

**“Lernametalurgiai Institute” CJSC**

Annual Financial Statements and  
Independent Auditor’s Report

For the year ended 31 December 2022

September 2023  
Yerevan

**“Lernametalurgiai Institute” CJSC**

**Annual Financial Statements and Independent Auditor’s Report  
For the year ended 31 December 2022**

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<b>Country of mother branch of our incorporation:</b>	Republic of Armenia
<b>Legal form:</b>	Closed join stock company
<b>Principal activities:</b>	Resale of copper concentrate, provision of services in mining sector
<b>Director:</b>	Sahak Karapetyan

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of “Lernametalurgiai Institute” CJSC

### Opinion

We have audited the financial statements of “Lernametalurgiai Institute” CJSC, which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial positions of Company as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence standards) (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### Responsibilities of the management and those charged with governance for the financial statements

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

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

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

### Auditor's Responsibility for the Audit of the Financial Statements

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of going concern basis of accounting and, based on the obtained audit evidence, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

In addition to other matters, the management is communicated about the planned scope and timing of the audit engagement, issues identified during the audit, including significant deficiencies in internal controls.

"BDO Armenia" CJSC



Vahagn Sahakyan, FCCA  
Managing partner

Sergey Yakovlev, FCCA  
Engagement partner

14 September 2023թ.  
Yerevan

**“Lernametalurgiai Institute” CJSC**  
**Statement of changes in equity**  
**For the year ended 31 December 2022**

	Note	2022 AMD'000	2021թ. AMD'000
Revenue	5	61,484,459	42,560,114
Cost of sales	6	(59,319,110)	(41,778,552)
<b>Gross profit</b>		<b>2,165,349</b>	<b>781,562</b>
Other income	7	9,320,303	3,257,404
Administrative expense	8	(1,408,140)	(687,183)
Distribution expense	9	(8,919,780)	(2,696,369)
Other operating expenses	10	(763,519)	(426,193)
<b>Operating profit</b>		<b>394,213</b>	<b>229,221</b>
Finance income		273,550	98,718
Finance expenses		(15,412)	(83,700)
Gain on disposal of property and equipment, net		-	70,864
<b>Profit before income tax</b>		<b>652,351</b>	<b>315,103</b>
Income tax expense	11	(219,135)	(121,735)
<b>Profit for the year</b>		<b>433,216</b>	<b>193,368</b>
<b>Total comprehensive result for the year</b>		<b>433,216</b>	<b>193,368</b>

The financial statements as set out on pages 6 to 35 were approved and signed on behalf of the Company management on 14 September 2023.

Sahak Karapetyan  
 Director



  
 Lusya Abrahamyan  
 Chief accountant

**“Lernametalurgiai Institute” CJSC**  
**Statement of changes in equity**  
**For the year ended 31 December 2022**

	Note	2022 AMD'000	2021 AMD'000
<b>Assets</b>			
<b>Current assets</b>			
Inventories	12	1,290,478	1,430,663
Loans provided		2,379	45,583
Trade and other receivables	13	8,070,179	7,510,180
Cash and cash equivalents	14	1,452,873	2,302,750
		<u>10,815,909</u>	<u>11,289,176</u>
<b>Non-current assets</b>			
Property and equipment	15	3,068,774	2,856,302
Intangible assets		9,239	12,365
Investment property	16	2,489,688	2,429,164
Other non-current assets		49	49
		<u>5,567,750</u>	<u>5,297,880</u>
<b>Total assets</b>		<u><u>16,383,659</u></u>	<u><u>16,587,056</u></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Profit tax payable		82,706	94,460
Trade and other payables	17	7,803,703	8,470,233
Contractual liabilities		109,894	34,813
		<u>7,996,303</u>	<u>8,599,506</u>
<b>Non-current liabilities</b>			
Deferred tax liability	11	304,738	338,148
		<u>304,738</u>	<u>338,148</u>
<b>Total liabilities</b>		<u><u>8,301,041</u></u>	<u><u>8,937,654</u></u>
<b>Equity</b>			
Share capital		223,215	223,215
Additional paid-in-capital		1,018,215	1,018,215
Retained earnings		6,841,188	6,407,972
Total equity	18	<u>8,082,618</u>	<u>7,649,402</u>
<b>Total liabilities and equity</b>		<u><u>16,383,659</u></u>	<u><u>16,587,056</u></u>

**“Lernametalurgiai Institute” CJSC**  
**Statement of changes in equity**  
**For the year ended 31 December 2022**

	Note	2022	2021
		AMD'000	AMD'000
<b>Cash flows from operating activities</b>			
Cash received from customers, including VAT		67,193,939	42,601,641
Cash paid to suppliers and other creditors, including VAT		(71,627,165)	(43,777,045)
Cash paid to employees		(1,196,735)	(1,382,389)
VAT refunded from State budget		10,967,450	5,675,534
Taxes paid other than income tax and VAT		(440,872)	(408,007)
Export license receipts		(4,834,774)	(2,680,000)
Other receipts		(187,128)	(22,052)
<b>Cash flows from operating activities excluding interest and income tax</b>		<b>(125,285)</b>	<b>7,682</b>
Interest paid		(15,412)	-
Income tax paid		(260,585)	(139,285)
<b>Net cash flows from operating activities</b>		<b>(401,282)</b>	<b>(131,603)</b>
<b>Cash flows from investing activities</b>			
Payment of acquisition of property and equipment		(169,262)	(402,416)
Gains from disposal of property and equipment		1,965	2,527
Repayments of provided borrowings		44,128	2,298,933
Interests received		-	51,926
<b>Net cash flow from investing activities</b>		<b>(123,169)</b>	<b>1,950,970</b>
<b>Cash flow from financing activities</b>			
Loans and borrowings received		6,132,243	3,080,000
Repayments of loans and borrowings		(6,128,842)	(3,083,778)
<b>Cash flow from financing activities</b>		<b>3,401</b>	<b>(3,778)</b>
<b>Cash and bank balances</b>			
Cash and cash equivalents at beginning of year		2,302,750	1,285,961
Exchange (losses)/gains on cash and cash equivalents		(328,827)	(798,800)
<b>Cash and cash equivalents at 31 December</b>	14	<b>1,452,873</b>	<b>2,302,750</b>

**“Lernametalurgiai Institute” CJSC**  
**Statement of changes in equity**  
**For the year ended 31 December 2022**

	Share capital	Additional paid-in- capital	Retained earnings	Total
	AMD' 000	AMD' 000	AMD' 000	AMD' 000
<b>As at 1 January 2022</b>	223,215	1,018,215	6,407,972	7,649,402
<i>Comprehensive income for the year</i>				
Profit for the year	-	-	433,216	433,216
<b>As at 31 December 2022</b>	<u>223,215</u>	<u>1,018,215</u>	<u>6,841,188</u>	<u>8,082,618</u>
	AMD'000	AMD'000	AMD'000	AMD'000
<b>As at 1 January 2021</b>	223,215	1,018,215	6,214,604	7,456,034
<i>Comprehensive income for the year</i>				
Profit for the year	-	-	193,368	193,368
<b>As at 31 December 2021</b>	<u>223,215</u>	<u>1,018,215</u>	<u>6,407,972</u>	<u>7,649,402</u>

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**“Lernametalurgiai Institute” CJSC**  
**Notes forming part of the financial statements**  
**For the year ended 31 December 2022 (continuation)**

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## **1. About the company**

“Lernametalurgiai Institute” CJSC (Company) has been established in 1994 as “Research and Design institute of Armenian Non-ferrous Metallurgy”. In 1999 has been renamed to “Lernametalurgiai Institute” CJSC.

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

The company’s main activities are:

- Resale of copper concentrate purchased from Base Metals CJSC. The concentrate is wholly sold outside the Republic of Armenia.
- Provision of mining-metallurgy services related to mine exploration and evaluation, design of construction and operations of mining plants.
- Improvement of existing mining technologies and creation of new advanced technologies.
- Development of effective methods and technologies for increasing the extraction rates of molybdenum, copper and other non-ferrous, rare and noble metals and enrichment of non-mineral raw materials.
- Development of measures for dusting the areas of mines and ore-enriching factories in order to improve working conditions in mines and prevent occupational diseases.
- Improvement of technological processes of metallurgy of copper, aluminum, magnesium and other metals and development of schemes of complex extraction of noble, rare and dispersed components from ore, concentrate and waste.

The main counterparty of the Company is “Base Metals” CJSC that operates in the Republic of Artsakh. Though the mine and the processing factory of “Base Metals” CJSC are in the territory under the control of Republic of Artsakh the production process is heavily dependent on the water supply of rivers, which partially remained in the areas passed under control of Republic of Azerbaijan. The company constantly puts efforts for effective problem solving and finding alternative solutions.

Since the start of military operations “Base Metals” CJSC has temporarily ceased its operations and fulfillment of all contracts, including the ones with the Company. On 29 January 2021 it restarted the cooperation following the restart of “Base Metals” CJSC mine operations.

The main shareholders of the Company are “Vallex Mining” LLC (90.12%) and “Base Metals” CJSC (9.88%). Related party transactions are disclosed in Note 19.

The Company is ultimately controlled by a single individual, Mr. Valeri Mejlumyan, who has the power to direct the transactions of the Company at his own discretion and for his own benefit. He also has a number of other business interests outside the Company.

By 31 December 2022 the Company has had on average 194 employees compared to 169 in 2021.

## **Business environment**

The Company’s operations are primarily located in Armenia. Consequently, the Company 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 financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

On 24 February 2022, Russia launched a full-scale war against Ukraine. In order to confront Russia, the EU and the USA and other countries of the world applied economic and political sanctions, as a result of which the Russian economy faced significant problems. Currently, the course of the war, the impact of the sanctions and the extent of the consequences are unpredictable.

**“Lernametalurgiai Institute” CJSC**  
**Notes forming part of the financial statements**  
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Considering Russia's political and economic influence on Armenia's economy and investment field, as well as the fact that Armenia is a member of the Eurasian Economic Union (EEU), the created situation may indirectly affect the stability of Armenia's financial and economic systems.

The political situation in Armenia continues to be unstable, taking into account the consequences of the war unleashed by Republic of Azerbaijan against the Republic of Artsakh on September 27 of 2020, and the current disagreements regarding the demarcation of territories between Republic of Armenia and Republic of Azerbaijan. The impact of mentioned political and economic factors has led to a decrease in the investment incentives and has led to an increase in uncertainty and vulnerability in the financial markets.

The mentioned business environment has a significant impact on Company's activities and financial situation. The company undertakes the needed events for maintaining systematic stability of activities. However, given the unpredictability of the events, the Company is incapable to give a realistic remark on the impact of the mentioned factors on the future financial situation of the Company.

The financial statements reflect the Company's assessment of the impact of the business environment on the Company's operations and financial condition. The future business environment may differ from what is expected.

## **2. Basis for preparation**

The financial statements have been prepared in accordance with requirements of International Financial Reporting Standards, International Accounting Standards, and their interpretations (collectively IFRS).

The main provisions adopted in the preparation of financial statements are attached in note 23. They have been applied consistently for the all mentioned periods unless otherwise stated.

The financial statements are presented in Armenian drams (AMD), which is the functional currency. The monetary units have been rounded to thousands unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires significant accounting estimates and judgements to be made. The areas of application and impact of the latter are presented in Note 3.

### ***The basis of measurement***

The financial statements have been prepared on historical basis, except for receivables from foreign client and payables to supplier on mining products, which are measured at fair value through profit and loss.

### ***Changes in accounting policies***

#### ***a. 2022 new standards, interpretations and amendments effective January 1***

##### ***1) IFRS annual reforms 2018-2020***

In May 2020, the IASB issued minor amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and IFRS 16 Leases in the accompanying demos.

##### ***2) IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (Amendment - Unfavorable Contracts - Contract Performance Costs)***

In May 2020, the IASB issued amendments to IAS 37, adding paragraph 68A to specify the costs to be included in the assessment when recognizing a contract as an unfavorable contract. As a result of these changes, it is expected that a greater number of contracts will be considered unfavorable, as the changes broaden the scope of costs that are included in the evaluation of unfavorable contracts.

**3) IAS 16 Property, Plant and Equipment (Amendment - Income received before intended use)**

In May 2020, the IASB issued amendments to IAS 16, which prohibit companies from deducting receipts received in the process of preparing the asset for use from the original cost of the relevant property, plant and equipment. Instead, companies should recognize the relevant receipts from sales and related expenses in income and expenses and not as a deduction from the original cost of the property.

The new standards, interpretations and amendments that came into force after 01.01.2022 do not have a significant impact on the Company's financial statements.

**b. New standards and amendments to IFRSs issued but not yet effective**

**1) IFRS 17 Insurance contracts**

IFRS 17 introduced an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, there were significant differences around the world related to the accounting and disclosures of insurance contracts, as IFRS 4 allowed the continuation of many of the previously used (non-IFRS) approaches. The application of IFRS 17 will require significant changes for many insurance companies, requiring adjustments to existing systems and procedures. The new standard considers insurance contracts as a combination of financial instruments and service contracts, a significant portion of which generate income that varies significantly over time. Thus, it adopts the following approaches.

- Combines the present measurement of future cash flows with the recognition of profit over time as the contractual services are rendered.
- Represents the separation of the results of insurance services (including insurance income) from financial income and expenses of insurance, and
- Requires the entity to make an accounting policy choice for each portfolio as to whether to recognize all insurance finance income and expenses in income and expenses or to recognize some in other comprehensive income.

Since the issuance of IFRS 17, amendments and delays in application have been made.

**2) Accounting policy disclosures (Amendment to IFRS 1 and IFRS Practice Statement 2)**

In February 2021, the IASB issued an amendment to IAS 1, which changed the disclosure requirements relating to accounting policies from "significant accounting policies" to "material information about accounting policies". The amendments contain guidance on the circumstances in which accounting information is likely to be considered material.

The amendments to IAS 1 are effective for periods beginning on or after 1 January 2023. Early application is also allowed. As IFRS Operational Statements are non-mandatory guidance, there is no mandatory effective date for IFRS Operational Statement 2.

**3) Definition of accounting estimates (IFRS 8 amendment)**

In February 2021, the IASB issued an amendment to IAS 8, through which the definition of accounting estimates was added to IAS 8. The amendments also clarified that changes in inputs and measurement methods are also considered changes in accounting estimates, unless they are the result of correcting an error in prior years.

**4) Lease liability in case of "Sale and sublease" (IFRS 16 amendment)**

In June 2020, the IFRS Interpretations Committee issued an agenda decision: Sale and sublease in the case of variable payments. This problem has been addressed in several ways by the IASC. The IASC issued the final amendments in September 2022. The amendments require the seller-lessee to determine "lease payments" or "revised lease payments" so that the seller-lessee does not recognize any gain/loss related to the right of use it retains.

**5) IAS 1 "Presentation of Financial Statements" (Amendment - Presentation of liabilities as current or non-current)**

In January 2020, the IASB issued IAS 1, the amendment to the classification of liabilities as current or non-current, which was later partially amended by the amendment "Non-current liabilities with covenants" issued in October 2022. The amendments require that the company's right to defer repayment of the liability for at least 12 months after the reporting period must be meaningful and exist at the reporting date. The classification of the liability is not affected by the possibility of the company using the right to postpone the repayment of the liability for at least 12 months after the reporting period. As a result of the COVID-19 pandemic, the Board has delayed application of the amendment by one year for annual reporting periods beginning on or after January 1, 2024.

**6) IAS 1 "Presentation of Financial Statements" (Amendment - Non-current liabilities with restrictive provisions (covenants))**

Following the change in the presentation of liabilities as current or non-current, the IASB issued additional amendments to IAS 1 in October 2022. If the company's right to defer repayment is linked to compliance with certain conditions, such conditions affect the existence of the right to defer at the reporting date if the company should have ensured compliance with those conditions before or after the reporting date and do not affect if the conditions compliance must be ensured after the reporting date. The amendments also clarify the meaning of the term "settlement" for purposes of classifying liabilities as current or non-current.

New standards, interpretations and amendments published but not yet effective do not have a material impact on the Company's future financial statements.

**3. Significant accounting estimates and assumptions**

The Company makes several estimates and assumptions about the future periods. The estimates and assumptions are constantly reviewed based on the historical experience and other factors, as well as reasonable expectations of future events. However, the actual experience can be different from the estimates and assumptions. Attached are represented the estimates and assumptions, which contain significant risk, as they could be a cause of significant adjustments to the carrying amounts of assets and liabilities in the next fiscal year.

**Estimates and assumptions**

*Going concern*

Management has prepared the financial statements on going concern basis. The assessment is based on the consideration of the Company's financial condition, the current intentions, the profitability of operations, and the availability of financial resources.

The Company generates a constant income from its business activities.

The Company's management doesn't expect a going concern evaluation inconsistency based on the expectation of continuous operating cash flows.

The company has discontinued the purchase and sale of copper concentrate and cementing copper based on contracts with related parties. The main contracting party of the company ("Base Metals" CJSC) has stopped its activities in the Republic of Artsakh due to the geopolitical situation.

The management evaluates that:

- The termination of the sale will not have a significant impact on the going concern of the company, considering the fact that the profitability of the described transaction did not exceed 2% and no specific assets are involved in the activity;
- The company had the opportunity to expand the engineering projects work both in Armenia and beyond its borders;
- The improvement of the investment property are in the finalization stage, which will allow to generate additional cash flows from lease agreements;

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- The company has started preparations for its own exploration activities;
- All expense items have been reviewed, taking into account the company's expected revenues.

According to the management of the Company, it is not expected that the mentioned factors can have a material adverse impact on the activity of Company in the nearest forecasted period.

Based on overall assessments, the Company has a reasonable expectation to continue its operations for the foreseeable future. Therefore, in preparing the financial statements, it continues to apply the going concern basis. Thus, there are no adjustments in the financial statements that would have been necessary if the Company wasn't able to continue in a going concern basis.

***Revenue recognition***

The revenue is measured based on the compensation determined in the contract with Client. The Company recognizes revenue when it transfers control of the product or service to the customer. Company's management assesses that the Company acts as a principal in the transaction of the sale of copper concentrate.

The detailed analysis of revenue recognition is presented in Note 22.

***Useful life of property and equipment***

The useful lives of property and equipment are based on the management's estimates and are subject to change (see Note 22). As of each reporting date, the Company's management revises and, if necessary, revises the estimates of the remaining useful lives of property and equipment.

***Collectability of trade receivables (Note 22)***

The expected credit loss (ECL) assessment is based on Management expectations of the probability of payments collection.

For the purpose of accessing the losses due to uncollectibility, the Company considers all reasonable and comparable complete information about the past events, current events and future forecasts, that can be obtained without undue expense and are suitable for assessing the uncollectibility of receivables.

The past experience is adjusted based on current information in order to reflect current situations never existed before. Moreover, the adjustment is applied to exclude past experiences that no longer exist.

The ECL is created in accordance with IFRS 9 using the simplified approach to the lifetime expected loss of the debt.

To measure ECL on a collectivity basis, receivables are grouped based on similar credit risk and maturities. Expected loss rate are based on Moody's ranking.

***Inventory impairment (Note 12)***

At the end of each year, the company evaluates and recognizes the impairment of inventories, particularly for the ones that are slow-moving or unsuitable for further use.

***Income tax (Note 11)***

The company is subjected to income taxation in the Republic of Armenia. In the normal course of business, there is some uncertainty in some transactions and calculations. As a result, the Company recognizes tax liabilities based on the estimates of additional occurring taxes and interest. The mentioned tax liabilities are recognized when, despite the Company's belief that tax assessment is reasonable, the Company nevertheless considers that certain provisions are not likely to be considered fully justified by the tax authorities.

**“Lernametalurgiai Institute” CJSC**  
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Based on evaluation of several factors, including past experience and interpretation of tax legislation, the Company believes that the accrued tax liabilities are reasonable. The above estimate is based on assumptions and estimates that may include several judgements about future events. Differences may affect profit tax expense to the extent that final tax result differs from the amounts recorded.

***Fair value measurement***

Certain assets and liabilities included in Company’s financial statements require fair value measurement and/ or fair value disclosure.

The measurement of fair value of company’s financial and non-financial assets and liabilities is based to the extent of possibility on the baseline data obtained from the observable market. The inputs used to define fair value measurements are classified into different levels depending on the extent to which the outputs used in valuation method are observable. (“fair value hierarchy”):

- Level 1. Prices quoted in active markets for the same assets and liabilities (unadjusted).
- Level 2. Observable direct or indirect level data other than Level 1 data.
- Non-observable baseline data (not based on observable market)

In the fair value hierarchy, the level at which a fair value measurement is assigned should be determined based on the lowest level of input that is significant to the fair value measurement as a whole. Transfers of fair value from one level to another are recognized in the period in which these transfers occur.

The classification of assets and liabilities at the above levels is based on the lowest level of inputs that have a significant impact on fair value of measurement. The transition from one level to another is recognized in the period in which it occurs.

**4. Financial instruments-risk management**

Throughout its experience, the company can be exposed to the following financial risks.

- Credit risk
- Fair value or cash flow interest risk
- Foreign exchange risk
- Liquidity risk

The company may be exposed to risks arising from its use of financial instruments, as it’s inherent in all other business activities. This note presents the Company’s objectives, policy, risk management processes and their measurement methods. Quantitative methods on the mentioned risks are presented in these financial statements.

Compared to the previous methods, there were no significant changes related to the risks arising from financial instruments, Company’s objectives, policy, risk management processes and their measurement methods.

***(a) Main financial instruments***

The company’s main financial instruments which give rise to financial instrument risks, are presented below

- Trade receivables,
- Cash,
- Provided borrowings,
- Trade and other payables.

**“Lernametalurgiai Institute” CJSC**  
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**(b) Financial instruments by categories**  
**Financial assets**

	<i>Amortized cost</i>	
	2022 AMD'000	2021 AMD'000
Cash and cash equivalents	1,452,873	2,302,750
Borrowings provided to related parties	2,379	45,583
Trade receivables	210,179	3,024,884
	<b>1,665,431</b>	<b>5,373,217</b>

  

	<i>At fair value through profit or loss</i>	
	2022 AMD'000	2021 AMD'000
Trade receivables	4,895,306	1,908,964
	<b>4,895,306</b>	<b>1,908,964</b>

**(c) Financial instruments not measured at fair value**

Financial instruments not measured at fair value include: cash and cash equivalents, loans to related parties, trade receivables and trade payables.

The balance sheet value of cash and their equivalents, trade receivables and trade payables is equal to their fair value due to their short term nature.

Appendix A presents the details of fair value hierarchy, the significant unobservable inputs related to the valuation techniques included in Level 3 of the fair value hierarchy.

**General objectives, policy and processes**

The board of directors is responsible for the development and oversight of the Company’s risk management system. The purpose of Company’s risk management policy is to identify and analyze the risk to which the company may be exposed, to establish appropriate risk limits and control mechanisms, as well as to monitor risk and their compliance with the determined risk. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Company’s operations.

**Credit risk**

Credit risk is the risk of financial loss when a customer or counterparty of financial instrument is unable to meet its obligations to the Company. Credit risk arises mainly from the accounts receivable from customers and the balances of financial institutions.

The book value of financial assets represents the maximum amount of exposure to debt risk.

**Trade receivables**

The company doesn’t have a specific credit risk policy for its customers, but approximately 98.8 % percent of the Company’s revenue is attributable to sales transactions with one customer, and the remaining 1.2 % is attributable to the related parties. The company has not previously incurred a loss on receivables. Although the collection of receivables may be affected by economic factors, management believes that the Company is not exposed to a significant risk of loss, as the Company has not suffered a loss from its customers in past periods. Moreover, none of their receivables has been written off or delinquent and hasn’t been impaired on the reported date.

The company doesn’t require collateral for financial assets. Debt assessments are conducted for all customers, except for related parties applying for loans above certain amount.

**Cash and cash equivalents**

As of 31.12.2022 the Company had bank account balance of AMD 1,452,873 thousand (31.12.2021: AMD 2,302,750 thousand), which represents the maximum exposure to debt risk related to these assets. Bank account balances are held in major Armenian banks and the company doesn’t expect these banks to default.

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According to the company’s assessment, no impairment loss was recognized on current accounts due to their short-term nature.

The company constantly monitors the exposure to individual credit risks and constantly reevaluates the solvency of its customers.

As of 31.12.2022 and 31.12.2021, the maximum exposure to debt risk is limited to the financial asset balances presented above (see (b) Financial instrument categories).

Substantial funds are kept in the following institutions:

	<u>31 December 2022</u>	<u>31 December 2021</u>
	AMD’000	AMD’000
Leading 5 Armenian banks (ranking Ba3 Moody’s)	1,401,396	2,265,362
Below Ba3 and without ranking	<u>51,477</u>	<u>37,388</u>
	<u><u>1,452,873</u></u>	<u><u>2,302,750</u></u>

**Market risk**

Market risk arises from the Company’s interest bearing, commercial and foreign currency financial instruments. Market risk is the risk of fluctuations in the fair value of financial instrument or future cash flows due to changes in interest rates (interest rate risk), foreign exchange rate (foreign exchange risk) and other market factors (other market factors risk).

The Company isn’t exposed to interest rate risk.

**Foreign exchange risk**

Foreign currency risk arises when the Company’s transactions are expressed in currency different from its functional currency, which is Armenian dram. According to Company’s policy, it is allowed to repay the liabilities in the functional currency, if possible, with the funds received from the transactions in the given currency.

In order to monitor the continued effectiveness of the above policies, the Management receives the monthly forecast of payables and expected cash balances in Company’s major currencies.

The Company’s foreign exchange risk primarily rises from the acquisitions made in dollars. However, the company manages the foreign exchange risk by generating revenues and incurring expenses in the same currency.

For the assets and liabilities denominated in other currencies, the Company makes a referral to the exchange rates published by Central Bank of the Republic of Armenia as of reporting date, which are presented below. (value of one unit of foreign currency expressed in AMD).

	<u>2022</u>	<u>2021</u>
	AMD’000	AMD’000
1 USD dollar	393.57	480.14
1 Euro	420.06	542.61
1 Ruble	<u>5.59</u>	<u>6.42</u>

As of 31.12.2022 the Company’s net exposure in euro and ruble foreign exchange risk wasn’t material.

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By 31.12.2022 and 31.12.2021 the structure of Company’s financial assets and financial liabilities in USD are presented below:

	USD	
	31.12.2022 AMD’000	31.12.2021 AMD’000
<b>Financial assets</b>		
Cash and cash equivalents	1,371,755	2,234,736
Trade and other receivables	4,903,355	1,908,964
<b>Total financial assets</b>	<b>6,275,110</b>	<b>4,143,700</b>
<b>Financial liabilities</b>		
Trade payables	(7,289,424)	(8,055,511)
<b>Total financial liabilities</b>	<b>(7,289,424)</b>	<b>(8,055,511)</b>
<b>Net positions</b>	<b>(1,014,314)</b>	<b>(3,911,811)</b>

As of the reporting date, a 10 % appreciation (devaluation) of US dollar against the AMD will lead to an (decrease)/increase in the Company’s net asset and financial result for the year in the amount of 391,181 thousand AMD (2020: 295,185 thousand AMD).

***Liquidity risk***

Liquidity risk arises from the Company’s working capital management, financial costs, and principal repayments of debt instruments. Liquidity risk is related to the Company’s difficulty in repaying its financial obligations on time.

According to the Company’s policy, the Company must have sufficient funds to pay off its obligations. In this regard, it seeks to maintain sufficient cash (or sufficient funds) to be able to repay its obligations within a reasonable period of time.

The contractual terms of repayment of the Company’s financial obligations are presented below.

	Up to 3 months AMD’000	Total undiscounted liabilities AMD’000	Carrying value AMD’000
<b>31 December 2022</b>			
Trade payables	7,363,429	7,363,429	7,363,429
	<b>7,363,429</b>	<b>7,363,429</b>	<b>7,363,429</b>
<b>31 December 2021</b>			
Trade payables	8,111,389	8,111,389	8,111,389
	<b>8,111,389</b>	<b>8,111,389</b>	<b>8,111,389</b>

***Capital disclosures***

Company capital includes all elements of equity capital (share capital, issued income, retained earnings).

The Company manages its capital in a way that:

- will be able to continue its activities in the foreseeable future (going concern), providing adequate compensation for shareholder and other beneficiaries, and
- to be able to provide shareholders with proper rewards, to set the prices of goods and services in accordance with the level of risk.

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The Company determines the amount of required capital in proportion to risk. The company manages its capital structure and makes adjustments in response to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the dividends paid to shareholders, return capital to new shareholders, issue new shares or sell assets to reduce debt. Like other organizations operating in industry, the company monitors its capital structure based on debt to adjusted equity ratio. The following ration is calculated as the ratio of net debt to adjusted equity. Net debt (as reflected in the statement of financial positions) is total debt less cash and cash equivalents.

**5. Revenue from the contracts with client**

The company gets is revenue primarily from the sale of copper concentrate and cementite copper to its customers and the provision of mining services.

The other sources of revenue include income from rental investment properties.

In the attached table, the company has divided revenue into various categories to illustrate its nature, amount, timing and uncertainty.

	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Revenue from the sale of copper concentrate	58,912,288	37,638,516
Revenue from the sale of cementing copper	1,062,219	4,223,971
Revenue from service provision, including	1,463,522	653,779
Geodetic, Design and Scientific services	1,421,212	518,853
Other mining services	42,310	134,926
Total revenue from contracts with customer	<u>61,438,029</u>	<u>42,516,266</u>
Other revenue		
Rental income	<u>46,430</u>	<u>43,848</u>
	<u>46,430</u>	<u>43,848</u>
<b>Total revenue</b>	<u><b>61,484,459</b></u>	<u><b>42,560,114</b></u>

The attached table presents revenue from customer contracts by major geographic markets and revenue recognition periods.

	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Switzerland	<u>59,974,507</u>	<u>41,862,487</u>
Armenia	263,003	271,423
Other	<u>1,200,519</u>	<u>426,204</u>
Total revenue	<b>61,438,029</b>	<b>42,560,114</b>
	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Point of transfer the asset to the buyer		
At the point of time	<u>59,974,507</u>	<u>41,862,487</u>
Over the time	1,463,522	697,627
<b>Total revenue</b>	<u><b>61,438,029</b></u>	<u><b>42,516,266</b></u>

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**6. Cost of sales**

	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Cost of sales of copper concentrate	57,308,306	37,242,995
Cost of sale of cementing copper	860,859	4,008,326
Cost of service provision, including:	1,149,945	527,231
Wages and salaries	819,859	241,067
Materials	43,125	48,258
Depreciation and amortization	186,492	71,899
Procurement and provision of services	59,215	136,167
Other	41,254	29,840
<b>Total</b>	<b>59,319,110</b>	<b>41,778,552</b>

**7. Other Income**

	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Copper export license refundable amount*	8,781,858	2,590,475
Income from rentals	87,130	61,428
Net income from sale of inventory	72,290	21,273
Revenue from services to related parties	29,882	295,282
Other income	95,780	121,776
<b>Total</b>	<b>9,320,303</b>	<b>3,257,404</b>

(\*) The amount presents the reimbursement agreed to be made by the supplier of the copper concentrate, for which the Company paid license fee for each ton of copper concentrate export due to the amendments to the RA Law on State Duties, which came effective from Sept 2021. (Note 9)

**8. Administrative expenses**

	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Employee remuneration	884,142	273,738
Security services	164,000	144,637
Depreciation and amortization	96,107	97,299
Telecommunication expenses	77,884	44,197
Office and utility expenses	65,752	73,595
Representative and business trip expenses	38,933	8,412
Other administrative expenses	81,322	45,305
<b>Total</b>	<b>1,408,140</b>	<b>687,183</b>

**9. Distribution expenses**

	<b>2022</b>	<b>2021</b>
	<b>AMD'000</b>	<b>AMD'000</b>
Copper export license fee *	8,770,883	2,590,475
Sampling, weighting and storage expenses	147,379	104,273
Other	1,518	1,621
<b>Total</b>	<b>8,919,780</b>	<b>2,696,369</b>

(\*) Company paid license fee for each ton of copper concentrate export due to the amendments to the RA Law on State Duties, which came effective from Sept 2021. (Note 9)

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**10. Other operating expenses**

	2022 AMD'000	2021 AMD'000
Inventory depreciation expenses	94	215,288
Accounts receivable impairment expense	-	57,750
Short term rent expenses	34,988	33,616
Employee remuneration	177,253	39,217
Currency revaluation expenses	226,568	22,060
Expenses from other services	294,264	18,502
Depreciation	-	5,325
Expenses from services provided to related parties	30,352	34,435
<b>Total</b>	<b>763,519</b>	<b>426,193</b>

**11. Income tax expense**

	2022 AMD'000	2021 AMD'000
Current tax expense	252,545	214,287
Tax reimbursement for temporary differences	(33,410)	(92,552)
<b>Total income tax expenses</b>	<b>219,135</b>	<b>121,735</b>

The income tax rate for the current year was 18% in accordance with Tax Code of the Republic of Armenia (2021: 18%).

**Reconciliation of effective tax rate is as follows:**

	2022		2021	
	AMD'000	%	AMD'000	%
<b>Profit before taxation</b>	<b>652,351</b>		<b>315,103</b>	
Tax expense defined rate	117,423	18%	56,719	18%
Non-taxable expense, net	101,712	16%	65,016	21%
<b>Income tax and effective rate</b>	<b>219,135</b>		<b>121,735</b>	

**Deferred tax assets/(liabilities)**

The deferred tax for the reporting year was calculated using the 18 % rate (2021: 18%).

Details of deferred tax liabilities, amounts recognized in profit or loss and amounts recognized in other comprehensive income are provided below.

	2021 December 31 AMD'000	Accounted /reduced to profit or loss AMD'000	2022 December 31 AMD'000
Property and equipment	(459,077)	11,331	(447,746)
Inventory	68,558	-	68,558
Trade receivables	10,395	5,296	15,691
Trade and other payables	41,976	16,783	58,759
	<b>(338,148)</b>	<b>33,410</b>	<b>(304,738)</b>

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	2020 December 31	Accounted /reduced to profit or loss	2021 December 31
	AMD'000	AMD'000	AMD'000
Property and equipment	(486,925)	27,848	(459,077)
Inventory	20,851	47,707	68,558
Trade receivables	5,342	5,053	10,395
Trade and other payables	30,032	11,944	41,976
	<b>(430,700)</b>	<b>92,552</b>	<b>(338,148)</b>

**12. Inventories**

	2022	2021
	AMD'000	AMD'000
Finished goods	725,478	1,128,582
Work in progress	277,731	121,279
Raw materials and consumables	75,218	63,359
Spare parts	26,044	42,762
Fuel	865	1,691
Other	185,142	72,990
<b>Total</b>	<b>1,290,478</b>	<b>1,430,663</b>

Reserves include depreciation reserve in the amount of 380,876 thousand drams (2021: 380,876 thousand drams).

	2022	2021
	AMD'000	AMD'000
Spare parts	146,156	146,156
Inventories used for service provision	141,126	141,126
Fuel	1,447	1,447
Other inventories	92,147	92,147
<b>Total</b>	<b>380,876</b>	<b>380,876</b>

**13. Trade and other receivables**

	2022	2021
	AMD'000	AMD'000
Trade receivables measured at fair value through profit or loss *	4,895,306	1,908,964
Other trade receivables	-	2,590,475
Trade receivables measured at amortized cost	225,761	459,356
Less: provision for impairment of trade receivables	(15,582)	(24,947)
<b>Total financial assets other than cash and cash equivalents classified at amortized cost</b>	<b>5,105,485</b>	<b>4,933,848</b>
Prepayments to suppliers	122,221	118,686
Impairment	(41,914)	(32,803)
Net prepayments	80,307	85,883
Refundable on VAT	2,825,716	2,388,559
Prepayments and other receivables	58,671	101,890
<b>Total</b>	<b>8,070,179</b>	<b>7,510,180</b>

(\*) The fair value of the contained derivatives relating to the notional quoted sale is recorded in trade receivables at fair value through profit or loss. The fair value of the contained derivatives is calculated based on the forward prices of the metal markets as of the reporting date.

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Receivables recognized as financial instruments are expressed in the following currencies:

	2022 AMD'000	2021 AMD'000
Armenian dram	210,179	3,024,884
USD dollar	4,895,306	1,908,964
	<u>5,105,485</u>	<u>4,933,848</u>

As of 31.12.2022 the expected credit losses on trade receivables and contractual assets are as follows:

	Current	30-90 days	91-365 days	Above 365 days	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
Expected credit loss rate	0.01%	0.37%	53.73%	100.00%	
Gross receivable amount	5,047,819	56,317	4,197	12,734	5,121,067
<b>Amount of loss</b>	<b>385</b>	<b>208</b>	<b>2,255</b>	<b>12,734</b>	<b>15,582</b>

#### 14. Cash and cash equivalents

	2022 AMD'000	2021 AMD'000
Bank accounts in AMD	75,222	68,014
Bank accounts in foreign currency	1,377,651	2,234,736
<b>Total</b>	<u>1,452,873</u>	<u>2,302,750</u>

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15. Property and equipment

	Land and buildings	Equipment	Vehicles	Furniture and fixtures	Unfinished construction	Total
	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000	AMD'000
<b>(i) Cost</b>						
Balance at 01.01.2021	2,399,640	395,673	52,072	95,514	-	2,942,899
Additions	322,643	176,808	572	15,400	-	515,423
Transfers	(78,635)	(14,808)	-	(1,991)	-	(95,434)
<b>Balance at 31.12.2021</b>	<b>2,643,648</b>	<b>557,673</b>	<b>52,644</b>	<b>108,923</b>	<b>-</b>	<b>3,362,888</b>
Balance at 01.01.2022	2,643,648	557,673	52,644	108,923	-	3,362,888
Additions	-	90,702	8,367	27,138	271,773	397,980
Transfers	-	(3,283)	(5,413)	(3,659)	-	(12,355)
<b>Balance at 31.12.2022</b>	<b>2,643,648</b>	<b>645,092</b>	<b>55,598</b>	<b>132,402</b>	<b>271,773</b>	<b>3,748,715</b>
<b>(ii) Accumulated depreciation</b>						
Balance at 01.01.2021	150,527	148,888	24,578	23,720	-	347,713
Depreciation for the year	57,112	90,623	11,074	14,348	-	173,157
Transfers	(8,480)	(4,980)	-	(824)	-	(14,284)
<b>Balance at 31.12.2021</b>	<b>199,159</b>	<b>234,531</b>	<b>35,652</b>	<b>37,244</b>	<b>-</b>	<b>506,586</b>
Balance at 01.01.2022	199,159	234,531	35,652	37,244	-	506,586
Depreciation for the year	47,852	110,948	7,757	15,154	-	181,711
Transfers	-	(1,620)	(5,413)	(1,525)	-	(8,558)
<b>Balance at 31.12.2022</b>	<b>247,011</b>	<b>343,859</b>	<b>37,996</b>	<b>50,873</b>	<b>-</b>	<b>679,739</b>
<b>(iii) Carrying amounts</b>						
Balance at 01.01.2021	2,249,113	246,785	27,494	71,794	-	2,595,186
Balance at 31.12.2021	2,444,489	323,142	16,992	71,679	-	2,856,302
<b>Balance at 31.12.2022</b>	<b>2,396,637</b>	<b>301,233</b>	<b>17,602</b>	<b>81,529</b>	<b>271,773</b>	<b>3,068,774</b>

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**16. Investment property**

AMD'000	Land and buildings
<b>Cost</b>	
Balance at 1 January 2021 <sup>a</sup> .	2,223,707
Additions	403,926
Transfers	(29,739)
<b>Balance at 31 December 2021</b>	<b>2,597,894</b>
Balance at 1 January 2022	2,597,894
Additions	104,485
<b>Balance at 31 December 2022</b>	<b>2,702,379</b>
<b>Depreciation</b>	
Balance at 1 January 2021	125,118
Depreciation of the year	46,819
Transfers	(3,207)
<b>Balance at 31 December 2021</b>	<b>168,730</b>
Balance at 1 January 2022	168,730
Depreciation of the year	43,961
<b>Balance at 31 December 2022</b>	<b>212,691</b>
<b>Carrying amount</b>	
At 1 January 2021	2,098,589
At 31 December 2021	2,429,164
<b>At 31 December 2022</b>	<b>2,489,688</b>

The investment property has been revalued to determine the baseline value within the framework of IFRS adoption process in 01.01.2018.

Investment property mainly includes commercial real estate for undetermined use and real estate leased to third parties as office space.

By 31.12.2022 the real value of investment property has been estimated by the management at 4,597,932 thousand AMD, the evaluation of which is classified at 3rd level of hierarchy of real value.

**17. Trade and other payables**

	2022 AMD'000	2021 AMD'000
Trade payables measured at fair value through profit or loss*	7,250,780	7,971,645
Trade payables measured at amortized cost	112,649	139,744
<b>Financial liabilities classified at amortized cost</b>	<b>7,363,429</b>	<b>8,111,389</b>
Accounts payable to employees	72,578	91,016
Vacation provision	326,441	233,198
Taxes and duties payables	41,255	34,630
<b>Total</b>	<b>7,803,703</b>	<b>8,470,233</b>

(\*)The fair value of embedded derivatives is recorded in trade payables at fair value through profit or loss.

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The fair value of contained derivatives is calculated based on the forward prices of the metal markets as of the reporting date.

The payables recognized as financial instruments are expressed in the following currencies.

	2022 AMD'000	2021 AMD'000
USD	7,289,424	8,055,511
Armenian dram	71,695	52,902
Other	2,310	2,976
	<u>7,363,429</u>	<u>8,111,389</u>

## 18. Equity

### (a) Share capital and additional paid-in-capital

As of 31.12.2022 the declared, issued and outstanding share capital consists of 22,777 ordinary shares (31.12.2021: 22,777 shares). The nominal value of all shares is AMD 9,800 thousand (31.12.2021: AMD 9,800 thousand).

Holders of common stock are entitled to receive dividends declared from time to time and to vote at the meetings of the Company on a one share, one vote basis.

### (b) Dividend

According to the legislation of the Republic of Armenia, the Company's distributable reserves are limited to the balance of retained earnings. According to the legislation of Republic of Armenia, the Company's distributable reserves are limited to the balance of retained earnings recorded in the Company's financial statement in accordance with IFRS.

No dividends were declared by 31.12.2022 (31.12.2021 no dividends were declared).

## 19. Transactions with related parties

Parties are generally considered related if they are under common control or one of them can control the other or have a significant influence on the other in making financial and operational decisions. When considering each potential connection, the nature of connection along with the legal aspect is taken into account.

The company's shareholders are Vallex Mining LLC (90.12 %) and Vallex stock CJSC (9.88%). The ultimate controlling person of the company is Mr. Valeri Mejlumyan.

After 31.12.2020 the minority shareholder Base Metals CJSC sold its 9.88% percent stock to Vallex Stock CJSC.

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AMD'000	Transaction amount for the year ended 31 of December		Balance at 31 December	
	2022	2021	2022	2021
<b>Sales of goods and services</b>				
Entities under Joint control	2,682,100	1,559,854	112,321	2,799,989
<b>Purchase of goods and services</b>				
Entities under Joint control	(61,654,424)	(38,309,437)	(7,255,459)	-
<b>Loans provided</b>				
Entities under Joint control	-	46,792		43,205

### Compensation of key management personnel

Key management personnel include those people who are authorized and responsible for planning, management and control of Company's activities, including the Company's director and deputy directors.

Key management received the following compensation during the year.

	Transaction amount	
	2022 AMD'000	2021 AMD'000
Salary, bonuses and other benefits, including taxes	117,951	62,448

## 20. Contingencies

### 20.1 Insurance

The insurance market in Armenia is in the stage of development, and many types of insurances, widespread in other countries still are not practiced in Armenia. The company has insurance coverage for buildings and business interpretation, but the Company isn't insured against liabilities to third parties that may arise as a result of accidents occurring on the Company's premises or damage to the property or the environment as a result of its activities. Unless the company isn't adequately insured, there is a risk that certain events or accidents could have a materially adverse effect on Company's operations and financial conditions.

### 20.2 Contingent liabilities and reserves

As of 31.12.2022, as well as until the date of approval of these financial statements, the Company isn't involved in any legal proceedings that may have a significant impact on the Company's financial position.

### 20.3 Environmental issues

The management believes that the Company meets the Government's environmental requirements and is confident that the Company has no current material environmental liabilities. However, the environmental legislation in Armenia is under development and interpretations of legislation in future may create significant liabilities.

### 20.4 Tax obligations

As Armenia's tax system is relatively new, it is characterized by frequent changes in legislation, official clarifications and court decisions, which are sometimes unclear and contradictory and imply different interpretations. Taxes are subject to inspection and review by tax authorities that have the authority to impose penalties and fines. In case of violation of the tax legislation, the tax authorities aren't authorized to impose additional tax obligations, penalties or fines if three years have passed since the date of violation.

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Since 01.01.2020 transfer pricing legislation has been in force in the Republic of Armenia. The legislation is effective for the years starting from 2020. Local transfer pricing rules are similar to OECD guidelines, but there is uncertainty about the practical application of tax law in certain circumstances.

The transfer pricing rules oblige taxpayers to prepare transfer pricing documents for controlled transactions and establish the bases and mechanisms for the accrual of additional taxes and interest if prices in controlled transactions differ from market prices.

The transfer pricing rules apply to the transactions presented below if the total value exceeds 200 million AMD in a tax year.

- Cross-border transactions between related parties
- Cross-border transactions with Companies registered in offshore zones, regardless of whether they are related parties.
- Certain transactions carried out within the country between related parties, which are defined by the tax code of Armenia.

Because tax authorities and courts lack experience in applying transfer pricing rules, it is difficult to predict the impact of new transfer pricing rules on these financial statements.

Compared to other countries, these circumstances can create much greater risks for Armenia. Management believes that it has recognized tax liabilities appropriately based on its interpretations of applicable tax legislation, official pronouncements and court decisions. Management believes that it has recognized tax liabilities appropriately based on tax legislation, official pronouncements and court decisions. However, the relevant competent authorities may have different interpretations, and the consequences could be material if the competent authorities succeed in enforcing their interpretations.

## **20.5 Purchase liabilities**

As of December 31, of 2021 and 2022, the Company has no material unfulfilled obligations for purchases of fixed assets.

## **21. Summary of accounting policies**

### ***21.1. Functional and presentations currencies***

The functional currency is the national currency of the Republic of Armenia, Armenian Dram (“AMD”), which is the currency in which the Company’s financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

### **21.2 Foreign currency transactions**

Foreign currency transactions are translated to AMD at the rates of exchange prevailing on the dates of the transactions. The currency rate applied is the average rate prevailing in the currency market published by the Central Bank of Armenia.

As of the reporting date, AMD assets and liabilities denominated in foreign currency are revalued at dates determined as of the reporting period.

At each reporting date foreign currency monetary assets and liabilities are translated at the rates defined by the Central Bank of Armenia prevailing on the reporting date. Foreign currency non-monetary items at cost are recalculated at the transaction date exchange rate. Revaluation differences arising from the outstanding monetary assets and liabilities are immediately recognized in the profit or loss.

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### **21.3 Property and equipment**

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

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.

On sale of revalued assets, the amount included in revaluation reserve is transferred to retained earnings.

Items of property and equipment 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 estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

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

- |                           |             |
|---------------------------|-------------|
| - buildings               | 35 years,   |
| - machinery and equipment | 5-14 years, |
| - vehicles                | 5 years,    |
| - fixture and fittings    | 5-14 years  |

Depreciation methods, useful lives and residual values are reviewed at each reporting date adjusted as necessary.

When the property's use is changed from owner based to investment property, the property is classified accordingly.

### **21.4 Investment property**

Investment property is held either to earn rental income or increase its value, other than in the ordinary course of business sale. The mentioned is used in production, supply of goods or services or use for administrative expenses. Investment property is measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized in the statement of profit or loss using the straight line method over the estimated useful life of the property, which is 35 years. Depreciation starts from the date assets are recognized as investment property.

### **21.5 Inventories**

Inventories are valued at the lower of cost or net realizable value.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined on a first-in, first-out basis and includes the cost of acquiring, manufacturing, or processing the inventory and all other costs associated with bringing the inventory to its current location and condition. In the case of inventories and work-in-progress, cost includes the appropriate portion of manufacturing overhead based on standard production capacity. The cost of finished products is determined by the weighted average cost principle.

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Net realizable value is the estimated selling price in the general course of business less the estimated costs of replenishment and sale.

### **21.6 Financial instruments**

#### **(i) Recognition and initial measurement**

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

#### **(ii) Recognition and initial measurement**

##### **Financial assets**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

##### **Financial assets, further measurement, gains and losses**

The company classifies its financial assets as financial assets measured at amortized cost. These assets are then measured at amortized cost using the effective interest method. The amortized cost is reduced by the amount of impairment losses. Interest income, gains and losses are arising from exchange differences and impairment are recognized in the statement of profit or loss. The gain or loss arising from the derecognition is recognized in the statement of profit or loss.

##### **Financial obligations, classification, subsequent measurement, gains and losses**

Financial liabilities are classified as measured based on amortized costs or at fair value through profit or loss. The financial liability is classified at fair value through profit or loss, if it is classified as held for trading, is a derivative or is designed as such at the initial recognition. Financial liabilities at fair value are measured at fair value and net gains and losses are recognized in the statement of profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Any gain or loss arising from the derecognition is also recognized in the statement of profit or loss.

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### ***Impairment***

The carrying amount of the Company’s non-financial assets, other than inventories and deferred tax assets is reviewed at each date to determine whether there is an indication that the asset may be repaired. If any such indication exists, the recoverable amount of the asset is estimated.

For the purpose of impairment testing, assets that can’t be assessed for impairment on an individual basis are grouped into the smallest groups of assets. The mentioned assets generate cash flows that are largely independent of other assets or groups of assets or the cash generating unit as a result of continuing use.

The recoverable amount of an asset or cash-generating unit is determined as the greater of the following two quantities: value in use and 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 risks specific to the asset or cash-generating unit.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss. In order to reduce the book value of the assets of the cash-generating unit (group of units), the impairment loss is distributed proportionately.

### **21.7 Leases**

At the beginning of the contract, the Company assesses whether the contract is a lease or contains a lease.

#### **Company as lease**

The Company recognizes a right-of-use asset and a lease liability on the lease inception date.

Depreciation of the right-of-use asset is calculated on a straight-line basis from the lease commencement date to the end of the lease term.

The lease liability is initially measured at the present value of rents unpaid at the inception date, discounted at the assumed lease interest rate, or the Company's incremental borrowing rate if that rate cannot be readily determined. As a rule, the Company applies the additional borrowing rate as the discount rate.

The lease liability is initially measured at the present value of rents unpaid at the inception date, discounted at the assumed lease interest rate, or the Company's incremental borrowing rate if that rate cannot be readily determined. As a rule, the Company applies the additional borrowing rate as the discount rate

The Company has decided not to recognize right-of-use assets and lease liabilities for low-value assets and short-term leases. The Company recognizes rent related to these leases on a straight-line basis over the term of the lease.

#### **Company as a lessor**

When the Company acts as a lessor, it determines at the inception of the lease whether the lease is a finance lease or an operating lease.

To classify a lease, the Company makes an overall assessment of whether the lease transfers substantially all the risks and rewards of ownership of the underlying asset, in which case the lease is classified as a finance lease and otherwise as an operating lease.

As part of this evaluation, the Company considers certain indicators, such as whether the lease term covers a substantial portion of the asset's economic service.

The Company recognizes rents received under operating leases as income on a straight-line basis over the term of the lease as part of "other income".

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As a rule, the accounting policies that the Company used during the comparable period did not differ from the policies provided for in IFRS 16.

**21.8 Share capital and dividends**

Company shares are classified as equity instruments.

Dividends are recognized when they become payable; in the case of interim dividends paid to shareholders when they are declared by the directors, in the case of final dividends when they are approved by the shareholders at the annual general meeting.

**21.9 Cash and cash equivalents**

Cash and cash equivalents include cash, demand deposits with banks, the initial maturity of which does not exceed three months, as well as bank overdrafts for cash flow reporting purposes.

**21.10 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past events and it is probable that the Company will be required to settle the obligation and the amount of the obligation can be reliably estimated.

The amount recognized in the provision represents the best estimate at the end of the reporting period that would be required to settle the present obligation, taking into account the associated risks and uncertainties. If the effect of the value of the dram over time is material, the amount of the provision should represent the present value of the costs that are expected to be required to settle the liability.

If another party is expected to reimburse in whole or in part the costs required to settle the provision, the indemnity shall be treated as a separate asset when it is substantially certain that the Company will settle the liability and the amount of the indemnity can be measured reliably.

**21.11 Taxation**

Income tax consists of current and deferred taxes. Income tax is recognized in profit or loss, except to the extent that it relates to business combinations, or to items recognized directly in equity or other comprehensive income.

**Current tax**

Current tax is the amount of tax that would be expected to be paid or received on taxable income or loss for the year, using the tax rates in effect or substantially in effect at the reporting date, and includes tax payable for prior years line adjustments.

**Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities determined to be reflected in the financial statements and the amounts used for tax purposes.

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

Deferred tax is measured using the tax rates that are expected to apply to the temporary differences when they are reversed, based on the laws in effect or substantially in effect at the reporting date.

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The deferred tax measure reflects the tax consequences that will arise depending on the manner in which the Company expects to recover or settle the carrying amounts of its assets and liabilities at the end of the reporting period.

Deferred tax assets and liabilities are offset if the Company currently has an enforceable legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority on the same taxpayer or different taxpayers that intend to either settle current tax liabilities and assets on a net basis, or simultaneously realize tax assets and settle tax liabilities.

In determining the amount of current and deferred tax, the Company considers the impact of uncertain tax positions and the possibility of charging additional taxes, penalties and interest on late payments. The Company believes that its accruals for tax liabilities are appropriate for all open tax years based on an evaluation of many factors, including interpretations of tax laws and past experience.

This estimate is based on estimates and assumptions and may include a number of judgments regarding future events. New information may become available that will cause the Company to change its judgments about the adequacy of existing tax liabilities, and such changes in tax liabilities will have an impact on tax expense for the period in which the assessment is made.

## **21.12 Revenue from contracts with customers**

### **Performance Obligations and Revenue Recognition Timing**

A significant portion of the Company's revenue is generated from the provision of drilling and exploration services, and revenue is generally recognized in the accounting period during which the services are rendered.

A small proportion of the Group's revenue is generated from the sale of explosive shells, where revenue is recognized when control of the goods has already been transferred to the customer.

This usually happens when the products are delivered to the customer. Determining this moment (when control is transferred) requires limited judgment; upon physical delivery of the goods at the agreed location, the Company loses actual possession, usually has a present right to payment (as a lump sum at the time of delivery) and does not retain significant risks and rewards associated with the goods.

### **Determining the transaction price**

The Company's revenue is derived from fixed-price contracts, so the amount of revenue from each contract is determined based on those fixed prices.

### **Allocation of money to performance obligations**

For most contracts, there is a fixed unit price for each product sold, with discounts for bulk orders placed over a period of time. Therefore, no judgment is made in allocating the contract price for each unit ordered under such contracts.

For each service contract, there is only one performance obligation to which the full amount is allocated.

### **Performance Responsibilities and Revenue Recognition Policy**

The income is measured on the basis of compensation defined in the contract with the client. The Company recognizes revenue when it transfers control of the product or service to the customer.

The table below provides information on the nature and timing of performance obligations for contracts with customers, including key payment terms and relevant revenue recognition policies.

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<b>Type of service</b>	<b>Nature of performance obligations and terms of performance, including key terms of payment</b>	<b>Revenue recognition policy under IFRS 15</b>
<b>Sales of copper concentrate</b>	<p>The customer obtains control of the copper concentrate when the concentrate is loaded onto the train in Yerevan, and revenue is recognized at that time.</p> <p>Delivery is made upon receipt of 75%-90% advance payment from the customer. The initial invoice is issued at the time of shipment of the concentrate (transfer of control) in the amount of 95% of the delivered goods, and the final invoice is issued in the amount of 100%, based on the final results of the sample examination and the final prices.</p> <p>The final price is determined based on a concentrate price equal to the copper price on the London Metal Exchange, based on the quotation period specified in the contract, which is the month following the delivery month.</p> <p>Initial and final invoices are due within 3 business days of receipt of payment.</p>	<p>The contract contains notional pricing terms whereby the transaction price is based on the spot rate in the month of the quote because it is later than the date of the performance obligation. Revenue is recognized based on the estimated London Metal Exchange forward copper price.</p> <p>A forward pricing arrangement is not accounted for separately as a derivative, the financial asset is classified as an asset measured at fair value through profit or loss.</p> <p>Changes in fair value are recognized in other income/expense.</p>
<b>Mining service delivery</b>	<p>Bills are issued on a monthly basis and are usually payable within 60 days.</p>	<p>Revenue is recognized over time when services are provided to customers based on the time elapsed</p>

The company sells copper concentrate without modifications. Management believes that the Company is acting as a principal and not as an agent in the transaction based on the following factors:

- The Company bears primary responsibility for the provision of goods and services to customers or the fulfillment of orders
- The company is exposed to inventory risk before or after a customer order, during shipment or return.
- The company is exposed to debt risk in connection with the amount to be received from the customer.
- Selling prices are linked to London Metal Exchange prices and are not determined by the supplier.

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**Annex A: Fair value measurement disclosures**

The following table presents the valuation method used to measure the fair value of the financial instruments, including the key unobservable inputs and the relationship between the unobservable inputs and the fair value.

<b>Financial statements account</b>	<b>Fair value AMD'000</b>	<b>Valuation technique</b>	<b>Fair value hierarchy level</b>	<b>Significant unobservable baseline data</b>
Trade receivables	4,933,848	The carrying amount of short term (less than 12 months) trade receivables approximates its fair values	Level 3	Not applicable
Borrowings provided to related parties	45,583	The carrying amount of borrowing liabilities approximates its fair values	Level 3	Not applicable
Trade payables	8,111,389	The carrying amount of short term (less than 12 months) trade payables approximates its fair values	Level 3	Not applicable