Teghout cjsc
Financial Statements
for the year ended 31 December 2009

Contents

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Independent Auditors' Report

Board of Directors
"Teghout "cjsc

We have audited the accompanying financial statements of "Teghout" cjsc (the "Company"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2(d), which describes that the Company needs financing for its current operations and to develop the mine and future activities. This condition, along with other matters described in note 2(d), indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Andrew Coxshall
Director

KPMG Armenia cjsc
1 June 2010

Hakob Harutyunyan
Audit Manager

'000 AMD	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	5,464,196	3,462,291
Intangible assets	7	83,094	83,094
Prepayments for non-current assets	8	3,115,025	2,847,259
Value added tax recoverable		657,888	472,012
Total non-current assets		**9,320,203**	**6,864,656**
Current assets			
Inventories	10	142,654	108,468
Trade and other receivables		1,208	42,093
Prepayments for current assets and expenses		22,789	964,407
Prepaid finance cost	11	151,030	151,030
Cash and cash equivalents		6,642	894
Total current assets		**324,323**	**1,266,892**
Total assets		**9,644,526**	**8,131,548**
EQUITY AND LIABILITIES			
Equity	12		
Share capital		3,100,100	3,100,100
Retained earnings		(113,917)	(59,790)
Total equity		**2,986,183**	**3,040,310**
Non-current liabilities			
Other taxes payable		-	64,100
Total non-current liabilities		**-**	**64,100**
Current liabilities			
Loans and borrowings	13	6,423,820	4,621,164
Provisions	14	48,286	52,408
Trade and other payables	15	116,354	266,286
Income tax payable		-	439
Other taxes payable		69,883	86,841
Total current liabilities		**6,658,343**	**5,027,138**
Total liabilities		**6,658,343**	**5,091,238**
Total equity and liabilities		**9,644,526**	**8,131,548**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 32.

'000 AMD	**Note**	**2009**	**2008**
Other income		14,270	11,089
Administrative expenses		(50,962)	(46,530)
Other expenses		(19,610)	(6,034)
Results from operating activities		**(56,302)**	**(41,475)**
Foreign exchange gain/(loss)		2,175	(18,638)
Loss before income tax		**(54,127)**	**(60,113)**
Income tax expense	5	-	(439)
Loss and total comprehensive loss for the year		**(54,127)**	**(60,552)**

These financial statements were approved by management on 1 June 2010 and were signed on its behalf by:

Valery Medzhlumyan
Chairman of the Executive Board

Mkrtich Petrosyan
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 32.

’000 AMD	Share capital	Retained earnings	Total
Balance at 1 January 2008 (Unaudited)	**100**	**762**	**862**
Total comprehensive loss for the year			
Loss and total comprehensive loss for the year	-	(60,552)	(60,552)
Transactions with owners, recorded directly in equity			
Shares issued	3,100,000	-	3,100,000
Balance at 31 December 2008	**3,100,100**	**(59,790)**	**3,040,310**
Total comprehensive loss for the year			
Loss and total comprehensive loss for the year	**-**	(54,127)	(54,127)
Balance at 31 December 2009	**3,100,100**	**(113,917)**	**2,986,183**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 32.

'000 AMD	2009	2008
OPERATING ACTIVITIES		
Cash receipts from customers	46,429	886
Cash paid to suppliers and employees	(61,022)	(1,017,970)
Cash returns from suppliers against prepayments given	904,178	-
Value added tax paid	(262,031)	(331,425)
Other taxes paid	(9,509)	(977)
Prepayment of finance cost	-	(151,030)
Income tax paid	(439)	(49)
Cash flows used in operating activities	**617,606**	**(1,500,565)**
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	7,035	5,315
Acquisition of intangible assets	-	(82,817)
Acquisition and construction of property, plant and equipment	(2,539,193)	(5,771,725)
Cash flows used in investing activities	**(2,532,158)**	**(5,849,227)**
FINANCING ACTIVITIES		
Proceeds from issue of share capital	-	3,100,000
Proceeds from borrowings	1,920,300	5,332,718
Repayment of borrowings	-	(1,085,281)
Cash flows from financing activities	**1,920,300**	**7,347,437**
Net increase/(decrease) in cash and cash equivalents	**5,748**	**(2,355)**
Cash and cash equivalents at beginning of year	894	3,249
Cash and cash equivalents at end of year	**6,642**	**894**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 32.

1 Background

(a) Business environment

Armenian business environment

Armenia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the economy of Armenia have further increased the level of economic uncertainty in the environment. These 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.

(b) Organisation and operations

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

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

The Company's intended future principal activity is the mining, processing and sale of molybdenum and copper concentrate. The Company holds the license for the exploitation of Teghout molybdenum and copper deposit in northern Armenia (see notes 7 and 17(b)). Currently, the Company is involved in development of mining property and construction of a processing plant in the deposit area.

The Company's authorized share capital is AMD 3,100,100 thousand. The Company is wholly owned by Armenian Copper Programme cjsc.

The Company is ultimately controlled by a single individual, Mr Valery Medzhlumyan, 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 of the Company. Related party transactions are detailed in note 20.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Going concern

The Company is in the process of developing the Teghout mine and is unable to generate any positive cash flows until the mine is operational and hence is entirely dependent on external financing.

To bring the mine to an operational stage and commence copper and molybdenum concentrate production and to fulfill commitments to the Government of Armenia the Company will need substantial financing. Management assesses that the initial mine development, plant and other required facilities construction will take two years from the reporting date and concentrate production will commence in the third year. Thus, the future operations of the Company and the recoverability of the Company's assets, including prepayments for non-current assets of AMD 2,965,219 thousand as at 31 December 2009 (2008: AMD 2,724,021 thousand) made by the Company (see note 8), would be significantly affected by the timing of receiving financing for the initial investment stage of the mine exploitation.

The Company incurred a loss for the year ended 31 December 2009 of AMD 54,127 thousand (2008: AMD 60,552 thousand), the Company's current liabilities exceed current assets by AMD 6,334,020 thousand (2008: AMD 3,760,246 thousand) and the Company also has significant investment and purchase commitments (see note 17).

In June 2008 the Company signed a loan agreement with VTB Bank ojsc (Russian Federation) for a total credit line of USD 249,500 thousand (1 USD = AMD 377.89 as at 31 December 2009). Subsequent significant liquidity stress and the decline of metal prices in the world in the second half of 2008 resulted in the suspension of the financing. Beginning from March 2009 world metal prices began to recover. In 2009 new principal terms of a new loan agreement were agreed with VTB Bank ojsc for a total credit line of USD 283,300 thousand which is going to replace the first agreement and at the date of signing of these financial statements the new loan agreement was in the process of review and final approval by VTB Bank ojsc management.

The accompanying financial statements do not include any adjustments should the Company be unable to continue as a going concern as management expects in a foreseeable future to secure sufficient financing to continue development of the mine from VTB Bank ojsc. Moreover, the ultimate controlling party of the Company has expressed his intention to provide necessary financial support and liquidity to the Company for it to maintain current spending and financial obligations, as and when required.

(e) Use of estimates and judgments

The preparation of 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 recognised in the period in which the estimates are revised and in any future periods affected.

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

- Note 2(d) – going concern
- Note 2(f) – ore reserves
- Note 8 – recoverability of prepayments for non-current assets
- Note 14 – provisions.

(f) Ore reserves

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 tonnes with an average content of copper of 0.35% and molybdenum of 0.022%.

Approximately 35% of the total deposit's ore reserve estimates have been re-estimated and the first stage of the mine exploitation plan was drawn up in mid 2008 by Strathcona Mineral Services Limited based on international standards of mineral resources assessment and reporting which showed the following million tonnes of ore 135.8 – measured, 14.2 – indicated and 16.6 – inferred. The first stage of the evaluation and exploitation plan assumes extraction of 113.6 million tonnes of ore with an average content of copper of 0.33% and molybdenum of 0.011% to be extracted by 2022. For the rest of the reserves further evaluation and exploitation plans must be drawn up when the first stage of exploitation nears its end.

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralization uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates.

(g) Changes in accounting policies and presentation

With effect from 1 January 2009, the Company changed its accounting policies in presentation of financial statements.

The Company applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2(g), which addresses changes in accounting policies.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising in retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial instruments

Financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

(i) Financial assets

The Company initially recognises loans and receivables and cash and cash equivalents on the date that they are originated.

The Company derecognises 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 Company is recognised as a separate asset or liability.

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Financial liabilities

All financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Share capital

Ordinary shares

Share capital is classified as equity. Incremental costs directly attributable to issue of share capital are recognised as a deduction from equity, net of any tax effects.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and 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 capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognised 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. Land is not depreciated.

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

• plant and equipment	5 - 10 years
• buildings and structures	20 - 50 years
• vehicles	5 - 10 years
• other	5 - 10 years

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

(d) Intangible assets

(i) Recognition and measurement

The intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

• licenses	license term
• other	5-10 years

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

(e) Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Financial assets

A financial asset 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 Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement 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 amortised 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 recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company'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.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (group of units) 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.

(g) 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 recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

Site restoration

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration and planting trees is recognised in respect of developing an open pit mine, waste ore accumulation, infrastructure, tailing pool and plant construction in the mine 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. The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, timing of the restoration or in the discount rate applied are added to or deducted from the cost of the respective asset.

(i) Revenue

(i) Goods sold

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. Revenue is recognised 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 buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Commissions

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Company.

(j) Other expenses

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(k) Finance income and costs

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Income tax

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

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

Deferred tax is recognised 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 recognised for 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. 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. 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 realised simultaneously.

A deferred tax asset is recognised 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 utilised. 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 realised.

(m) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Company has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Company's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Company has not yet analysed the likely impact of the improvements on its financial position or performance

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Income tax expense

The Company's applicable tax rate is the income tax rate of 20% (2008: 20%).

'000 AMD	**2009**	**2008**
Current tax expense		
Current year	-	439
	-	**439**
Deferred tax expense		
Origination and reversal of temporary differences	(143,168)	(7,104)
Change in unrecognised deductible temporary differences	143,168	7,104
	-	**439**

Reconciliation of effective tax rate:

	2009		**2008**	
	'000 AMD	**%**	**'000 AMD**	**%**
Loss before income tax	(54,127)	100	(60,113)	100
Income tax at applicable tax rate	(10,825)	20	(12,023)	20
Non-deductible expenses	5,768	(11)	5,358	(9)
Non taxable increase in deductible temporary differences due to foreign currency translation of prepayments in the tax accounts of the Company	(138,111)	(255)	-	-
Change in unrecognised deductible temporary differences	138,111	255	7,104	(12)
Current year losses for which no deferred tax asset was recognised	5,057	(9)	-	-
	-	**-**	**439**	**(1)**

6 Property, plant and equipment

'000 AMD	Plant and equipment	Land, buildings and structures	Vehicles	Other	Total
Cost					
Balance at 1 January 2008 (unaudited)	-	195,157	-	948	196,105
Additions	1,838,064	1,237,187	164,424	98,811	3,338,486
Disposals	(308)	(5,383)	-	(6,631)	(12,322)
Balance at 31 December 2008	1,837,756	1,426,961	164,424	93,128	3,522,269
Balance at 1 January 2009	1,837,756	1,426,961	164,424	93,128	3,522,269
Additions	800,004	1,273,080	12,265	60,292	2,145,641
Disposals	(1,911)	-	-	(3,285)	
Balance at 31 December 2009	2,635,849	2,700,041	176,689	150,135	5,662,714
Depreciation					
Balance at 1 January 2008 (unaudited)	-	-	-	-	-
Depreciation for the year	48,550	1,170	6,606	3,715	60,041
Disposals	(8)	-	-	(55)	(63)
Balance at 31 December 2008	48,542	1,170	6,606	3,660	59,978
Balance at 1 January 2009	48,542	1,170	6,606	3,660	59,978
Depreciation for the year	105,753	4,039	13,318	16,876	139,986
Disposals	(240)	-	-	(1,206)	(1,446)
Balance at 31 December 2009	154,055	5,209	19,924	19,330	198,518
Carrying amounts					
At 1 January 2008 (unaudited)	-	195,157	-	948	196,105
At 31 December 2008	1,789,214	1,425,791	157,818	89,468	3,462,291
At 31 December 2009	**2,481,794**	**2,694,832**	**156,765**	**130,805**	**5,464,196**

All the borrowing costs incurred by the Company in 2009 of AMD 460,356 thousand are included in additions to property, plant and equipment in 2009 (2008: AMD 184,201 thousand). Depreciation expenses of AMD 139,986 thousand have been capitalized to property, plant and equipment in 2009 (2007: AMD 60,041 thousand).

At 31 December 2008 following the decline in the copper and molybdenum prices the Company determined that there is an indication of impairment of its property, plant and equipment and the performed impairment test did not result in an impairment loss. The management has assessed that there are no impairment indications as at 31 December 2009 as a result of increase in copper and molybdenum prices in 2009.

7 Intangible assets

In October 2007 the Company's parent, Armenian Copper Programme cjsc signed a Licensing Agreement with the Ministry of Trade and Economic Development and the Ministry of Nature Protection (the Authorities). In accordance with the Licensing Agreement the Authorities transferred to the parent company the right to control and use Teghout copper-molybdenum deposit's reserves of 105 million tons (7 million tons per year) till 2026. On 11 April 2008 the Parent transferred the right to control and use Teghout copper-molybdenum deposit reserves as well as all other rights and obligations of the Licensing Agreement to the Company for AMD 70,000 thousand.

8 Prepayments for non-current assets

Prepayment for the purchase of a grinding mill (see note 17(a)) of AMD 2,965,219 thousand (2008: AMD 2,724,021 thousand) is included in prepayments for non-current assets, the final delivery of which is in 2011 per contract. As a result of the delay of financing from VTB Bank ojsc (see note 2(d)) in 2009 the Company began negotiations for agreeing the suspension of the terms of the performance of the purchase contract for the grinding mill until the Company obtains sufficient financing for continuing prepayments of the contract price per contract schedule. The purchase contract terms are such that the Company may not recover a significant part of the prepayment made in case it fails to continue payments as per the original contract terms, which depends on obtaining financing. As at 31 December 2009 no impairment is recognized for the prepayment as management expects to obtain financing from VTB Bank ojsc and continue performance of the purchase contract.

9 Deferred tax assets and liabilities

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

'000 AMD	**2009**	**2008**
Tax losses	5,057	-
Prepayments for non-current assets	138,111	-
	143,168	**-**

The tax losses expire in 2014. Deferred tax assets have not been recognised in respect of these items because of uncertainties related to the availability of future taxable profits against which the Company can utilise the benefits there from.

10 Inventories

'000 AMD	**2009**	**2008**
Spare parts	31,829	13,730
Fuel	8,665	11,600
Other materials	102,160	83,138
	142,654	**108,468**

11 Prepaid finance cost

In 2008 the Company paid an up-front fee to VTB Bank ojsc in accordance with the loan agreement signed in 2008 (see note 2(d)). The total amount paid has been recognized as prepaid finance cost.

12 Capital and reserves

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2009**	**2008**
Authorised shares		
Par value	AMD 1,000	AMD 1,000
On issue at beginning of year	3,100,100	100
Issued for cash	-	3,100,000
On issue at end of year, fully paid	3,100,100	3,100,100

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 Company.

(b) Dividends

In accordance with Armenian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRSs. As at 31 December 2009 the Company did not have distributable reserves (2008: nil).

13 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 16.

Terms and conditions of outstanding loans were as follows:

				31 December 2009		**31 December 2008**	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loan from the parent company	AMD	9%	2010	6,423,820	6,423,820	-	-
Unsecured loan from the parent company	AMD	9%	2009	-	-	4,621,164	4,621,164
				6,423,820	**6,423,820**	**4,621,164**	**4,621,164**

14 Provisions

'000 AMD	**Forests restoration**
Balance at beginning of year	52,408
Provisions made during the year	34,073
Provisions used during the year	(38,195)
Balance at end of year	**48,286**
Non-current	-
Current	48,286
	48,286

In 2008 the Company reached an agreement with the Government of the Republic of Armenia and a plan agreed with a time schedule for planting trees in other areas to replace those to be cut during mine development and plant construction. In estimating the Company's liability at the reporting date the Company has considered the actual area cut, the ratio of the cut area to the area to be planted agreed with the Government, the timing of the activities agreed and the approximate cost to the Company. In estimating the cost of a unit of area to plant the Company has considered actual agreement prices concluded in 2009 with contractors for planting trees.

15 Trade and other payables

’000 AMD	**2009**	**2008**
Payable for purchases of services and assets	69,333	239,726
Salary payable	31,340	15,012
Other	15,681	11,548
	116,354	**266,286**

The Company’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

16 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, 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 Company’s activities. The Company, 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.

(b) Credit risk

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

(i) Trade and other receivables

Financial assets, which potentially subject the Company to credit risk, consist principally of trade and other receivables and cash and cash equivalents. The Company has procedures in place to ensure that services are provided and goods are sold to customers with an appropriate credit history by making enquiries of knowledgeable parties.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is the specific loss component that relates to individually significant exposures.

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

(ii) 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:

Not impaired or past due	**Carrying amount**	
'000 AMD	**2009**	**2008**
Trade and other receivables	1,208	42,093
Cash and cash equivalents	6,642	894
	7,850	**42,987**

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The majority of the Company's current liabilities (borrowings) are due to related parties and therefore management believes that this provides the Company with sufficient flexibility with regard to the timing of payments and as a result does not maintain significant surplus cash balances.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2009

'000 AMD	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**
Financial liabilities				
Loans and borrowings	6,423,820	6,995,630	292,187	6,703,443
Trade and other payables	116,354	116,354	116,354	-
	6,540,174	**7,111,984**	**408,541**	**6,703,443**

2008

'000 AMD	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**
Financial liabilities				
Loans and borrowings	4,621,164	4,787,863	4,787,863	-
Trade and other payables	266,286	266,286	266,286	-
	4,887,450	**5,054,149**	**5,054,149**	**-**

The intended loan from VTB Bank ojsc (see note 2(d)) is primarily intended for the development of the mine and production facilities, in addition a part of it is intended to be used to refinance the loan from the parent company.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company'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 optimising the return.

(i) Currency risk

The Company is exposed to currency risk on a purchase commitment (see note 17(a)) which is denominated in US dollars. The Company does not have significant financial instruments as at 31 December 2009 and 2008 denominated in a currency other than the functional currency of the Company.

(ii) 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 Company'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 favourable to the Company over the expected period until maturity.

Profile

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

	Carrying amount	
'000 AMD	**2009**	**2008**
Fixed rate instruments		
Financial liabilities	6,423,820	4,621,164

(e) Fair values versus carrying amounts

The fair values of financial assets and liabilities approximate their carrying amounts. The basis for determining fair values is disclosed in note 4.

(f) Capital management

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

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

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

'000 AMD	**2009**	**2008**
Total liabilities	**6,658,343**	**5,091,238**
Less: cash and cash equivalents	(6,642)	(894)
Net debt	6,651,701	5,090,344
Total equity	**2,986,183**	**3,040,310**
Debt to capital ratio at 31 December	2.2	1.7

17 Commitments

(a) Purchase commitments

The Company signed a contract and made a prepayment (see note 8) for the purchase of a grinding mill in 2008. The total price of the contract is USD 47,000 thousand. The prepayment made by the Company is USD 9,674 thousand and the purchase commitment at 31 December 2009 is USD 37,326 thousand (31 December 2008: USD 37,976 thousand). The payment is to be made and the mill is to be supplied fully by July 2011.

(b) Commitments related to mine exploitation

In accordance with the Licensing Agreement (see note 7) and environmental programs agreed with the Government of the Republic of Armenia the Company is committed to:

- complete preparation works and perform investments for the amount of AMD 35,000,000 thousand for Teghout deposit exploitation by July 2011 and start the exploitation of the deposit afterwards;
- starting from 2008 to pay an annual fee of AMD 2,953 thousand to the environmental fund;
- plant forests instead of the trees being cut in the mine and future plant area (see note 14).

18 Contingencies

(a) 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 Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised 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. 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.

(d) Environmental matters

The enforcement of environmental regulation in Armenia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

19 Operational risks

(a) Mines

Mines by their nature are subject to many operational risks and factors that are generally outside of the Company's control and could impact the Company'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 Company's future financial performance will be heavily dependent on the price of copper, which is affected by many factors beyond the Company'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 price of copper 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 Company'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.

20 Related party transactions

(a) Control relationships

The Company's parent is Armenian Copper Programme cjsc, registered in the Republic of Armenia.

The party with ultimate control over the Company is Mr Valery Medzhlumyan.

The Company's parent produces publicly available financial statements.

(b) Transactions with management and close family members

Key management received the following remuneration during the year:

'000 AMD	**2009**	**2008**
Salaries and bonuses	**1,080**	**675**

(c) Transactions with other related parties

The Company's other related party transactions are disclosed below.

(i) Other income

'000 AMD	**Transaction value 2009**	**Transaction value 2008**	**Outstanding balance 2009**	**Outstanding balance 2008**
Parent company	768	367	577	-
Fellow subsidiaries	2,968	9,169	-	6,869

(ii) Purchases

'000 AMD	**Transaction value 2009**	**Transaction value 2008**	**Outstanding balance 2009**	**Outstanding balance 2008**
Purchase of property, plant and equipment:				
Parent company	4,970	391,604	1,816	-
Fellow subsidiaries	8,560	129,978	-	44,413
Purchase of intangible assets:				
Parent company	-	70,000	-	-
Purchase of materials:				
Parent company	14,792	343,573	5,492	(947,518)
Fellow subsidiaries	14,172	21,267	3,186	5,347
Services received and operating lease:				
Parent company	74,076	37,744	44,946	-
Fellow subsidiaries	200,248	136,061	5,379	32,870

None of the balances are secured.

(iii) Loans

'000 AMD	Amount loaned 2009	Amount loaned 2008	Outstanding balance 2009	Outstanding balance 2008
Loans received:				
Parent company	1,920,300	5,214,555	6,423,820	4,621,164
Fellow subsidiaries	-	118,163	-	-

The loan from the Company's parent company bears interest at 9% per annum and is repayable in 2010.

'000 AMD	Amount loaned 2009	Amount loaned 2008
Interest accruals:		
Parent company	460,356	176,766
Fellow subsidiaries	-	7,435

The loan agreement with VTB Bank ojsc concluded in June 2008 and the intended new agreement (see note 2(d)) provide that the parent company, intermediate parent companies and the ultimate controlling party of the Company to guarantee the repayment of the loan by the Company.