have an average life of one year with a renewal option as agreed by the parties. There were no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2014	*2013*
Within one year	44,148	93,673
After one year but not more than five years	–	238
	44,148	93,911

Contingencies related to investing activities

Contingent liabilities related to investing activities include acquisition of fixed assets, installation of steel structures, construction of water pipelines, setting up electricity and accompanying construction work. The construction contracts are mainly concluded in 2014 for a period of up to one year in average. The contracts for the acquisition of property, plant and equipment are concluded for a long-term period.

Future minimum contingencies related to investment activities as at 31 December 2014 amount to 18,073,876 (2013: 13,340,462).

Business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Armenian economy was negatively impacted by significant devaluation of the Armenian Dram. This resulted in a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects.

Management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Legislation

In the ordinary course of business, the Company may be subject to legal actions and proceedings. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

Insurance

While 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 in Armenia, the Company has undertaken measures to insure its property, plant and equipment. As at the reporting date, the Company did not have full insurance coverage for its production facilities and business interruption losses. Until the Company obtained adequate insurance coverage, there was a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

In 2014, the Company insured its property, plant and equipment for USD 283,189,885 (2013: USD 303,510,715).

Environmental matters

Environmental regulations in Armenia are evolving and the positions of government authorities are continually being reconsidered. The Company evaluates its environmental liabilities on a regular basis. Liabilities are recognized as they arise. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under existing legislation, management believes that the Company has no significant unrecognized liabilities for environmental damage.

(In thousand drams)

20. Commitments and contingencies (continued)

Taxation

Armenian tax, currency and customs legislation is subject to varying interpretations, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. The tax authorities may assume a tougher stance with regard to the interpretation of legislation and review of tax returns. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As such, significant additional taxes, penalties and fines may be assessed. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, reviews may cover earlier periods.

As at 31 December 2014, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained by the relevant tax authorities of the Republic of Armenia.

21. Financial risk management objectives and policies

The Company's principal financial liabilities comprise trade and other payables, loans and borrowings. The main purpose of these financial liabilities is to finance the Company's operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's management oversees the management of these risks. Risk management policies are presented below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable and payable, available-for-sale investments and derivative financial instruments.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's loans and borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Sensitivity to changes in foreign exchange rates

2014

	Increase in foreign exchange rate, %	*Effect on profit before tax*
US dollar	19.1%	(30,441,061)
Euro	20.71%	(13,350)
Russian ruble	22.17%	(2,520)
Pound sterling	14.84%	(773)

Currency	*Decrease in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	-19.1%	30,441,061
Euro	-20.71%	13,350
Russian ruble	-22.17%	2,520
Pound sterling	-14.84%	773

(In thousand drams)

21. Financial risk management objectives and policies (continued)

2013

	Increase in foreign exchange rate, %	*Effect on profit before tax*
US dollar	5.62%	(5,307,790)
Euro	10.83%	(24,651)
Russian ruble	10.46%	504

Currency	*Increase in foreign exchange rate, %*	*Effect on profit before tax*
US dollar	-5.62%	5,307,790
Euro	-10.83%	24,651
Russian ruble	-10.46%	(504)

Interest rate sensitivity analysis

Interest rate risk arising on loans and borrowings is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to changes in market interest rates relates primarily to the Company's long-term loans and borrowings with floating interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and floating rate loans and borrowings. The Company is exposed to interest rate risk on loans and borrowings. The Company borrows on both a fixed and floating rate basis.

The Company's outstanding interest-bearing loans and borrowings are summarized in the table below:

	2014	*2013*
At 31 December:		
Fixed-rate debt	10,379,256	5,853,662
Floating-rate debt	159,713,004	93,883,219
	170,092,260	99,736,881

Cash flow sensitivity analysis for floating rate instruments

Based on the analysis of exposures for the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax by the amounts shown below. The analysis assumes that other variables (especially currency exchange rates) remain constant.

	2014	
	Change in interest rate in basis points	*Effect on profit before tax*
Liabilities denominated in USD		
Decrease in LIBOR	(2)	(34,804)
Increase in LIBOR	2	34,804

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments and cash deposits

Surplus cash is placed with financial institutions which are considered at the time of deposit to have minimal risk of default.

(In thousand drams)

21. Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company monitors its risk of a shortage of funds using a current liquidity planning tool. The table below summarizes the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Liabilities that are repayable on demand are treated as if notice of redemption was announced at the earliest possible date.

Year ended 31 December 2014	*On demand*	*Less than 1 year*	*1 to 2 years*	*2 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	246,914,189	–	–	–	30,968,955	**277,883,144**
Accounts payable and accrued liabilities	157,361	3,237,136	–	–	–	**3,394,497**

Year ended 31 December 2013	*On demand*	*Less than 1 year*	*1 to 2 years*	*2 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	–	–	9,498,295	66,298,216	117,377,282	**193,173,792**
Accounts payable and accrued liabilities	2,525,719	–	–	–	–	**2,525,719**

Capital management

The Company has no formal policy for capital management, but the management makes efforts to maintain sufficient capital base to meet the Company's operational and strategic needs and maintain confidence of market participants.

No changes were made in the Company's approaches to managing capital during the reporting year. The Company is not subject to externally imposed capital requirements.

The Company's debt-to-capital ratio as at the end of the reporting year was as follows:

	2014	*2013*
Total liabilities	180,895,610	110,137,146
Less: cash and cash equivalents	(580,443)	(377,956)
Net debt	**180,315,167**	**109,759,190**
Total capital	(1,288,485)	17,399,297
Debt-to-capital ratio as at 31 December	**(139.9)**	**6.3**

The negative ratio of debt to equity is mainly due to loss from revaluation of foreign currency. This situation is temporary and management expects improvement of indicators in the coming year. This expectation is based on the fact that Company started its main activity in 2015. The main part of agreements for sale is in foreign currency. Accordingly, in 2015 the Company expects an increase in equity, as well as neutralization of negative effect of the losses from revaluation of liabilities in foreign currency.

(In thousand drams)

21. Financial risk management objectives and policies (continued)

Fair value of financial instruments

According to the Company's assessment, fair value of cash, trade receivables, bank overdrafts and other current liabilities approximately equal to their carrying amount due to the fact that these instruments will be repaid in the nearest future.

The fair value of interest-bearing loans and borrowings of the Company is determined by discounted cash flow model, using a discount rate, which reflects the issuer's borrowing rate at the end of reporting period. Their fair value is also approximately equal to their book value.

Below is a comparison of the carrying value and fair value of loans and borrowings of the Company as at 31 December:

	Carrying value	*Fair value*	*Unrecognised income/ (expense)*
2014	169,299,084	188,347,489	(19,048,405)
2013	99,736,881	117,029,513	(17,292,632)

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

All financial instruments were measured at fair value using Level 2 valuation model for both years. No transfers have occurred between Levels in the fair value hierarchy during the reporting period.

22. Events after the reporting period

The Company started sales of copper concentrate to CJCS Armenian Copper Programme (the Ultimate parent company) from January 2015 and to MRI Trading AG (third party) from March 2015.

On 12 March 2015, the Company entered into new loan agreement with CJSC VTB Bank (Armenia), according to which the Bank opened new credit line with maximum limit of USD 20,000,000 with maturity on 26 September 2015. During 2015 the Company has utilized the credit facility and repaid it timely.