

Armenian Copper Programme cjsc

**Consolidated Financial Statements
for 2017**

Contents

Independent Auditors' Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements	9



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

Independent Auditors' Report

To the Board of Directors of Armenian Copper Programme cjsc

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Armenian Copper Programme cjsc (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

In seeking to form an opinion on the consolidated financial statements, we have considered the implications of the following two material uncertainties related to going concern:

- As disclosed in Notes 2(b) and 30, subsequent to 31 December 2017 the Subsidiary has ceased production of copper and molybdenum concentrates for an undefined period due to technical issues with the tailing dam. As of the date of our report, management was still in the process of assessment of the scale of the technical issues, possible solutions, potential financial investments and time required to address these issues.

As disclosed in Notes 2(b) and 30, subsequent to 31 December 2017, following additional penalties and a requirement to decrease the release of hazardous substances into the air by 90% imposed by the environmental protection body, the Company stopped its production for undefined period. The management is still in the process of assessment of appropriate course of actions.

The Group reported balances of property, plant and equipment and mining property at AMD 99,479,228 thousand as at 31 December 2017. We were unable to verify the cash flows underlying the impairment test performed by the management, because we were not provided with sufficient support of the cash flow forecast. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the balances of the property, plant and equipment and mining property.

- As disclosed in Notes 2(b) and 21, as at 31 December 2017 the Group was in breach of loan covenants, which allows the bank to require early repayment of its loan. The loan was classified as current liability accordingly. This led to the current liabilities exceeding current assets by AMD 158,746,433 thousand and total assets by AMD 58,848,989 thousand.

Further, on 3 September 2018 VTB Bank issued notice of event of default addressed to the Subsidiary, declaring that loans together with accrued interest and all other amounts accrued are immediately due and payable.

The management of the Group is still in the process of the assessment of the impact on the Group and appropriate course of actions.

The Group reported balance of loans and borrowings in the amount of AMD 183,495,431 thousand as at 31 December 2017. We were unable to verify the correctness of calculation of amortised cost of the loans and borrowings, because we were not provided with sufficient support of the cash flow forecast for the loan payable on available cash-flow basis (see Note 21). As a result, we were unable to determine whether adjustments might have been found necessary in respect of the balance of the loans and borrowings.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

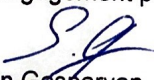
Those charged with governance are responsible for overseeing the Group's financial reporting process.

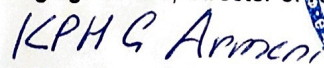
Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

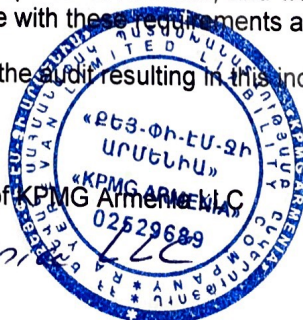
Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditors' report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

The engagement partner on the audit resulting in this independent auditors' report is:


Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC


KPMG Armenia LLC
12 December 2018




'000 AMD	Note	31 December 2017	31 December 2016
Assets			
Property, plant and equipment	13	68,693,300	68,900,789
Intangible assets		206,339	199,170
Mining property	14	30,785,928	31,164,433
Deferred tax assets	12	187,016	452,387
Other non-current assets		24,861	16,580
Non-current assets		99,897,444	100,733,359
Inventories	15	16,196,545	16,702,147
Trade and other receivables	16	8,479,921	12,628,054
Borrowings given		76,654	73,807
Deposits in banks		860,039	-
Cash and cash equivalents	17	9,029,266	4,384,291
Current assets		34,642,425	33,788,299
Total assets		134,539,869	134,521,658
Equity			
Share capital	18	3,069,716	3,069,716
Retained earnings		(46,748,606)	(53,166,906)
Equity holders of the Parent		(43,678,890)	(50,097,190)
Non-controlling interests	19	(17,109,835)	(19,452,850)
Total equity		(60,788,725)	(69,550,040)
Liabilities			
Government grant		62,536	64,061
Provision for site restoration	23	405,536	369,277
Financial liabilities through profit and loss	22	1,471,664	3,292,243
Non-current liabilities		1,939,736	3,725,581
Loans and borrowings	21	183,495,431	195,712,197
Provision for site restoration		16,553	67,816
Trade and other payables	24	9,226,435	4,509,231
Current tax liabilities		650,439	56,873
Current liabilities		193,388,858	200,346,117
Total liabilities		195,328,594	204,071,698
Total equity and liabilities		134,539,869	134,521,658


Armenian Copper Programme cjsc
Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2017

'000 AMD	Note	2017	2016
Revenue	6	89,744,246	79,684,284
Cost of sales	7	(48,075,439)	(46,796,634)
Gross profit		41,668,807	32,887,650
Other income	8	2,080,305	1,066,104
Selling expenses		(759,087)	(909,714)
Administrative expenses	9	(5,115,322)	(4,145,711)
Other expenses	10	(16,077,810)	(43,247,319)
Results from operating activities		21,796,893	(14,348,990)
Finance income	11	1,913,183	-
Finance costs	11	(13,893,957)	(22,116,855)
Net finance costs		(11,980,774)	(22,116,855)
Profit/(loss) before income tax		9,816,119	(36,465,845)
Income tax expense	12	(1,054,804)	(1,201,725)
Profit/(loss) and total comprehensive income/(loss) for the year		8,761,315	(37,667,570)
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owners of the Company		6,418,300	(28,585,626)
Non-controlling interests	19	2,343,015	(9,081,944)
Profit/(loss) and total comprehensive income/(loss) for the year		8,761,315	(37,667,570)

These consolidated financial statements were approved by management on 12 December 2018 and were signed on its behalf by:


 Lusine Mejlumyan
 General Director




 Hamlet Harutyunyan
 Chief Accountant

'000 AMD	Attributable to equity holders of the Parent			Non- controlling interests	Total equity
	Share capital	Retained earnings	Total		
Balance at 1 January 2016	3,069,716	(26,639,519)	(23,569,803)	(8,312,667)	(31,882,470)
Total comprehensive loss					
Loss and total comprehensive loss for the year	-	(28,585,626)	(28,585,626)	(9,081,944)	(37,667,570)
Reclassification in relation to transaction with subsidiary*	-	2,058,239	2,058,239	(2,058,239)	-
Balance at 31 December 2016	3,069,716	(53,166,906)	(50,097,190)	(19,452,850)	(69,550,040)
Balance at 1 January 2017	3,069,716	(53,166,906)	(50,097,190)	(19,452,850)	(69,550,040)
Total comprehensive income					
Profit and total comprehensive income for the year	-	6,418,300	6,418,300	2,343,015	8,761,315
Balance at 31 December 2017	3,069,716	(46,748,606)	(43,678,890)	(17,109,835)	(60,788,725)

* The reclassification between the equity attributable to equity holders of the parent and non-controlling interests during 2016 represents the effect of early repayment of loans and borrowings by Teghout cjsc to Armenian Copper Programme cjsc, as a result of which additional paid-in capital recognized in the financial statements Teghout cjsc has been decreased.

'000 AMD	Note	2017	2016
Cash flows from operating activities			
Cash receipts from customers, including VAT		91,106,457	78,852,322
Cash paid to suppliers and employees, including VAT		(46,407,768)	(47,543,806)
VAT refund received from the state budget		10,581,171	11,351,608
Income tax paid		(149,000)	(75,000)
VAT paid to State budget		(2,432,782)	(3,393,053)
Royalty paid		(6,131,043)	(7,873,732)
Taxes paid other than on income and VAT		(4,006,351)	(3,095,803)
Cash flows from operations before interest paid		42,560,684	28,222,536
Interest paid		(13,799,524)	(3,127,205)
Net cash from operating activities		28,761,160	25,095,331
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,797,915)	(10,645,590)
Placement of term deposit		(855,852)	-
Interest received		10,880	-
Acquisition of intangible assets		(5,401)	(4,615)
Proceeds from sale of property, plant and equipment		15,577	330
Net cash used in investing activities		(12,632,711)	(10,649,875)
Cash flows from financing activities			
Proceeds from loans and borrowings	21	-	14,900,570
Repayment of loans and borrowings	21	(11,487,618)	(28,184,989)
Net cash used in financing activities		(11,487,618)	(13,284,419)
Net increase in cash and cash equivalents		4,640,831	1,161,037
Cash and cash equivalents at 1 January		4,384,291	3,179,958
Effect of exchange rate fluctuations on cash and cash equivalents		4,144	43,296
Cash and cash equivalents at 31 December	17	9,029,266	4,384,291

Note	Page	Note	Page
1. Reporting entity	10	19. Non-controlling interests	23
2. Basis of accounting	11	20. Capital management	24
3. Functional and presentation currency	11	21. Loans and borrowings	25
4. Use of estimates and judgments	12	22. Financial instruments at fair value through profit or loss	26
5. Ore reserves and exploitation license	13	23. Provision for site restoration – non-current	27
6. Revenue	13	24. Trade and other payables	27
7. Cost of sales	14	25. Fair values and risk management	28
8. Other income	14	26. Contingencies	32
9. Administrative expenses	15	27. Commitments	33
10. Other expenses	15	28. Operational risks	33
11. Net finance costs	16	29. Related party transactions	35
12. Income taxes	16	30. Events subsequent to the reporting date	35
13. Property, plant and equipment	19	31. Basis of measurement	36
14. Mining property	21	32. Significant accounting policies	36
15. Inventories	22	33. New standards and interpretations not yet adopted	45
16. Trade and other receivables	22		
17. Cash and cash equivalents	22		
18. Capital and reserves	23		

1. Reporting entity

(a) Armenian business environment

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

(b) Organization and operations

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

The only significant subsidiary of the Company is Teghout cjsc (the "Subsidiary"), established in accordance with the legislation of the Republic of Armenia in May 2006. Since establishment, the Subsidiary was wholly owned by the Company. In November 2011, as part of financing agreement with VTB Group (see note 21), 100% of the shares of Teghout cjsc were transferred to Teghout Investments Limited, a company registered in the Republic of Cyprus. The Company owns 50.05% shares of Teghout Investments Limited, and the rest of the shares belong to VTB Group, headed by VTB Bank pjsc. The 49.95% shares of Teghout Investments Limited are not participative, but provide protective rights to VTB Group. According to the terms of the agreement with VTB Group 24.9% from these 49.95% shares will be bought back by the Company within 180 days after the full repayment of the loans, for an amount which is calculated using a pre-determined formula, based on historical loan balances, months till commencement of production by Teghout cjsc and months till achieving full design capacity. As these 24.9% shares provide only protective voting rights and right for receiving a pre-determined amount of payment, no non-controlling interest is recognized for these shares. However, for the remaining 25.05% shares of Teghout Investments Limited, belonging to VTB Group, non-controlling interest is recognized, as VTB Group, by virtue of the financing agreement with the Company, is entitled to pro-rata share of benefits from net assets of Teghout Investments Limited. The Company has a right to buy these shares within 180 days after the full repayment of the loans at the fair value of these shares at that time.

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

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

The Subsidiary's principal activity is the extraction and enrichment of copper-molybdenum ore and production of copper and molybdenum concentrates through operating the Teghout (Lori marz) copper-molybdenum mine under a License Agreement on extraction of mineral resources renewed on 20 February 2013 between the Subsidiary and the Ministry of Energy and Natural Resources ("the License Agreement"). According to the License Agreement, the Subsidiary's activities are licensed until 8 February 2026. It started copper concentrate production at the end of 2014 and molybdenum concentrate production in 2016. During 2015 the copper concentrate production plant became fully operational and the Subsidiary started sales of copper concentrate. The Subsidiary started sales of molybdenum concentrate in 2017.

The Group is ultimately controlled by the Company's 100% shareholder Mr Valery Mejlumyan, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has other business interests outside of the Group. Related party transactions are detailed in note 29.

2. Basis of accounting

(a) Statement of compliance

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

(b) Going concern

As at 31 December 2017 the management of Subsidiary identified that the tailing dam had technical issues which would require the cessation of mining and production activities of the Subsidiary for an undefined period. Subsequent to 31 December 2017 the Subsidiary ceased production of copper and molybdenum concentrates. The Subsidiary has involved technical expert companies to assess the scale of the damage to the dam and possible solutions, and is still in the process of assessment of potential financial investment and time required to fix the technical issues (see note 30).

Subsequent to 31 December 2017, following additional penalties and a requirement to decrease the release of hazardous substances into the air by 90% imposed by the environmental protection body, the Company stopped its production for undefined period.

The Group has a loan agreement with a bank with carrying amount of AMD 181,929,231 thousand at 31 December 2017 (note 21). According to loan agreement, the principal repayment schedule is on free cash flow basis. As at 31 December 2017 the Group was in breach of loan covenants, which allowed the bank to require early repayment of the loan. The loan was classified as current liability accordingly. This led to the current liabilities exceeding current assets by AMD 158,746,433 thousand and total assets by AMD 58,848,989 thousand. On 3 September 2018 VTB Bank issued notice of event of default addressed to the Subsidiary, declaring that loans together with accrued interest and all other amounts accrued are immediately due and payable, as a result the Company lost its control over the Subsidiary.

The above condition and the fact, that the Group has negative equity of AMD 60,788,725 thousand, may cast significant doubt about the Group's ability to continue as a going concern, and, therefore, it may be unable to realize its assets and discharge its liabilities in the ordinary course of business.

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

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

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

- Notes 19 – accounting for non-controlling interests
- Note 2(b) – use of going concern assumption;
- Note 10 – classification of royalty expense;
- Note 14 – determination of the components of ore body and waste estimates.

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

- Note 5 – valuation of ore reserves and exploitation license extension;
- Note 14– depreciation of mining property;
- Note 13 – impairment testing;
- Note 23 – provision for site restoration;
- Note 26 – taxation contingencies and environmental matters.

(a) Measurement of fair values

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

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

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

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

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

Further information about the assumptions made in measuring fair values of financial assets and liabilities is included in note 25 – fair values and risk management.

5. Ore reserves and exploitation license

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. The total ore reserve estimates of the Teghout deposit was first established by the USSR State Committee for Reserves in 1991 at approximately 454 million tons. The Group's last ore reserve assessment was performed in 2014 by Strathcona Mineral Services Limited for recourses located above elevation of 890 meters, based on international standards of mineral resources assessment and reporting at 107 million tons of constrained mineral resources.

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

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

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

6. Revenue

'000 AMD	2017	2016
Sale of copper concentrate	46,949,117	47,024,382
Sale of blister copper	36,917,393	31,237,382
Sale of molybdenum concentrate	4,877,019	-
Sale of mill balls produced	775,749	-
Services provided	190,822	66,519
Sale of gold concentrate	-	1,327,458
Sale of other products	34,146	28,543
	89,744,246	79,684,284

As at 31 December 2017 the Group had outstanding provisionally priced sales, gross of received payments in the amount of AMD 14,005,958 thousand (2016: AMD 12,403,229 thousand), which had a fair value of approximately AMD 14,245,440 thousand (2016: AMD 12,750,076 thousand) including the embedded derivative.

7. Cost of sales

'000 AMD	2017	2016
Materials	13,667,100	13,018,631
Depreciation and amortization	9,860,772	11,924,038
Copper concentrate	7,333,029	3,832,298
Electricity and gas	6,553,829	6,838,284
Wages and salaries	6,314,179	5,098,424
Outsourced services	3,711,660	4,561,302
Gold concentrate	-	1,012,433
Other	634,870	511,224
	48,075,439	46,796,634

As at 31 December 2017 the Group had outstanding provisionally priced purchases (gross of paid amounts) of AMD 1,523,911 thousand (2016: AMD 1,773,029 thousand), which had a fair value of approximately AMD 1,575,541 thousand (2016: AMD 1,739,362 thousand) including the embedded derivative.

8. Other income

'000 AMD	2017	2016
Income from sale of inventory	983,866	272,324
Income from services provided	547,637	632,374
Stock-take surplus	179,390	30,437
Other	369,412	130,969
	2,080,305	1,066,104

9. Administrative expenses

'000 AMD	2017	2016
Wages and salaries	2,341,826	1,863,562
Depreciation and amortization	426,371	518,784
Repair and maintenance	389,554	483,384
Environmental fees	320,879	173,128
Office and utility expenses	251,121	166,291
Audit and consulting fees	199,480	142,634
Bank and insurance	147,667	147,579
Security expenses	147,000	-
Post and communication	98,417	93,484
Other	793,007	556,865
	5,115,322	4,145,711

10. Other expenses

'000 AMD	2017	2016
Royalties	5,865,043	5,159,681
Additional payments imposed by tax authorities	3,441,559	-
Provision for slow moving inventory	2,542,630	-
Provision for royalty payable (note 26 (c))	1,647,850	-
Cost of inventory sold	909,632	203,020
Cost of services provided	557,635	558,350
Donations	39,286	69,267
Impairment of property, plant and equipment and mining property	-	36,184,000
Other	1,074,175	1,073,001
	16,077,810	43,247,319

11. Net finance costs

'000 AMD	2017	2016
Recognized in profit or loss		
Net change in fair value of financial assets at fair value through profit or loss	(1,820,579)	-
Interest income	(92,604)	-
Finance income	(1,913,183)	-
Interest expense on loans and borrowings	13,696,916	20,239,814
Interest expense on prepayments received	145,572	138,603
Net foreign exchange loss	1,454	127,804
Loss on financial instruments at fair value through profit or loss	-	1,559,738
Unwind of discount on provision for site restoration	50,015	50,896
Finance costs	13,893,957	22,116,855
Net finance costs recognized in profit or loss	11,980,774	22,116,855

12. Income taxes

(a) Amounts recognized in profit or loss

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

'000 AMD	2017	2016
Current tax expense		
Current year expense	(789,433)	(406,441)
	(789,433)	(406,441)
Deferred tax expense		
Origination and reversal of temporary differences	(1,711,227)	4,852,531
Change in unrecognised temporary differences	1,445,856	(5,647,815)
Deferred tax expense	(265,371)	(795,284)
Total income tax expense	(1,054,804)	(1,201,725)

Reconciliation of effective tax rate:

	2017		2016	
	'000 AMD	%	'000 AMD	%
Profit/(loss) before income tax	9,816,119		(36,465,845)	100
Tax at applicable tax rate	(1,963,224)	(20)	7,293,169	(20)
Non-deductible expenses	(537,436)	(5)	(2,847,079)	8
Change in unrecognized temporary differences	1,445,856	15	(5,647,815)	15
	(1,054,804)	(10)	(1,201,725)	3

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 AMD	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment and mining property	112,620	-	-	(273,797)	112,620	(273,797)
Intangible assets	-	-	(4,591)	(4,735)	(4,591)	(4,735)
Inventories	125,402	140,368	-	-	125,402	140,368
Trade and other receivables	-	-	(46,415)	(41,826)	(46,415)	(41,826)
Provision for site restoration	-	87,419	-	-	-	87,419
Trade and other payables	-	164,828	-	-	-	164,828
Tax loss carry-forwards	-	380,130	-	-	-	380,130
Net tax assets	238,022	772,745	(51,006)	(320,358)	187,016	452,387

(c) Movement in deferred tax balances

'000 AMD	1 January 2017	Recognized in profit or loss	31 December 2017
Property, plant and equipment and mining property	(273,797)	386,417	112,620
Intangible assets	(4,735)	144	(4,591)
Inventories	140,368	(14,966)	125,402
Trade and other receivables	(41,826)	(4,589)	(46,415)
Provision for site restoration	87,419	(87,419)	-
Trade and other payables	164,828	(164,828)	-
Tax loss carry-forwards	380,130	(380,130)	-
Net tax assets	452,387	(265,371)	187,016

'000 AMD	1 January 2016	Recognized in profit or loss	31 December 2016
Property, plant and equipment and mining property	(104,267)	(169,530)	(273,797)
Intangible assets	(3,919)	(816)	(4,735)
Inventories	139,853	515	140,368
Trade and other receivables	39,567	(81,393)	(41,826)
Provision for site restoration	-	87,419	87,419
Trade and other payables	3,894	160,934	164,828
Tax loss carry-forwards	1,172,543	(792,413)	380,130
Net tax assets	1,247,671	(795,284)	452,387

(d) Unrecognised deferred tax assets

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

'000 AMD	2017	2016
Property, plant and equipment and mining property	7,250,774	10,126,737
Inventory	427,449	-
Trade and other payables	418,224	-
Provision for site restoration	413,988	-
Trade and other receivables	103,133	-
Tax loss carry-forwards	67,313	-
	8,680,881	10,126,737

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

13. Property, plant and equipment

'000 AMD	Land and buildings	Machines and equipment	Motor vehicles	Under construction	Other	Total
<i>Cost</i>						
Balance at 1 January 2016	43,091,104	92,714,347	1,247,378	3,962,816	1,278,325	142,293,970
Additions	872,553	3,194,492	29,810	1,099,746	235,834	5,432,435
Disposals	(239,721)	(1,525,055)	(10,051)	(549,820)	(553,457)	(2,878,104)
Transfers	1,443,476	742	-	(1,757,154)	312,936	-
Balance at 31 December 2016	45,167,412	94,384,526	1,267,137	2,755,588	1,273,638	144,848,301
Balance at 1 January 2017	45,167,412	94,384,526	1,267,137	2,755,588	1,273,638	144,848,301
Additions	1,034,132	4,680,996	139,538	3,674,123	333,318	9,862,107
Disposals	(43,598)	(3,065,089)	(24,281)	(567,233)	(59,390)	(3,759,591)
Transfers	345,037	349,712	-	(767,168)	72,419	-
Balance at 31 December 2017	46,502,983	96,350,145	1,382,394	5,095,310	1,619,985	150,950,817
<i>Depreciation and impairment</i>						
Balance at 1 January 2016	(10,808,504)	(28,084,216)	(544,995)	(577,575)	(860,344)	(40,875,634)
Depreciation for the year	(1,875,116)	(9,368,326)	(130,727)	-	(414,745)	(11,788,914)
Disposals	52,519	1,116,485	7,603	-	536,469	1,713,076
Reclassification	4,341	(6,890)	-	-	2,549	-
Impairment	(8,907,537)	(15,423,435)	-	(527,616)	(137,452)	(24,996,040)
Balance at 31 December 2016	(21,534,297)	(51,766,382)	(668,119)	(1,105,191)	(873,523)	(75,947,512)
Balance at 1 January 2017	(21,534,297)	(51,766,382)	(668,119)	(1,105,191)	(873,523)	(75,947,512)
Depreciation for the year	(1,229,776)	(6,621,371)	(127,245)	-	(384,382)	(8,362,774)
Disposals	21,506	1,980,421	12,844	-	37,998	2,052,769
Reclassification	(140)	14,201	-	-	(14,061)	-
Balance at 31 December 2017	(22,742,707)	(56,393,131)	(782,520)	(1,105,191)	(1,233,968)	(82,257,517)
<i>Carrying amounts</i>						
At 1 January 2016	32,282,600	64,630,131	702,383	3,385,241	417,981	101,418,336
At 31 December 2016	23,633,115	42,618,144	599,018	1,650,397	400,115	68,900,789
At 31 December 2017	23,760,276	39,957,014	599,874	3,990,119	386,017	68,693,300

Depreciation expense of AMD 7,002,477 thousand has been charged to cost of sales (2016: AMD 8,402,767 thousand), AMD 424,652 thousand to administrative expenses (2016: AMD 517,862 thousand), AMD 388,905 thousand has been included in closing inventory (2016: AMD 434,614 thousand) and AMD 546,740 thousand to property, plant and equipment and mining property (2016: AMD 2,433,671 thousand).

Security

As at 31 December 2017 land with a carrying amount of AMD 565,060 thousand (2016: AMD 565,060 thousand), machines and equipment with a carrying amount of AMD 4,685,688 thousand (2016: AMD 8,080,984 thousand) as well as motor vehicles with a carrying amount of AMD 51,449 thousand (2016: AMD 81,328 thousand) are pledged as collateral for bank loans (see note 21).

Impairment testing of property plant and equipment and mining property (note 14)

During 2017 the Group determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment, which comprises of one cash-generating unit.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment was determined to be higher than their recoverable amounts.

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

- Cash flows were projected based on past experience, actual operating results and the Group's five year business plan. The forecast period covers years until 2026 after which a terminal value is determined,
- Ore reserves of 101 million tons assessed by Strathcona Mineral Services Limited were used and afterwards the same level of activity was projected on the basis of total reserves established by the USSR State Committee for Reserves in 1991 at approximately 454 million tons,
- Total volume of processed ore was projected at 7 million tons per annum which represents the production capacity with existing property, plant and equipment,
- Copper price was forecasted to reach USD 3.24 per pound in 2023-2027 and Molybdenum price was forecasted to increase to USD 8.23 per pound based on expectations in the global metal markets. Then the long term US inflation rate of 2% was applied,
- Unit production costs, treatment and refining charges and administrative expenses are expected to increase by USD denominated growth rate of corresponding indices and the forecast US inflation rate,
- A pre-tax discount rate of 16.05% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 72% at a market interest rate of 10.5%.

The above estimates are particularly sensitive in the following areas:

- An increase of 1% in the discount rate used would have caused the recoverable amount to decrease and impairment to increase by AMD 6,366,128 thousand,
- A 5% decrease in forecasted metal prices would have caused the recoverable amount to decrease and impairment to increase by AMD 17,172,562 thousand,
- A 5% decrease in production volumes would have caused the recoverable amount to decrease and impairment to increase by AMD 4,470,097 thousand,
- A 1 million tonne increase in volume of processed ore per annum would have caused the recoverable amount to increase and impairment to decrease by AMD 12,740,667 thousand.

14. Mining property

'000 AMD	<u>Alaverdi deposit</u>	<u>Teghout deposit</u>	<u>Total</u>
<i>Cost</i>			
Balance at 1 January 2016	1,469,861	48,198,847	49,668,708
Additions	-	7,193,774	7,193,774
Balance at 31 December 2016	1,469,861	55,392,621	56,862,482
Balance at 1 January 2017	1,469,861	55,392,621	56,862,482
Additions	-	2,479,790	2,479,790
Balance at 31 December 2017	1,469,861	57,872,411	59,342,272
<i>Depreciation and impairment</i>			
Balance at 1 January 2016	(1,469,861)	(9,518,957)	(10,988,818)
Depreciation for the year	-	(3,521,271)	(3,521,271)
Impairment	-	(11,187,960)	(11,187,960)
Balance at 31 December 2016	(1,469,861)	(24,228,188)	(25,698,049)
Balance at 1 January 2017	(1,469,861)	(24,228,188)	(25,698,049)
Depreciation for the year	-	(2,858,295)	(2,858,295)
Balance at 31 December 2017	(1,469,861)	(27,086,483)	(28,556,344)
<i>Carrying amounts</i>			
At 1 January 2016	-	38,679,890	38,679,890
At 31 December 2016	-	31,164,433	31,164,433
At 31 December 2017	-	30,785,928	30,785,928

15. Inventories

'000 AMD	2017	2016
Spare parts	9,652,259	8,805,526
Raw materials	7,625,015	5,853,053
Finished goods	436,061	652,575
Work in progress	23,106	38,144
Other inventory	1,002,734	1,352,849
Provision for slow-moving inventory	(2,542,630)	-
	16,196,545	16,702,147

16. Trade and other receivables

'000 AMD	2017	2016
Trade receivables	3,918,549	3,794,313
Value-added tax recoverable	3,898,013	8,313,768
Prepayments given	463,067	359,059
Tax receivables other than on income	196,163	145,544
Other receivables	4,129	15,370
	8,479,921	12,628,054

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 25.

17. Cash and cash equivalents

'000 AMD	2017	2016
Bank balances	9,028,071	4,383,075
Petty cash	1,195	1,216
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	9,029,266	4,384,291

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

As at 31 December 2017 included in Group's bank balances is an amount of AMD 230,540 thousand, restricted for withdrawal (2016: AMD 83,437 thousand).

18. Capital and reserves

(a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2017	2016
Authorized shares	5,000,000	5,000,000
Par value	AMD 1,000	AMD 1,000
On issue at 1 January and 31 December, fully paid	3,069,716	3,069,716

Ordinary shares

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

(b) Dividends

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

19. Non-controlling interests

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

31 December 2017	Teghout cjsc	Intra-group eliminations	Total
'000 AMD			
NCI percentage	25.05%		
Non-current assets	96,602,017		
Current assets	28,201,021		
Non-current liabilities	(5,859,446)		
Current liabilities	(186,509,375)		
Net liabilities	(67,565,783)		
Net liabilities attributable to NCI	(16,925,229)	(184,606)	(17,109,835)
Revenue	73,949,928		
Profit and total comprehensive income	9,982,332		
Profit and total comprehensive income allocated to NCI	2,500,574	(157,559)	2,343,015
Cash flows from operating activities	25,405,031		
Cash flows used in investment activities	(11,829,459)		
Cash flows used in financing activities (dividends to NCI: nil)	(9,516,694)		
Net increase in cash and cash equivalents	4,058,878		

31 December 2016	Teghout cjsc	Intra-group eliminations	Total
'000 AMD			
NCI percentage	25.05%		
Non-current assets	97,552,384		
Current assets	26,079,820		
Non-current liabilities	(7,168,563)		
Current liabilities	(194,011,756)		
Net liabilities	(77,548,115)		
Net liabilities attributable to NCI	(19,425,803)	(27,047)	(19,452,850)
Revenue	67,027,723		
Loss and total comprehensive loss	(36,835,097)		
Loss and total comprehensive loss allocated to NCI	(9,227,192)	145,248	(9,081,944)
Cash flows from operating activities	22,263,312		
Cash flows used in investment activities	(10,527,606)		
Cash flows used in financing activities (dividends to NCI: nil)	(10,105,871)		
Net increase in cash and cash equivalents	1,629,835		

20. Capital management

The Group has no formal policy for capital management.

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

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

'000 AMD	2017	2016
Total liabilities	195,328,594	204,071,698
Less: cash and cash equivalents	(9,029,266)	(4,384,291)
Net debt	186,299,328	199,687,407
Total equity	(60,788,725)	(69,550,040)
Net debt to equity ratio at 31 December	(3.1)	(2.9)

21. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 25.

'000 AMD	2017	2016
<i>Current liabilities</i>		
Secured bank loans	181,929,231	192,312,661
Unsecured borrowing from a related party	1,566,200	3,399,536
	183,495,431	195,712,197

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2017		31 December 2016	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	USD	10.6%	2023	183,637,124	181,929,231	194,405,977	192,312,661
Unsecured borrowing from a related party	AMD	9%	On demand	1,566,200	1,566,200	3,399,536	3,399,536
				185,203,324	183,495,431	197,805,513	195,712,197

(b) Secured bank loans

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

In addition, as the remaining 24.9% of the Subsidiary's shares, which were transferred to VTB Group as part of the financing agreement, will be bought back by the Group within 180 days after the full repayment of the loans, the repurchase price (USD 38,650 thousand) is included in the amortized cost calculation of the secured bank loan.

Based on the Facility Agreement signed on 30 September 2016 the repayment of the loan was linked to available cash flows of the Subsidiary.

Interest rate of the secured bank loan is indexed to copper prices. Due to the increase in copper prices in 2017, the interest rate of the loan increased from 9.6% to 10.6%. Per loan agreement the interest rate of the loan cannot exceed 11%.

Secured bank loan 1 is collateralized by the following:

- Property, plant and equipment (see note 13)
- Property, plant and equipment of related party
- 100% shares of Subsidiary
- 100% shares of the Company
- Guarantees of related party companies
- Receivables balance of MRI Trading AG

(c) Breach of loan covenants

The secured bank loan contains a covenant which requires the Group to have positive net assets as at 31 December 2017. This covenant was breached by the Group which gives the lender the right to demand early repayment of principal and interest. The Group was also in breach of loan covenants as at 31 December 2016. As a result, the loan was classified as short term liability as at 31 December 2017 and 2016.

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 AMD	Secured bank loans	Unsecured borrowing from a related party	Total
Balance at 1 January 2017	192,312,661	3,399,536	195,712,197
Changes from financing cash flows			
Repayment of borrowings	(9,488,082)	(1,999,536)	(11,487,618)
Total changes from financing cash flows	(9,488,082)	(1,999,536)	(11,487,618)
The effect of changes in foreign exchange rates	21,577	-	21,577
Other changes			
<i>Liability-related</i>			
Interest expense	13,530,716	166,200	13,696,916
Interest paid	(13,799,524)	-	(13,799,524)
Withholding tax set-off	(648,117)	-	(648,117)
Total liability-related other changes	(916,925)	166,200	(750,725)
Balance at 31 December 2017	181,929,231	1,566,200	183,495,431

22. Financial instruments at fair value through profit or loss

According to the loan agreement of the secured bank loan the loan interest rate and interest repayment schedule are indexed to copper prices as disclosed in note 21. The loan agreement contains short and long-term call options, which affect the interest rate and interest repayment schedule based on fluctuation of copper prices. As at 31 December 2017 the fair value of the options was AMD 1,471,664 thousand (2016: AMD 3,292,243 thousand). The fair value was determined based on Monte Carlo valuation model calculations.

23. Provision for site restoration – non-current

'000 AMD	2017	2016
Balance at 1 January	369,277	433,529
Unwind of discount	50,015	50,896
Provision reversed during the year	(13,756)	(115,148)
Balance at 31 December	405,536	369,277

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

The restoration costs include:

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

The total amount of the estimated cash flows required to settle the obligation is AMD 628,779 thousand (2016: AMD 558,776 thousand) at current prices. A forecasted inflation rate of 4% (2016: 4%) for Armenia was applied for projecting the nominal cash flows.

An annual discount rate of 10.9% (2016: 9.4%) was used to discount restoration costs to be made in 9 years time (2016: 10). The timing of provision has been taken based on the management estimate on when the Group will realize its restoration obligation in respect of existing waste dump, tail dams and the open pit as at 31 December 2017. The discount rate represents the nominal risk free rate (rate for long term Armenian Government bonds) adjusted for estimated country default spread.

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

24. Trade and other payables

'000 AMD	2017	2016
Additional nature utilization and nature protection payable (note 26(a))	1,712,122	-
Provision for additional royalty (note 26(c))	1,647,850	-
Trade payables	1,607,004	1,759,072
Additional royalty (note 26(c))	1,352,307	-
Wages and salaries	1,236,780	766,693
Taxes payable other than on income	859,319	942,837
Royalty payable	714,705	960,000
Other payables	96,348	80,629
	9,226,435	4,509,231

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

25. Fair values and risk management

(a) Accounting classifications and fair values of financial instruments not measured at fair value

The estimated fair value of all the financial assets and liabilities approximates their carrying amounts, except for fair value of secured bank loan (note 21). As at 31 December 2017 the secured bank loan with carrying amount of AMD 181,929,231 thousand (2016: AMD 192,312,661 thousand) has fair value of AMD 183,637,124 thousand (2016: AMD 194,405,977 thousand).

(b) Measurement of fair values

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows for fair value determination, where applicable, are based on the statistics of similar loan rates, and were as follows:

	<u>2017</u>	<u>2016</u>
Loans and borrowings	8.4-11.8%	8.9-12.6%

(c) Financial instruments carried at fair value

The table below analyses financial instruments carried at fair value as at 31 December 2017 and 31 December 2016:

'000 AMD	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 December 2017				
Derivatives embedded in sales contracts	-	239,482	-	239,482
Derivatives embedded in purchase contracts	-	(51,630)	-	(51,630)
Financial instruments at fair value through profit or loss	-	(1,471,664)	-	(1,471,664)
31 December 2016				
Derivatives embedded in sales contracts	-	346,847	-	346,847
Derivatives embedded in purchase contracts	-	33,667	-	33,667
Financial instruments at fair value through profit or loss	-	(3,292,243)	-	(3,292,243)

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

Sensitivity analysis

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

'000 AMD	<u>Profit or loss</u>	
	<u>2017</u>	<u>2016</u>
Sales	1,530,245	826,667
Cost of sales	(179,672)	(169,497)

A 10% decrease in forward prices of copper at 31 December 2017 and 2016 would have had the equal but opposite effect to the amount shown above, on the basis that all other variables remain constant.

The above table does not include the effect of change in forward prices of copper for financial instruments at fair value through profit or loss, as the management believes that the effect is not material.

(d) Financial risk management

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

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

(i) Risk management framework

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

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

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

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

Exposure to credit risk

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

'000 AMD	Note	Carrying amount	
		2017	2016
Trade receivables	16	3,918,549	3,794,313
Deposits in banks		860,039	-
Cash and cash equivalents	17	9,028,071	4,383,075
		13,806,659	8,177,388

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 92% of the Group's revenue (2016: 99%) is attributable to sales transactions with two customers, with the largest customer representing 51% (2016: 59%) and the next largest customer 41% (2016: 40%).

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

None of the trade receivables are impaired or past due.

Cash and cash equivalents

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

(iii) Liquidity risk

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

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

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

2017	Carrying	Contractual	On	Less than
'000 AMD	amount	cash flows	demand	2 months
Secured bank loan	181,929,231	183,637,124	183,637,124	-
Unsecured borrowing from a related party	1,566,200	1,566,200	1,566,200	-
Trade payables	1,607,004	1,607,004	-	1,607,004
	185,102,435	186,810,328	185,203,324	1,607,004
2016	Carrying	Contractual	On	Less than
'000 AMD	amount	cash flows	demand	2 months
Secured bank loan	192,312,661	194,405,977	194,405,977	-
Unsecured borrowing from a related party	3,399,536	3,399,536	3,399,536	-
Trade payables	1,759,072	1,759,072	-	1,759,072
	197,471,269	199,564,585	197,805,513	1,759,072

(iv) **Market risk**

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

Currency risk

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

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

Exposure to currency risk

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

'000 AMD	USD-denominated	USD-denominated
	2017	2016
Cash and cash equivalents	8,722,517	3,909,003
Trade receivables	3,787,062	5,605,318
Secured bank loans	(181,929,231)	(192,312,661)
Financial instruments at fair value through profit or loss	(1,471,664)	(3,292,243)
Trade and other payables	(780,226)	(1,085,000)
Net exposure	(171,671,542)	(187,175,583)

Sensitivity analysis

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

'000 AMD	Strengthening	Weakening
	Profit or loss	Profit or loss
31 December 2017		
AMD 10% movement against USD	17,167,154	(17,167,154)
31 December 2016		
AMD 10% movement against USD	18,717,558	(18,717,558)

(v) **Interest rate risk**

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

Profile

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

'000 AMD	Carrying amount	
	2017	2016
Fixed rate instruments		
Financial liabilities	183,495,431	195,712,197
	183,495,431	195,712,197

Fair value sensitivity analysis for fixed rate instruments

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

26. Contingencies

(a) **Environmental matters**

The Group is subject to various state laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. In 2017 the Group has recognized liability for additional payables arising from inspection carried out by the tax authorities concerning nature utilization and nature protection matters of 2008 up to now. The liability was created based on the decision of the State Revenue Committee of the Republic of Armenia (RA SRC) and amounted AMD 1,712,122 thousand. Management has subsequently appealed the RA SRC decision and is of the opinion that the Group has met the Government's requirements concerning environmental matters. The Group has not provided for any additional potential environmental contingency as the management does not consider any additional environmental contingent liability to be probable in the foreseeable future. However, environmental legislation in Armenia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

(b) **Insurance**

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

(c) Taxation contingencies in Armenia

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

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

In addition, in recent years the tax authorities have been taking aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia resulting in claimed material increases to the royalty amounts contrary to the way the royalties were calculated by majority of mining companies in Armenia, including the Group until 31 December 2016.

In 2017 the Group has recognized liability for additional tax payables arising from inspection carried out by the tax authorities concerning royalty calculations of 2015. Liability was booked in 2017 as several court precedents became available supporting the viewpoint of the tax authorities. The liability was created based on the decision of the Appeal Committee of State Revenue Committee of the Republic of Armenia (RA SRC) and amounted AMD 1,352,307 thousand. In addition, the Group has created provision amounting to AMD 1,647,850 thousand for royalty expense of 2016 (note 30). The amount represents additional royalty arising from applying the calculation method of tax authorities.

The royalty expense calculated by the Group in 2017 is in line with the methodology of tax authorities.

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

27. Commitments

During the year ended 31 December 2017 the Group entered into contracts to purchase equipment. The Group is committed to incur capital expenditure of AMD 140,389 thousand (2016: AMD 153,414 thousand). These commitments are expected to settle in 2018.

28. Operational risks

(a) Mines

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions and adverse claims to water rights, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of or failure to receive necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) uncertainty of exploration and development, (x) delays in transportation, (xi) labour disputes,

(xii) inability to obtain satisfactory insurance coverage, (xiii) unavailability of materials and equipment, (xiv) the failure of equipment or processes to operate in accordance with specifications or expectations, (xv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xvi) the results of financing efforts and financial market conditions.

(b) Copper and molybdenum price volatility

The Group's financial performance is heavily dependent on the price of copper, which is affected by many factors beyond the Group's control. Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Group's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the year ended 31 December 2017, LME daily closing spot prices ranged from USD 5,592 to USD 6,826 per ton for copper. The LME spot copper price closed at USD 6,159 per ton on 26 October 2018.

The Group's future financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more so than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The price of molybdenum was averaging to approximately USD 17,940 per ton during 2017 in comparison with USD 14,431 per ton during 2016. The LME spot price of USD 26,000 per ton of molybdenum was registered on 26 October 2018.

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

29. Related party transactions

(a) Control relationships

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

(b) Transactions with key management personnel

(i) Key management remuneration

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

'000 AMD	2017	2016
Salaries and bonuses	<u>1,219,971</u>	<u>981,712</u>

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

'000 AMD	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2017	2016	2017	2016
Sale of goods and services	3,333,667	953,081	32,974	76,390
Purchase of goods and services	13,724,338	15,341,268	720,883	808,888
Loans and borrowings received	-	445,000	1,566,200	3,399,536
Interest expense on loans and borrowings received	166,200	384,536	-	-
Donations given	5,850	18,600	-	-

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

The Group has outstanding guarantees received from related parties at 31 December 2017 and 2016 (note 21).

30. Events subsequent to the reporting date

In February 2018 the mining operations of the Subsidiary were ceased, because of technical issues related to tailing dam. The Subsidiary stopped production for undefined period and currently third party technical consultants are assessing the situation, potential investment to address technical issues and characteristics of the tailing dam, etc. Majority of employees of the Subsidiary were laid off due to the cessation of the mining operations.

On 29 January 2018 the RA Administrative Court made a decision against the Group's appeal against the decision of tax authorities to impose additional royalty liabilities (note 26 (c)).

On 3 September 2018 VTB Bank issued notice of event of default addressed to the Subsidiary, declaring that loans together with accrued interest and all other amounts accrued are immediately due and payable, as a result the Company lost its control over the Subsidiary.

In October 2018, following additional penalties amounted AMD 380 million and a requirement to decrease the release of hazardous substances into the air by 90% imposed by the environmental protection body, the Company stopped its production for undefined period.

31. Basis of measurement

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

32. Significant accounting policies

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

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

(a)	Basis of consolidation	36
(b)	Revenue	37
(c)	Finance income and costs	37
(d)	Foreign currency	38
(e)	Short-term employee benefits	38
(f)	Income tax	38
(g)	Royalties	39
(h)	Inventories	39
(i)	Property, plant and equipment and mining property	40
(j)	Financial instruments	42
(k)	Impairment	43
(l)	Provisions	44

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(iii) Non-controlling interests

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

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

(b) Revenue

Goods sold

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

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

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

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

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

(c) Finance income and costs

The Group's finance income and costs include:

- interest expense;
- interest income;
- unwinding of discount on provision for site restoration;
- net change in fair value of financial assets at fair value through profit or loss
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest expense is recognized using the effective interest method.

(d) Foreign currency

Foreign currency transactions

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

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

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

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

(e) Short-term employee benefits

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

(f) Income tax

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

(i) Current tax

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

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

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

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

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

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

(g) Royalties

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

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

(h) Inventories

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

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

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

The Group's provisionally priced purchase contracts contain an embedded derivative that, because it is unrelated to the host financial instrument, is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade payable or advances paid on the statement of financial position and marked to market (fair value) through cost of sales each period with reference to the appropriate commodity forward curve until the date of final settlement.

(i) Property, plant and equipment and mining property

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Mining property

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

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

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

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

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

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

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

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

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

(iv) Depreciation

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

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

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

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

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

(j) Financial instruments

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

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

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

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

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

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

(ii) *Non-derivative financial liabilities - measurement*

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

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

(iii) *Derivative financial instruments*

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

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

(iv) Share capital

Ordinary shares

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

(k) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired can include:

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

Financial assets measured at amortised cost

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

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

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

(ii) Non-financial assets

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

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

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

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

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

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

(I) Provisions

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

(i) Site restoration

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

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

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

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

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

33. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(i) Sales of goods

For the sale of blister copper, revenue is currently recognized when the blister copper is loaded on the truck, weighted and sealed at the plant, the legal title passes to the Buyer upon receipt of shipping documents, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

For the sale of concentrate, revenue is currently recognized when the concentrate is dispatched, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group is in process of the assessment of potential impact of IFRS 15 on its consolidated financial statements.

(b) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Group is in process of the assessment of potential impact of classification requirements under IFRS 9 on its consolidated financial statements.

(ii) Impairment – Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The Group is in process of the assessment of potential impact of impairment requirements under IFRS 9 on its consolidated financial statements.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group is in process of the assessment of potential impact of classification requirements under IFRS 9 on its consolidated financial statements.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group’s assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(v) **Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group is in the process of assessment of potential impact of IFRS 9 on its consolidated financial statements.

(c) **IFRS 16 Leases**

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Group does not plan to early adopt the standard.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019 and the Group's latest assessment of whether it will exercise any lease renewal options.

Based on its assessment, the Group does not expect the application of IFRS 16 to have a significant impact on its consolidated financial statements.